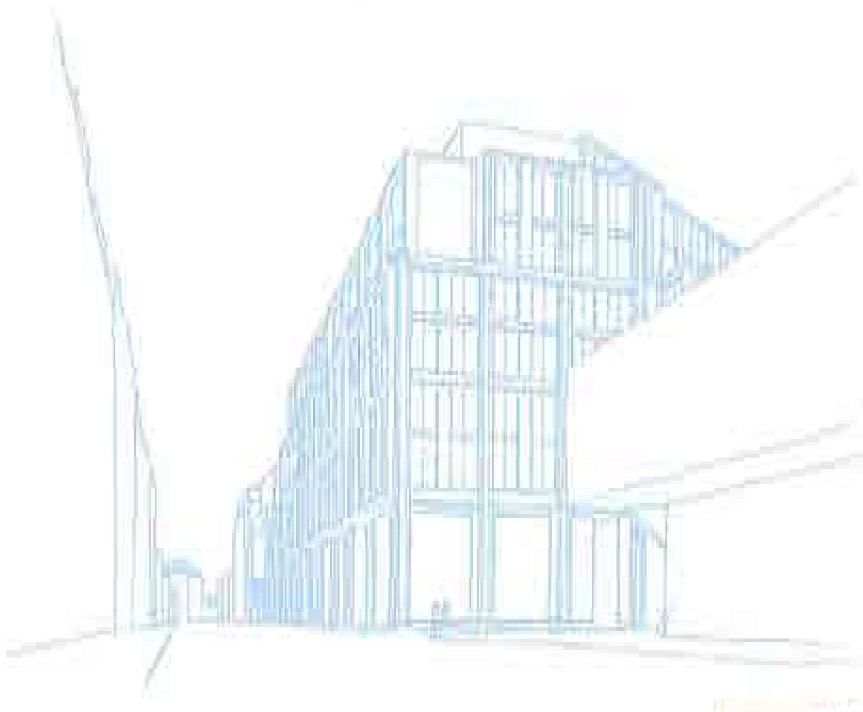
Prepared by Gerald Eve
On behalf of Royal London Mutual Insurance Society

Financial Viability Assessment

Castlewood House & Medius House, WC1A



January 2017

GERALDEVE

Castlewood House & Medius House, New Oxford Street, London, WC1 *[Redacted]*

On behalf of Royal London Mutual Insurance Society

Application Submission - A Financial Viability Assessment in support of the Planning Application

Commercially Confidential

Redact Version

January 2017

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EXECUTIVE SUMMARY (NON-TECHNICAL)

1 This report provides a financial viability assessment ("FVA") of an office-led mixed use development scheme ("the Scheme") at 68 - 69 (Medius House) and 77 – 91 (Castlewood House) New Oxford Street in the London Borough of Camden ("the Council" or "LBC").

2 The proposals would allow for the provision of high quality, efficient office floorspace supported by flexible retail uses and provide a policy compliant level of on-site affordable housing, comprising 20 affordable residential units.

3 The FVA sets out the rationale and justification for:

- The proposed mix of uses having regard to LBC's mixed use development policy (DP1); and
- the level of financial planning obligations.

4 The FVA should be read in conjunction with the Housing Study prepared by Robin Partington and Partners and submitted as part of the planning application.

5 The FVA has been undertaken in a planning policy context and following best practice viability guidance including the RICS Guidance Note Financial Viability in Planning and having regard to the Mayoral Housing SPG 2016 and the emerging draft Affordable Housing and Viability SPG. The FVA takes into account the need for the Scheme to be viable and deliverable, with decision-taking by the Local Planning Authority having regard to "competitive returns" and "flexibility" in the application of policy and obligations (NPPF paragraphs 173 and 205) and the guidance set out in the PPG.

6 The financial appraisals apply a residual based methodology in assessing viability which is standard practice.

7 The FVA has considered two Counterfactual Scenarios ("Counterfactual Scenario 1" and "Counterfactual Scenario 2") together with the Scheme. The Counterfactual Scenarios relate to providing a higher proportion of residential accommodation on-site – equating to the target floorspace required under Policy DP1 of the Camden Development Policies (2010).

8 The Scheme and Counterfactual Scenarios have been appraised on a present day basis. A target return has been selected, having regard to the risk of delivering a scheme which

involves the remodelling and extension of an existing building (Medius House) and demolition and redevelopment of Castlewood House, whilst retaining a party wall.

9 The FVA relies on a variety of consultant inputs in order to objectively and transparently assess the Scheme and Counterfactual Scenarios. The FVA is supported by a detailed market report prepared by an independent agent (CBRE), which justifies the values adopted in respect of both the office and retail elements. A detailed cost report has been prepared by Currie and Brown, which has informed the FVA.

10 The results demonstrate that the Scheme is not currently viable on a present day basis. The Counterfactual Scenarios both generate an overall financial loss.

11 The Scheme has been further tested through sensitivity analysis to test the inevitable uncertainties associated with development. This has demonstrated that the Scheme is potentially capable of being viable based upon an uplift in commercial rental values coupled with lower construction costs.

12 The Counterfactual Scenarios have also been tested through sensitivity analysis. Both Scenarios are incapable of being viable. It is also demonstrated through the Housing Study that providing a higher proportion of residential accommodation on-site is not deliverable. This confirms that bringing forward a greater proportion of residential accommodation on site is not a deliverable option.

13 The FVA has demonstrates that the Scheme provides the optimum mix of uses, having regard to a maximum level of planning contributions in order to be able to deliver and implement a viable scheme in accordance with NPPF, London Plan and Camden policies. This has been robustly tested within the Financial Viability Assessment and the results presented.

Summary Inputs Table

[Redacted]

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1. Location Plan
2. Site Plan
3. Tenancy Schedule - Castlewood House [Redacted]
4. Tenancy Schedule - Medius House [Redacted]
5. Vacant Possession Schedule - Castlewood House [Redacted]
6. Vacant Possession Schedule - Medius House [Redacted]
7. Existing Plans
8. Scheme Plans
9. Housing Study (Provided Separately Due to Size)
10. Office and Retail Market Conditions & Pricing [Redacted]
11. Counterfactual Mixed Use Report [Redacted]
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13. Scheme Cost Plan [Redacted]
14. Counterfactual Cost Summary [Redacted]
15. Development Programme [Redacted]
16. Existing Use Valuation – Castlewood House [Redacted]
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1 Introduction

1.1 Gerald Eve LLP is instructed by Royal London Mutual Insurance Society ("the Applicant") to undertake a financial viability assessment ("FVA") to support a proposal for the comprehensive redevelopment of Castlewood House and remodelling and extension of Medius House.

1.2 This report sets out the detail of what is being proposed and provides a financial assessment, rationale and justification for the following:

- the proposed mix of uses; and
- the level of financial planning obligations.

1.3 This report has been prepared having regard to the National Planning Policy Framework (NPPF), the London Plan, the LBC Core Strategy, LBC Development Policies, the RICS Guidance Note: 'Financial Viability in Planning' and generally accepted principles of undertaking financial viability assessments.

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

1.5 A bespoke appraisal has been prepared in order to assess the viability of the Scheme. The appraisal provides a benchmark return output that can then be used to establish the appropriate level of planning obligations that the Scheme can afford.

1.6 The Scheme has been assessed on a present day basis.

1.7 We have provided a sensitivity analysis in order to test the variation and robustness of the returns having regard to changes in the inputs of the Scheme. A Scenario analysis testing different potential outcomes is also included.

1.8 In order to inform our report we have relied upon information provided by a number of other consultants including:-

- Office and retail values: CBRE
- Affordable residential values: Gerald Eve
- Construction costs and programme: Currie and Brown
- Architect: Robin Partington & Partners (RPP)

1.9 The remainder of this report is set out as follows:

2) Background

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

3) Planning Context

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

4) Professional Guidance (RICS)

A summary of the provisions of the RICS Guidance Note: Financial Viability in Planning ("the RICS GN") relevant to undertaking a viability assessment.

5) The Scheme

An outline of the Scheme and summary of areas in respect of both the residential and commercial elements.

6) Limitation on mix of uses

An outline of work that has been undertaken as part of the pre-application process in determining the feasibility of incorporating residential space on-site and the Counterfactual Scenarios to be tested within the FVA.

7) The Counterfactual Scenario

An outline of the Counterfactual Scenario and summary of areas in respect of both the residential and commercial elements.

8) Sales and Market Data

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

9) Costing and Exceptional Costs

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

10) Programme

A summary of the construction programme and anticipated timetable for letting the office and commercial space and handover of the affordable housing units.

11) Site Value (And Related Costs)

An explanation of the underlying land value as applied within the appraisals and vacant possession costs.

12) Planning Obligations Package (Notional)

An outline of the planning obligations and illustrative quantification of apportionment in respect of the Scheme.

13) Basis of Viability Assessment

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

14) The Scheme: Financial Appraisal

Financial viability appraisals of the Scheme on a present day basis having regard to the level of planning obligations including a mixed-use payment in lieu of on-site residential floorspace.

15) Counterfactual Scenarios: Financial Appraisal

Financial viability appraisals of the Scheme on a present day basis having regard to the level of planning obligations including a mixed-use payment in lieu of on-site residential floorspace.

16) Viability, Analysis and Risk Assessment

An analysis and risk assessment of the Scheme having regard to the level of the proposed planning obligations package.

17) Concluding Financial Justification Statement

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

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

1.11 In accordance with best practice and the RICS guidance (paragraph 4.5.4 RICS Financial Viability in Planning), we confirm that this report has not been prepared on the basis of performance related or contingent fees or similar arrangements. We further acknowledge and confirm that in undertaking this assessment, we have acted reasonably, fairly and with transparency.

2 Background

Site Location

2.1 The Site is located within the London Borough of Camden in the South West of the borough. A location plan is attached at **Appendix 1**.

2.2 The Site is comprised of two buildings, Castlewood House and Medius House, separated by 71 - 75 New Oxford Street.

2.3 The Site occupies a prominent position, bound by New Oxford Street to the north, Central St Giles to the south, Centre Point and Centre Point House to the west. Castlewood House and Medius House are separated by 71-75 New Oxford Street, owned and occupied by Toni and Guy hairdressing academy. The surrounding area is characterised by a mix of uses including retail, offices and residential accommodation. Nearby attractions include the British Museum, the Dominium theatres, Oxford Street, Covent Garden and Leicester Square, making it a very popular tourist destination.

2.4 The Site is well located for public transport with bus routes running along New Oxford Street, Charing Cross Road and High Holborn, connecting the Site with other parts of central and outer London. The site is approximately 100 metres to the east of Tottenham Court Road Station (Central, Northern lines and Crossrail). Holborn Underground Station (Piccadilly and Central lines) is 645 metres to the east.

Description of Site and Existing Building

2.5 The Site extends to an area of c. 0.75 acres (0.30 ha). A Site plan is attached at **Appendix 2**.

2.6 Castlewood House is an existing office (Class B1) building providing 13,099sqm GEA of commercial floorspace over nine storeys. The existing post-war building is predominantly a brown brick facade above a single storey stone plinth. It is solely office use, from lower ground floor (looking out into the sunken courtyards to the rear of the building) to level 08, with the main entrance accessed from New Oxford Street.

2.7 Medius House comprises 652sqm GEA of retail (Class A1) at ground floor level and 1,610sqm GEA of office (Class B1) floorspace over five upper floors. The existing interwar building of five storeys, stepping up to six storeys at the junction with Dyott Street. Although of a plainer and heavier architectural style, it shares the rusticated brickwork of its neighbour.

2.8 Tenancy schedules for Castlewood House and Medius House are provided at **Appendix 3 and 4** respectively.

2.9 Castlewood House and Medius House are occupied by a variety of business tenants. The existing leases either end, or are subject to a landlords break before the end of 2018. Schedules detailing the vacant possession status of the existing leases in Castlewood House and Medius House are attached as **Appendices 5 and 6** respectively.

2.10 The existing office accommodation within Castlewood House has become outdated. The floorplates and core configuration are inefficient and the space planning is irregular. The existing floor plans for Castlewood House and Medius House are attached at **Appendix 7**.

3 Planning Context

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

Planning History

3.2 There is no recent planning history that has a bearing on the proposals. A full planning history table is attached as part of the Planning Statement.

Site Specific Allocations and Designations

3.3 London Plan designations:

- Central Activities Zone
- Tottenham Court Road Opportunity Area

3.4 Camden LDF Designations:

- Central London Area
- Archaeological Priority Area
- Tottenham Court Road Growth Area
- Medius House is located within the Bloomsbury Conservation Area.

Planning Policy

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

- The London Plan (LP), being the Spatial Development Strategy for Greater London, adopted by the Mayor in July 2011. Revised Early Minor Alterations were published in October 2013 followed by Further Alterations (FALP) published in March 2015 and Minor Alterations (MALP) published in March 2016.
- The Camden Local Development Framework (LDF). The LDF is made up of Camden's Core Strategy, Development Policies and Site Allocations Document. These documents set out the Council's intentions for land use and

development from 2010 to 2025. The LDF documents are up to date and should be afforded full weight.

3.6 On 24 June 2016 the Council submitted the Camden Local Plan and supporting documents to the Secretary of State for Communities and Local Government for independent examination. Public hearings took place on 18, 19, 20 and 25 October 106. The submitted plan has been through various levels of consultation and submitted for examination and as such should be afforded some weight.

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

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

3.8 At a national level, Central Government published the National Planning Policy Framework (NPPF) document (27 March 2012). The NPPF document sets out the Government's planning policies for England and how these are expected to be applied.

3.9 The NPPF highlights the importance of ensuring deliverability and viability. Paragraph 173 states:

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

National Planning Practice Guidance (PPG), (2014)

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

3.11 The PPG addresses the question of when and how viability should be assessed by the Council in respect of planning applications (Para 016, Reference ID 10-01620140306). The PPG states:

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

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

3.12 The PPG addresses the use of forecast modelling within viability testing (Para 017, Reference ID: 10-017-20140306) as follows:

"Viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today's circumstances. However, where a scheme requires phased delivery over the medium and longer term, changes in the value of development and changes in costs of delivery may be considered. Forecasts, based on relevant market data, should be agreed between the applicant and local planning authority wherever possible."

3.13 With regards to the Council's consideration of planning obligations in relation to viability – including the assessment of affordable housing provision (Para 029, Reference ID 10-019-20140306), PPG states:

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

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

Regional Planning Policy: The London Plan (MALP), March 2016

3.14 The London Plan sets out the relevant London-wide planning policy guidance, the relevant regional planning policy guidance for Camden and forms a component part of the statutory development plan.

3.15 Policies 3.10 and 3.11 on "Definition of Affordable Housing" and "Affordable Housing Targets", respectively, explain that affordable housing includes social rented, affordable rented and intermediate housing. A target is set for an average of at least 17,000 more affordable homes per year in London over the term of the London Plan. 60% of affordable housing provision should be for social and affordable rented and 40% for intermediate rent or sale and priority should be given to provision of affordable family housing.

3.16 Policy 3.12 "Negotiating Affordable Housing on Individual Private Residential and Mixed Use Schemes" states, that whilst boroughs should seek the maximum reasonable amount of affordable housing, negotiations on sites should take account of their individual circumstances, including development viability.

3.17 Policy 3.13 which deals with "Affordable Housing Thresholds" states that "Boroughs should normally require affordable housing provision on a site which has a capacity to provide 10 or more homes, applying the density guidance", as set out in Table 3.2. "Boroughs are encouraged to seek a lower threshold through the LDF process where this can be justified in accordance with guidance, including circumstances where this will enable proposals for larger dwellings in terms of floorspace to make an equitable contribution to affordable housing provision".

Supplementary Planning Guidance

3.18 The Mayor's Housing Supplementary Planning Guidance (SPG) (March 2016), which is relevant in terms of viability, states that *"at the time of the publication the Housing and Planning Bill was making its way through the legislative process which has significant implications for how we plan for affordable housing in London. Therefore, other than this section dealing with viability, the majority of the Affordable Housing chapter consulted on has not been published and remains as draft. It is likely that further guidance or advice on affordable housing will be required once more detail is* *known about the Government's approach and its implications for London".*

3.19 In this context, the Mayor's Draft Affordable Housing and Viability SPG has recently been published for consultation (29 November 2016 to 28 February 2017). This document once adopted will supersede Section 3.3 (Build to Rent) and Part 4 (Viability) of the March 2016 SPG. The SPG focuses on four distinct parts: background and approach; the threshold approach to viability appraisals; detailed guidance on viability assessments; and a specific approach to Build to Rent Schemes.

3.20 The Mayor's Central Activities Zone SPG was adopted in March 2016. The emphasis of this SPG is to encourage the provision of office and business floorspace within the CAZ and the document sees a shift towards greater weight being placed on the provision of offices and other CAZ strategic functions relative to new residential.

Local Planning Policy: Core Strategy (2010)

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

f) Seeking to ensure that 50% of the borough-wide target for additional self-contained homes is provided as affordable housing;
g) Seeking to negotiate a contribution from specific proposals on the basis of:
  - *The maximum reasonable amount of affordable housing under the specific circumstances of the site, including the financial viability of the development,*
  - *An affordable housing target of 50% of the total addition to housing floorspace, and*
  - *Guidelines of 60% social rented housing and 40% intermediate affordable housing;*

h) Minimising the net loss of affordable housing;
i) Regenerating Camden's housing estates and seeking to bring Council stock up to the Decent Homes standard by 2012.

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

Local Planning Policy: Camden Development Policies (2010)

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

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

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

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

50 dwellings".

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

a) Access to public transport, workplaces, shops, services and community facilities;
b) The character of the development, the site and the area;
c) Site size, and constraints on including a mix of market and affordable tenures;
d) The economics and financial viability of the development including any particular costs associated with it;
e) The impact on creation of mixed and inclusive communities; and
f) Any other planning objectives considered to be a priority for the site.

Local Plan Policy: Camden's Emerging Local Plan

3.27 Policy H2 states that "*In considering whether to seek a mix of uses including housing, whether housing should be provided on site, the most appropriate mix of uses, and the scale and nature of any provision of housing and other uses, the Council will take into account:*

a) The character of the development, the site and the area;
b) site size, and any constraints on developing the site for a mix of uses;
c) the priority the Local Plan gives to the jewellery sector in the Hatton Garden area;
d) the need to add to community safety by providing an active street frontage and natural surveillance;
e) whether self-contained housing would be compatible with the character and operational requirements of the proposed non-residential use and other nearby uses; the extent of any additional floorspace needed for an existing user;
f) the extent of any additional floorspace needed for an existing user;
g) whether the development is publicly funded or serves a public purpose;
h) the impact of a mix of uses on the efficiency and overall quantum of development;
i) the economics and financial viability of the development including any particular costs associated with it, having regard to any distinctive viability characteristics of particular sectors such as build-to-let housing;
j) whether an alternative approach could better meet the objectives of this policy

and the Local Plan".

3.28 Policy H4 seeks to maximise the supply of affordable housing. The Council will expect a contribution to affordable housing from all developments that include housing and provide one or more additional homes. The Council will seek to negotiate the maximum reasonable amount of affordable housing. A sliding scale target applies to developments that provide one or more additional homes and have capacity for fewer than 25 additional homes, starting at 2% for one home and increasing by 2% of for each home added to capacity. For developments with capacity for 10 or more additional drawings, the affordable housing should be provided on site.

Summary

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

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

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

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

3.33 The London Plan and Policy CS6 of Camden's Core Strategy, both seek the maximum affordable housing possible, taking into consideration development and financial viability.

4 Professional Guidance (RICS)

Introduction

4.1 This section summarises the extracts of the RICS Guidance Note: Financial Viability in Planning ("the RICS GN") relevant to undertaking a viability assessment.

The RICS Guidance Note: Financial Viability in Planning

4.2 The RICS GN was published in August 2012. The purpose of the guidance note is to enable all participants in the planning process to have a more objective and transparent basis for understanding and evaluating financial viability in a planning context. It provides practitioners with advice in undertaking and assessing viability appraisals for planning purposes.

4.3 The RICS GN defines financial viability for planning purposes; separates the key functions of development, being land delivery and viable development (in accordance, and consistent, with the NPPF); highlights the residual appraisal methodology; defines site value for both scheme specific and area-wide testing in a market rather than hypothetical context; what to include in viability assessments; terminology and suggested protocols; and the uses of financial viability assessments in planning.

4.4 The guidance note provides all those involved in financial viability in planning and related matters with an objective methodology framework and set of principles that can be applied for both plan making and development management.

4.5 The guidance note is grounded in the statutory and regulatory planning regime that currently operates in the UK. It is consistent with the Localism Act 2011, the NPPF, and the CIL Regulations 2010.

4.6 Financial viability for planning purposes is defined as follows:-

"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project."

4.7 This FVA and accompanying analysis have been prepared fully in accordance with the provisions of the RICS GN.

4.8 In arriving at a Site Value, in accordance with the PPG and in particular paragraph 023, we would highlight the need to consider the common principles of the three limbs: Section 3 of this report set out the policy requirements, and Section 11 considers the competitive return to the land owner in the context of the make-up of value and testing this through comparative, market based evidence. In this respect the RICS GN at paragraph 3.4.7 provides guidance on the use of comparable evidence.

4.9 In addition the RICS GN at paragraph 3.6 notes that where sites have been assembled to enable a comprehensive development, this should be reflected in the site value. In this instance the site comprises two distinct parcels of land which have been separately valued (see Section 11). The RICS GN also states that it may result in synergistic value arising.

4.10 Finally it should be noted that valuations of the individual plots undertaken by CBRE and included Section 11 are in accordance with RICS *Valuation - Professional Standards* "the Red Book". They therefore adhere to the required professional standards that are mandatory when undertaking valuations.

5 The Scheme

Introduction

5.1 The proposals involve the comprehensive redevelopment of Castlewood House and remodelling and extension of Medius House.

5.2 In summary, planning permission is sought for:

Demolition of the existing building, at Castlewood House, and construction of a replacement ten storey mixed use building, plus ground and two basement levels, including the provision of retail (Class A1 and/or A3) and office (Class B1) floor space. External alterations to Medius House including partial demolition, retention of the existing façade and two floor extension to provide 20 affordable housing units (Class C3), together with associated highway improvements, public realm, landscaping, vehicular and cycle parking, bin storage and other associated works.

5.3 The development proposals for the Site represent a mixed-use employment led scheme including provision of retail uses and policy compliant on-site affordable housing.

Proposals

5.4 The proposals have evolved around an opportunity to significantly upgrade the existing buildings, reflecting Camden's key policy objectives and taking advantage of the site's key strengths namely its highly accessible Central London location, including proximity to the new Crossrail station at Tottenham Court Road, the mix of building styles and heights in the area, and the potential to create strong pedestrian links through to the surrounding districts.

5.5 The proposals would result in a new 11 storey building on the site of the existing Castlewood House providing 9 floors of Grade A office space with ground floor retail and use of the existing basement.

5.6 Medius House will be extended by two additional floors and developed within a retained facade to create an 8 storey building providing 20 high quality affordable homes above ground floor retail and existing basement.

5.7 Proposed plans for the Scheme are included as **Appendix 8.**

Table 1: Land Use Summary

Land Use	Existing (sqm GEA)	Proposed (sqm GEA)	Net Uplift (sqm GEA)
Office (Class B1)	14,709	18,905	+ 4,196
Retail (Class A1/A3)	652	2,829	+ 2,177
Affordable Residential (Class C3)	0	2,147	+ 2,147
TOTAL	**15,361**	**23,881**	**+ 8,520**

Office Proposal

5.8 The Scheme would provide 138,511 sq ft of Grade A office space as outlined below:

Table 2: Office Accommodation (Castlewood House)

Level	Net Internal Area (sqft)
10	883
9	9,580
8	9,580
7	15,554
6	15,554
5	16,534
4	17,739
3	17,965
2	18,223
1	16,899
TOTAL	**138,511**

5.9 The office floorspace has been designed to meet the requirements of modern office occupiers. A central core will maximise the amount of natural light and would have the ability to be subdivided to meet tenant space requirements, enhancing the overall commercial uses within the local area.

5.10 Six passenger lifts will provide access to all levels including shower facilities in the basement and the communal roof terrace on the north of the building, which will enjoy views over Bloomsbury.

Retail Element

5.11 Retail units will be provided at ground and basement level providing frontage onto Earnshaw Street, Bucknall Street, as well as New Oxford Street.

5.12 All servicing of the retail units will be provided off street.

Table 3: Retail Areas (NIA)

Level	Castlewood House	Medius House
Basement 1	10,312	2,217
Ground Floor	9,569	2,723
Total	**19,881**	**4,940**
	24,821	

Affordable Residential Element

5.13 The residential component will be situated in Medius House and comprises 20 affordable housing units, a mixture of social rented and intermediate. This comprises 60% affordable rent units and 40% intermediate units. A summary of the affordable residential offering of the Scheme is included as Table 4 below.

Table 4: Affordable Housing Schedule (Medius House)

Residential	Habitable Rooms	Affordable Rent	Intermediate	Total
1 bed	Studio/1 person	1	4	5
	2 person	4	0	4
2 bed	3 person	3	3	6
	4 person	1	1	2
3 Bed	5 person	3	0	3
Total		**12 (60%)**	**8 (40%)**	**20**

5.14 All apartments will share a lobby and single core accessed from New Oxford Street. Residents cycle parking and storage will be provided at basement level.

6 Limitations on Mix of Uses within the Property

6.1 The proposals result in an additional 8,520sq m GEA floorspace. Local policy requires the provision of up to 50% of total additional floorspace to be provided as housing. If housing cannot be achieved on-site, a contribution to off-site housing may be considered. In exceptional circumstances the Council may accept a payment in lieu.

6.2 The architectural and design team (Robert Partington & Partners) have undertaken a detailed exercise to examine the potential for the housing to be provided on-site in accordance with LBC's Mixed Use Policy DP1. Through the preparation of a Housing Study, which has been submitted alongside this planning application (and is provided at **Appendix 9**), it became apparent that it would not be possible to accommodate sufficient residential floorspace on site.

6.3 Robert Partington & Partners assessed thirteen options for providing a full provision of housing on-site in their premliminary review in February 2016, along with an assessment of the feasibility of doing so. Each option has multiple limitations which render additional residential accommodation on-site as unfeasible as detailed in **Appendix 9.**

6.4 Since the initial housing study undertaken in February the scheme has evolved and developed. Counterfactual Scenarios 1 and 2 test the residential provision based on the latest design. These two options have been considered to have the greatest prospect of delivering a higher proportion of residential accommodation in design terms, whilst still exhibiting a number of issues in terms of feasibility and design. We have therefore in this report assessed the financial viability of these Scenarios.

Counterfactual Scenario 1 - Upper Floor Residential Provision Castlewood / Medius Refurbishment

6.5 This Counterfactual Scenario 1 looks at providing the policy compliant level of residential floorspace on the upper floors of Castlewood House in a perimeter layout, and within a retained but extended Medius House. All residential provision within Castlewood would be private, while the affordable provision would be delivered in Medius House.

6.6 The perimeter layout of the units creates a large number of single aspect units and a large amount of space at the centre of the plan with no natural daylight. Further compromised by the office lift overruns, this space is unusable for residential layouts.

6.7 The requirement for a dedicated core passing through the lower floors significantly compromises the quality and value of the office floorspace. Equally, the office lift overrun significantly compromises the first level of residential.

6.8 In addition the presence of a residential entrance and bin store reduces the ground floor retail frontage.

Counterfactual Scenario 2 – Residential Provision at Castlewood South Elevation / Medius Refurbishment

6.9 Counterfactual Scenario 2 provides the policy compliant level of residential floorspace within the south eastern corner of Castlewood House, and within a retained but extended Medius House. All residential provision within Castlewood would be private, while the affordable provision would be delivered in Medius House.

6.10 The provision of residential along the southern elevation from first to sixth floor level would significantly compromise the quality of the office floorplates at these floors. The compromises in the quality of the office floorplate render Counterfactual Scenario 2 unviable. As a result this Option is deemed impractical and not deliverable.

6.11 The additional residential core and cycle parking reduces retail at B1 level, eliminating the ability to trade down in the northeast corner retail unit. In addition, the residential entrance and binstore reduce retail frontage at ground level and is only accessible via 'The Lane.'

7 Counterfactual Scenarios

Introduction

7.1 In order to test the financial viability of providing further on-site residential, notwithstanding the issues highlighted in the previous section, we have sought to analyse the potential financial returns of Counterfactual Scenario 1 and Counterfactual Scenario 2. These have been identified by Robert Partington & Partners as the most feasible options from those assessed in a comprehensive housing study (**Appendix 9**), although these Scenarios are still subject to design issues.

7.2 These scenarios represent differing iterations of options to provide additional private residential housing within the Castlewood House section of the Site. Affordable residential is provided entirely within Medius House in all three iterations of the Scheme.

Counterfactual Scenario 1

7.3 Counterfactual Scenario 1 provides a compliant level of residential floorspace on the upper floors of Castlewood House in a perimeter layout and within a retained and extended Medius House. All residential provision within Castlewood would be private, while the affordable provision would be delivered in Medius House.

7.4 Counterfactual Scenario 1 contains 16 private residential apartments, located on floor 8 and 9.

7.5 Proposed plans for Counterfactual Scenario 1 are included as **Appendix 9.** A summary of quantum of uses in Counterfactual Scenario 1 is provided in **Table 5**, below.

Counterfactual Scenario 2

7.6 Counterfactual Scenario 2 provides the policy compliant level of residential floorspace with the south eastern corner of Castlewood House. All residential provision within Castlewood would be private, while the affordable provision would be delivered in Medius House.

7.7 Counterfactual Scenario 2 contains 17 private residential apartments, located on between floors 1 and 7.

7.8 Proposed plans for Counterfactual Scenario 2 are included as **Appendix 9.** A summary of quantum of uses in Counterfactual Scenario 2 is provided in **Table X**, below.

Table 5: Land Use Summary Counterfactual and Schemes

Land Use	Scheme (sq ft NIA)	Counterfactual 1 (sq ft NIA)	Counterfactual 2 (sq ft NIA)
Office (Class B1)	138,511	120,309	117,651
Retail (Class A1/A3)	24,821	23,572	23,142
Private Residential (Class C3)	0	15,737	14,704
Affordable Residential (Class C3)	13,789	13,789	13,789
TOTAL	177,121	173,407	169,286

Counterfactual Value and Cost Information

7.9 In order to assess the viability of Counterfactual Scenarios 1 and 2 the build costs and applicable commercial disposal values have been assessed by Currie and Brown and CBRE respectively.

7.10 Gerald Eve has undertaken the pricing of both the private residential and affordable residential elements with input from in-house residential and affordable housing experts.

7.11 These assumptions are expounded further in subsequent sections of this report. Where costs or values for the Counterfactual Scenarios are not explicitly stated to differ from the Scheme, it should be assumed that those assumptions adopted for the Scheme have also been applied to the Counterfactual Scenarios appraisals.

8 Sales and Market Data

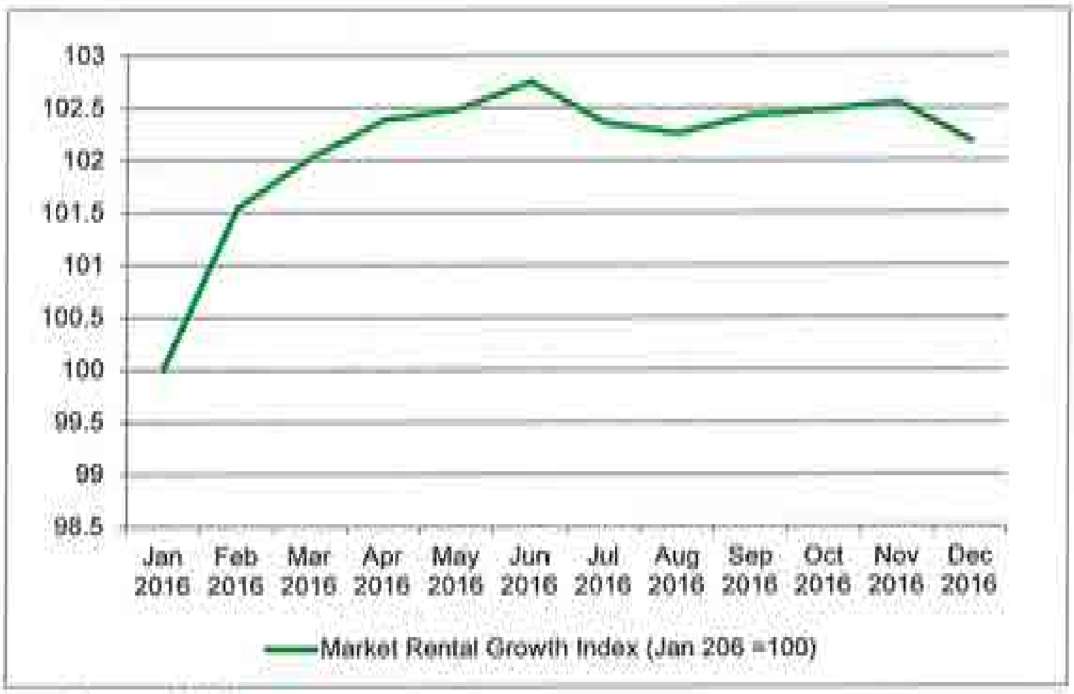
8.1 An analysis of both the office and retail elements of the Scheme has been undertaken CBRE, an independent agent, on behalf of the Applicant. The key points of their analysis are summarised in this Section and are supplemented by our own internal research in order to provide an overview of the key elements of which the Scheme and Counterfactual Scenarios comprise, these being:

- Office Rental Values and Incentives
- Office Investment Yield
- Retail Values and Incentives
- Retail Investment Yield
- Affordable Housing Values
- Counterfactual Commercial Values
- Counterfactual Private Residential Values

Office Rental Values and Incentives

8.2 Rental market growth has remained largely neutral in the submarket since the results of the EU referendum in the Midtown and West End office submarket, according to MSCI Monthly Data. This represents a slowdown in growth which was evident in the market pre-referendum which equated to approximately 2% between January and June. Rental value movement over 2016 in the Midtown and West End submarket is summarised in **Figure 1**, below.

Figure 1: Midtown and West End Offices Rental Growth Index 2016



Source: MSCI

8.3 Details of the local office market and the development pipeline along with details of comparable evidence are set out in the *Office and Retail Market Conditions & Pricing* report prepared by CBRE and provided at **Appendix 10**.

8.4 The office accommodation for the Scheme will be finished to a "Grade-A," institutional quality. The internal specification of the offices is anticipated to benefit from floor to ceiling glazing, 2.75m finished floor to ceiling height, air conditioning and raised access floors. Levels 4,5,6,8 and 10 will benefit from private outside space and in addition there will be a communal roof terrace on level 10.

8.5 CBRE note that the Scheme's achievable office rental values will be somewhat limited in terms of occupiers seeking a corporate HQ office building. Occupiers of this nature require presence and branding at ground floor level in order to position their business within the local environment - the entrance is however flanked by retail units.

8.6 Q4 2016 was the most active quarter in 2016 in terms of office floorspace take-up in central London. Take-up increased by 26% to 3.7m sq ft in Q4 2016, 20% above the 10-year average of 3.1m sq ft. Despite the strong end to the year, at 12.2m sq ft full-year take-up for 2016 was 17% lower than 2015 and marginally below the 10-year annual average of 12.4m sq ft.

8.7 In the Soho, Fiztrovia, Bloomsbury and Covent Garden & Strand areas, at the end of Q4 2016 the amount of space which is available to occupy within the next 12 months stood at 1.57m sq ft. This is 2% above the long term average of 1,536m sq ft. Prior to Q4 2016, the availability rate had been rising for the last five quarters. The vacancy rate in these local submarkets at the end of Q3 2016 stood at 4.2% of total stock.

8.8 [redacted]

Table 6: Office Rental Values, Incentives and Voids

Floor	Estimated Rental Value (£ per sq ft)	Letting Void	Rent Free
L10	[redacted]	[redacted]	[redacted]
L09	[redacted]	[redacted]	[redacted]
L08	[redacted]	[redacted]	[redacted]
L07	[redacted]	[redacted]	[redacted]
L06	[redacted]	[redacted]	[redacted]
L05	[redacted]	[redacted]	[redacted]
L04	[redacted]	[redacted]	[redacted]
L03	[redacted]	[redacted]	[redacted]
L02	[redacted]	[redacted]	[redacted]
L01	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

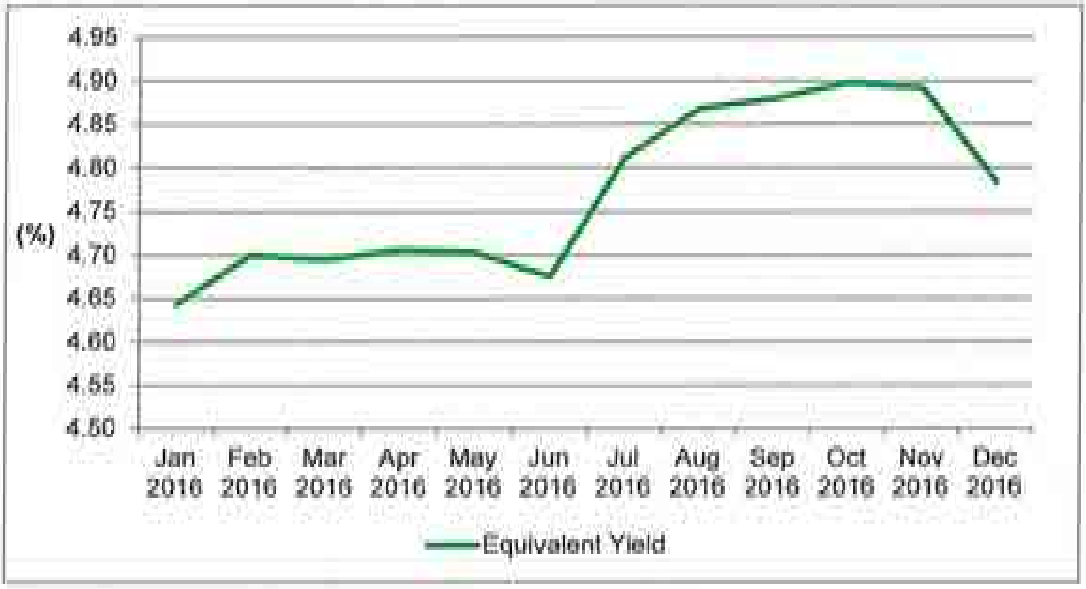
Source: CBRE

8.9 We have adopted a range of voids and incentives as advised by CBRE and summarised in **Table 6**, above.

Office Investment yield

8.10 Midtown and West End offices saw equivalent yields move out over Q3 2016 to 4.9% following the referendum up from 4.7% in June according to MSCI. Following a period of severe uncertainty the market underwent a period of yield modest compression, with equivalent yield standing at 4.8% as of December 2016. Yield movement over 2016 in the Midtown and West End submarket is summarised in **Figure 2**, below.

Figure 2: Midtown and West End Offices Equivalent Yield 2016



Source: MSCI

8.11 Following the EU referendum on June 23rd 2016, the investment market in Central London was distinctly unsettled with a number of the open ended funds having to sell property to maintain liquidity within their funds. These funds have now stabilised and re-opened for trading. Q4 2016 witnessed a huge influx of overseas capital, primarily from Asia, given the c. 15% depreciation in Sterling. There remains a substantial amount of overseas capital waiting to be deployed into commercial investment property in London – particularly the Asia and the Middle East – looking for either strong income characteristics or value-add asset management opportunities.

8.12 [redacted]

8.13 [redacted]

[redacted]

Retail Rental Values and Incentives

8.14 The Scheme offers a continuous run of retail units along the New Oxford Street frontage. There are a further two units to the south of the scheme one on the corner of Earnshaw and Bucknall Street and a second further along Bucknall Street.

8.15 Currently retail demand comes from a mix of local residents, tourists, visitors and the local workforce. New Oxford Street has witnessed a number of introductions to the area, most notably The Hoxton Holborn Hotel by Ennismore on New Oxford Street, which includes collaboration with Cheeky Parlour, the Chicken Shop, Hubbard & Bell and the Hoxton Grind on the ground floor.

8.16 CBRE have advised that due to the length of New Oxford Street running from Tottenham Court Road underground station to Holborn, the Zone A rates on the street are variable. [redacted] Further retail letting transactions are included at **Appendix 10**.

8.17 [redacted]

8.18 [redacted] A summary of rental values, voids and incentives are displayed on a floor by floor basis in **Table 7**, below. Further detail is included at **Appendix 10**.

Table 7: Retail Rental Values, Incentives and Voids

Unit	Estimated Rental Value (£ per sq ft)	Letting Void	Rent Free
Castlewood House			
Unit 01	[redacted]	[redacted]	[redacted]
Unit 02	[redacted]	[redacted]	[redacted]
Unit 03	[redacted]	[redacted]	[redacted]
Unit 04	[redacted]	[redacted]	[redacted]
Unit 05	[redacted]	[redacted]	[redacted]
Unit 06	[redacted]	[redacted]	[redacted]
Basement	[redacted]	[redacted]	[redacted]
Medius House			
Unit 01	[redacted]	[redacted]	[redacted]
Basement	[redacted]	[redacted]	[redacted]

Source: CBRE

Retail Investment Yield

8.19 CBRE have assessed comparable transactions in the Midtown and Soho sub-markets in order to inform our opinion on achievable investment yields. Further detail is included at **Appendix 10**.

8.20 [redacted]

Affordable Housing Values

8.21 The Affordable Housing team at Gerald Eve has advised on the affordable housing values achievable in the units proposed in Medius House.

8.22 Social / Affordable Rented units have been valued using the following methodology:

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]

8.23 Intermediate Rent units have been valued using the following methodology:

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

- [redacted]

8.24 Following the advice of Gerald Eve's affordable housing team we have adopted the following affordable housing values, summarised in Table 8, below.

Table 8: Summary of Affordable Housing Values

Tenure	Rate (£ psf)
Social Rented	[redacted]
Intermediate Rented	[redacted]
Blended	[redacted]

Source: Gerald Eve

Counterfactual Scenarios Commercial Values

8.25 Given the Castlewood House element of the Scheme is a standalone commercial asset we are of the view that the rental income, management efficiency and the ability to refurbish the building holistically would likely result in [redacted] CBRE have assessed achievable rental values and yields for Counterfactual 1 and 2; this is included at **Appendix 11**, Counterfactual Mixed Use Report.

8.26 CBRE have identified that Counterfactual Scenario 1 bears the following drawbacks which are likely to impact on the investment yield and rental levels (further detail is included at **Appendix 11**):

- The premium space, on the very upper floor levels (9 and 10,) has been lost. This will have a negative effect on the rents on the lower floors down as the overall package for a significant occupier becomes less desirable.
- The level 8 lobby is shared with residential. A shared lobby is undesirable, especially for your premium upper floor space. This will devalue this floor considerably.
- The 9th floor residential overlooks the 8th floor terrace.
- The ability for an occupier to have a self-contained ground floor entrance to the east of the core is lost in place of the residential core.
- There is a loss of cycle storage on level B1 and the access to the cycle storage is

shared.

- The office core on the upper floors (1-8) becomes larger, more irregular and elongated as a result of two residential lifts that run up through each floor.

8.27 Given their analysis CBRE has advised that the following rental values, incentives and voids will be applicable to Counterfactual Scenario 1.

Table 9: Counterfactual Scenario 1: Office Rental Values, Incentives and Voids

Floor	Estimated Rental Value (£ per sq ft)	Letting Void	Rent Free
8th	[redacted]	[redacted]	[redacted]
7th	[redacted]	[redacted]	[redacted]
6th	[redacted]	[redacted]	[redacted]
5th	[redacted]	[redacted]	[redacted]
4th	[redacted]	[redacted]	[redacted]
3rd	[redacted]	[redacted]	[redacted]
2nd	[redacted]	[redacted]	[redacted]
1st	[redacted]	[redacted]	[redacted]
Average	[redacted]		

Source: CBRE

8.28 CBRE have identified that Counterfactual Scenario 2 bears the following drawbacks which are likely to impact on the investment yield and rental levels (further detail is included at **Appendix 11**):

- The flow of the upper floor office floor plate is compromised as it is not possible to access it 360 degrees. Occupiers prefer efficient floor plates with minimal internal travel distances. The floor plates shown will therefore be less desirable.

- Floor plate divisibility is compromised on levels 1 – 7.
- There is a loss of cycle storage on level B1 due to the residential core and the access to the cycle storage is shared.
- There is a loss of the premium space and the communal outside space on level 10.

8.29 Given their analysis CBRE have advised that the following rental values, incentives and voids will be applicable to Counterfactual Scenario 2.

Table 10: Counterfactual Scenario 2: Office Rental Values, Incentives and Voids

Floor	Estimated Rental Value (£ per sq ft)	Letting Void	Rent Free
9th	[redacted]	[redacted]	[redacted]
8th	[redacted]	[redacted]	[redacted]
7th	[redacted]	[redacted]	[redacted]
6th	[redacted]	[redacted]	[redacted]
5th	[redacted]	[redacted]	[redacted]
4th	[redacted]	[redacted]	[redacted]
3rd	[redacted]	[redacted]	[redacted]
2nd	[redacted]	[redacted]	[redacted]
1st	[redacted]	[redacted]	[redacted]
Average	[redacted]		

Source: CBRE

8.30 [redacted]

- [redacted] There is less appeal for office buildings where the overall appearance and control of the building and space within it is reduced;
- There is an impact on liquidity resulting from the residential floors being sold off on long leasehold interests, creating fragmented ownership and restricting future asset management and development opportunities;
- Management issues surrounding long leasehold residential interests;
- Restrictive ability to refurbish or redevelop the building holistically;
- The reduction of quantum of commercial floorspace; and
- The loss of upper floor offices (Counterfactual 1) and compromised floorplates (Counterfactual 2).

8.31 [redacted]

Counterfactual Private Residential Values

8.32 For the purpose of analysing the two counterfactual scenarios, Gerald Eve LLP has advised on the pricing of the potential residential units.

8.33 Due to the Stamp Duty revisions and the uncertainty resulting from the lead up to and the result of the EU Referendum, Prime Central London values have suffered over the last year, falling by an average of 6.9% in 2016. This is in comparison to overall annual growth across the whole of London of 7.1% in Q3 2016. Transaction levels for property worth over £1million was also severely impacted falling by 23% over the same period.

8.34 The Midtown market has however fared slightly better than the larger Prime Central London market and confidence is starting to recover, although only at the right price. Lonres report that the average discount to asking price in Q3 2016 was 9%.

8.35 The Tottenham Court Road area has not historically been a strong residential location but has seen an improvement with the forthcoming arrival of Crossrail, highlighted by the increased number of residential development occurring in the area.

8.36 The private accommodation proposed within Counterfactual Scenario 1 would provide 16 apartments spaced laterally across levels 8 and 9. The aspect of these flats would be favourable, some with views of Oxford Street and south over Central St Giles, however the values would be significantly affected by the poorly placed entrance that can only be accessed through an alleyway to the east of the site.

8.37 Alternatively, the accommodation proposed within Counterfactual Scenario 2 does have an improved entrance off Bucknall Street, however the flats are positioned vertically up the eastern side of the building. In particular, the flats positioned within level 1 to 4 would be significantly affected by the lack of view into a small courtyard and into Central St Giles. Those further up will have more natural light and a better aspect although still only of Central St Giles and Bucknall Street.

8.38 When comparing the private units with those new build units sold in the area it is worth noting that several of the new developments launched in the Midtown market in the last year are purpose built large residential developments built to a high specification and with various extra facilities that the units at Castlewood House would not have. For example, Rathbone Place, which is achieving values in excess of £2,000psf provides a communal swimming pool, gym, sauna, private garden, lounge and a wine storage room, none of which could be provided at the subject site. Similarly, Fitzroy Place has a Members Club lounge, business lounge, conference room, a private 20 seat cinema room, gym and massage rooms. Both developments are also located in the desirable Fitzrovia area, a short distance away from the busy and congested Oxford Street.

8.39 The Hexagon development is another luxury residential scheme just off New Oxford Street but nearer Holborn tube, providing 46 residential units within an existing landmark building. There is currently a two bedroom 4th floor apartment on the market for £1,650,000 equating to £1,888psf. These units benefit from a much more prominent entrance and lobby within a fully residential landmark building but do not benefit from any other facilities apart from a full concierge service.

8.40 The number of units proposed within Counterfactual Scenario 1 and 2 would not warrant an international marketing campaign and sales would therefore most likely my limited to domestic UK buyers. This may also limit the potential for achieving values in line with the larger new build schemes.

8.41 There is a large range in second hand sales values in close proximity to the site depending on location, specification, age and aspect, with capital values equating to approximately £1,150 - £1,800psf.

8.42 Of most relevance are those second hand sales in Central St Giles, immediately adjacent to Castlewood house. In March 2016, a one bedroom 7th floor flat here sold for £940,000, equating to £1,618psf. In August 2016 a one bedroom flat on 4th floor sold for £822,400 equating to £1,812psf, and in October 2016, a 5th floor one bed of just 400 sq ft sold for £740,000, the equivalent of £1,850psf. The units within Central Saint Giles are particularly small and this has resulted in a higher rate per square foot than other comparable developments in the market which typically provide larger units.

8.43 A pricing schedule on a unit by unit basis for each Counterfactual Scenario is attached at **Appendix 12**.

Residential Ground Rents

8.44 [redacted]

9 Costing and Exceptional Costs

Introduction

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

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

Construction Costs

9.3 We have relied on the cost plans provided by Currie and Brown for the Scheme and Counterfactual Scenarios 1 and 2, which estimates costs as at Q1 2017. The Cost Plan supplied by Currie and Brown is provided at **Appendix 14**. [redacted]

9.4 By way of summary we set out the construction costs of the Scheme in the table below:

Table 11: Summary of Construction Cost

Works Undertaken	Total Cost £	GIA £/m²	GIA £/ft²
Commercial Shell and Core	[redacted]	[redacted]	[redacted]
Commercial CAT A Fit Out	[redacted]	[redacted]	[redacted]
Commercial External Works	[redacted]	[redacted]	[redacted]
Commercial Sub Total	[redacted]	[redacted]	[redacted]
Residential Alterations	[redacted]	[redacted]	[redacted]
Residential Shell and Core	[redacted]	[redacted]	[redacted]
Residential Fit Out	[redacted]	[redacted]	[redacted]
Residential External Works	[redacted]	[redacted]	[redacted]
Residential Sub Total	[redacted]	[redacted]	[redacted]
Demolition	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

Source: Currie and Brown

9.5 The two Counterfactual Scenarios have been costed by Currie and Brown and cost summaries are attached as **Appendix 14**.

9.6 The cost of developing Medius House and demolition costs remain unchanged, however the increased costs of developing additional private residential floorspace in Castlewood House mean the overall construction costs are increased for the Counterfactual Scenarios. These costs are summarised in **Table 12**, below.

Table 12: Proposed and Counterfactual Build Costs

Works Undertaken	Counterfactual 1 (£)	Counterfactual 2 (£)
Castlewood House	[redacted]	[redacted]
Castlewood House Demolition	[redacted]	[redacted]
Medius House	[redacted]	[redacted]
Total	[redacted]	[redacted]

Source: Currie and Brown

Professional Fees

9.7 [redacted]

Construction Insurance

9.8 [redacted]

Disposal Costs

9.9 The disposal of both the commercial and residential elements of the scheme will bear marketing, sales agent, legal and letting fees. These are summarised in **Table 13** below.

Table 13: Disposal Costs

Disposal Fee	Commercial	Affordable Residential	Private Residential (Counterfactuals 1 and 2)
Marketing (% GDV)	[redacted]	[redacted]	[redacted]
Sales Agent (% GDV)	[redacted]	[redacted]	[redacted]
Sales Legal (% GDV)	[redacted]	[redacted]	[redacted]
Letting Agent (% ERV)	[redacted]	[redacted]	[redacted]
Letting Legal (% ERV)	[redacted]	[redacted]	[redacted]

Source: Gerald Eve

Vacant Possession costs

9.10 [redacted]

Void Costs

9.11 [redacted]

Finance Costs

9.12 De Montfort University's The UK Commercial Property Lending Market Research Findings Mid-Year 2016 collates a sample of the conditions under which lenders offer development finance.

9.13 The survey highlighted that development loans terms offered by all surveyed lenders entailed (including UK lenders and building societies, German lenders, North American lenders and other international lenders) comprised of the following:

- **Residential for sale:** Average loan to cost ratios of 66% to 75%; average interest rate margins of 400 bps; average arrangement fees of 135 bps.
- **Pre-let commercial**: Average loan to cost ratios of 58% to 80%; average interest

rate margins of 348 bps; average arrangement fees of 108 bps.

- **Speculative commercial**: Average loan to cost ratios of 58% to 80%; average interest rate margins of 513 bps; average arrangement fees of 140 bps.
- **50% speculative / 50% pre-let commercial:** Average loan to cost ratios of 58% to 80%; average interest rate margins of 350 bps; average arrangement fees of 121 bps.

9.14 At mid-year 2016 finance of fully pre-let development demonstrated average interest rate margins of 348bps, which represented an increase from 339bps reported at year-end 2015. The average loan-to-cost ratio was 66% and the average arrangement fee 108bps. For 50% pre-let: 50% speculative development schemes at mid-year 2016 the average interest rate margin was 332bps with an average loan-to-cost ratio of 58% and an average arrangement fee of 121bps. In comparison the average margin year-end 2015 was 351bps. For speculative developments there was an average margin of 513bps, a 140bps average arrangement fee and an average loan-to-cost ratio of 56%. In comparison, the average margin year-end 2015 was 384bps

9.15 This reflects an increased finance risk premium in regards to speculative commercial development which saw margins widen significantly in 2016. Pre-let development finance however remains available on broadly comparable terms to 2015. This equates to a lending cost premium of c. 200 bps, including arrangement fees, for developing speculatively. Whilst debt markets remain active lenders are increasingly reticent to lend to schemes in what has become an increasingly uncertain occupier market.

9.16 The residential development finance market has, according to De Montfort University, seen margins decrease albeit with accompanying average loan-to-value and loan-to-cost ratios decreasing and arrangement fees increasing. Average interest rate margins declined from 434bps recorded at year- end 2015 to 400bps at mid-year 2016 together with an exit fee of 115pbs and an arrangement fee of 135bps.

9.17 According to a review of UK development finance market conducted by the Investment Property Forum (IPF) in 2015, although banks still dominate the lending market, there has been an increase in alternative lending platforms. Lending from banks represents a relatively regular set of lending criteria, whilst alternative lenders lend at a wide variety of interest rate margins and often include project-specific fees and profit sharing arrangements within their lending agreements.

9.18 Adopting the midpoints of the ranges above, the De Montfort University's The UK Commercial Property Lending Market Research Findings Mid-Year 2016, indicates that the median cost of senior debt is equivalent to 6.9% for pre-let commercial development and 7.3% for residential development on a nationwide basis.

9.19 Given that senior debt is generally offered at 50% to 80% of cost of development projects, the remainder of project financing will, in most cases, be comprised of equity and in some cases varying levels of junior debt, mezzanine debt.

9.20 Junior debt and particularly mezzanine debt are typically provided by specialist platforms, and a lack of available research exists as to average lending criteria. The IPF, for example, states that "mezzanine finance is not a product that many banks provide" and "this type of finance is typically associated with projects funded on a profit share basis".

9.21 Given the lack of available research and idiosyncratic nature of subordinate debt arrangements for real estate development funding, we have omitted this from our assessment of the market rate for development finance. The remaining project cost not provided by senior debt is therefore assumed to be equity financed.

9.22 The UK development market as a whole now bears a greater perception of risk on behalf of lenders; and given negative growth perceptions in a selection of sub-markets we expect lenders to increase margins in order to compensate for additional lending risk. Thus far this has been particularly prevalent in increased fees across most development types and increased margins for higher risk speculative development.

9.23 That said finance remains largely available, and total borrowing costs continue to be tempered by relatively low UK government bond yields and a lowering in the Bank Rate to 0.25%, both of which partially underpin development finance margins and loan availability.

9.24 [redacted]

10 Programme

Introduction

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

10.2 A development programme summary prepared by Currie and Brown is attached as **Appendix 15**.

Programme

10.3 [redacted]

10.4 Castlewood House

10.5 Start on site is scheduled for [redacted]

10.6 Currie and Brown have estimated that the build period of the scheme will take place over the following stages:

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

10.7 The total construction programme for Castlewood House and Medius House is estimated to be [redacted]

Letting and Disposal

10.8 [redacted]

[redacted]

10.9 It is assumed the affordable housing will be transferred to a Registered Provider on Practical Completion.

10.10 [redacted]

10.11 [redacted]

11 Site Value (And Related Costs)

Introduction

11.1 This section sets out the underlying basis of the adopted Site Value. Our views are formed having regard to the RICS GN, as set out in Section 4.

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

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

11.3 Site Value must, by definition, be at a level where the landowner is willing to sell at a competitive return as recognised by the NPPF. The PPG states that Site Value should reflect policy in providing a competitive return to the landowner and be informed by comparable transactions, disregarding bids that are significantly above the market norm. In arriving at a Site Value it is necessary to apply valuation judgement having regard to the particular circumstances.

Approach

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

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

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Background to the Site

11.5 The office space, whilst dated compared to contemporary office buildings in the locality, still offers a reasonable level of specification.

Existing Use Value

11.6 CBRE has undertaken a RICS "Red Book" valuation of the properties as at the end of Q4 2016 to determine the current investment value, attached as **Appendix 16**. [redacted]

Castlewood House Existing Use Value

11.7 CBRE have valued the existing Castlewood House property utilising the following method, full details of which area attached as **Appendix 16**.

[redacted]

[redacted]

[redacted]

- [redacted]

Medius House Existing Use Value

11.8 CBRE have valued the existing Medius House property utilising the following method, full details of which are attached as **Appendix 17.**

[redacted]

[redacted]

[redacted]

- [redacted]

Existing Use Value Summary

11.9 [redacted]

Comparable Transactions

11.10 The third limb of paragraph 023 of PPG places a requirement on any assessment of Site Value to be informed by comparable market based evidence. The RICS GN outlines that it is important to have regard to sales prices ("transacted bids") of comparable development sites, para 3.16 states:

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

11.11 We have applied £ / sq ft NIA as a unit of comparison in this instance. Given high capital values (across all uses) in central London, underlying land values are highly sensitive to the height, mix, massing and existing uses of a scheme. As a result assessing site value on a £ / acre basis is largely redundant in central London due to variances between sites in central London.

11.12 We have compiled land transactions of office-led, mixed use development and investment opportunities in the surrounding area. Whilst some transactions were undertaken primarily as investments, all retain varying degrees of redevelopment or asset management potential.

11.13 This is in accordance with the Site, whereby any purchaser would consider a variety of asset management options ranging from the refurbishment of the office space and retention of the retail as an investment, to a complete Site redevelopment.

11.14 [redacted] A summary of these transactions are displayed in **Table 14,** below, and graphically in **Figure 3**.

Table 14: Comparable Land Transactions

Site	Purchase Price	Indexed Purchase Date (Sep 2016)*	Date	Existing NIA sq ft	Indexed Price £psf (Existing NIA)
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

11.15 Details of each transaction are as follows:

[redacted]

[redacted]

- [redacted]

[redacted]

[redacted]

[redacted]

- [redacted]

[redacted]

11.16 [redacted]

11.17 [redacted]

11.18 The indexed prices along with the average on a £ sq ft (NIA) basis are illustrated, below.

Figure 3: Comparable Land Transaction Prices

[Redacted]

Site Value Summary

11.19 In arriving at the Site Value, we have had regard to the market cycle, the demand and the risks (and therefore returns) associated with delivering redevelopment, together with the above analysis. We have applied valuation judgement drawing on the experience of valuing central London development sites for a range of existing and proposed uses.

11.20 For the purposes of this FVA, we have adopted a Site Value of [redacted]

11.21 [redacted]

11.22 [redacted]

12 Planning Obligations Package (Notional)

12.1 One of the requirements of the financial appraisal of the Scheme and Counterfactual Scenarios is to determine the level of planning obligations including a public realm contribution and Crossrail contribution (Mayoral CIL) as an aggregated total sum. In other words, to assess what the Scheme and Counterfactual Scenarios can afford taking into account the financial impact of these items as a whole.

12.2 This section sets out a resultant output with regard to the level of planning obligations in respect of the Scheme and Counterfactual Scenarios i.e. the notional package outlined is as a result of the Scheme viability. We however present this prior to the following sections showing the Scheme returns for the sake of clarity. In addition, a notional package has been suggested which will be subject to discussions between the Applicant and LBC in terms of the appropriate division. The resultant overall level of the total planning obligations is the output that the appraisals seek to test as being financially viable having regard to the target rate of return.

Section 106 Contributions

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

12.4 A summary of the planning obligations for the Scheme is set out in the table below:

Table 15: Scheme Planning Contributions (Part Occupation Assumed)

Planning Contribution	Scheme
Mayoral CIL (indexed)	£576,361
Crossrail Payment (indexed)	£476,896
Camden CIL (indexed)	£625,285
Section 106	£805,000
Total	**£2,483,542**

Source: Gerald Eve LLP

Table 16: Counterfactual Scenario Planning Contributions (Part Occupation Assumed)

Planning Contribution	Counterfactual 1	Counterfactual 2
Mayoral CIL (indexed)	£576,361	£576,361
Crossrail Payment (indexed)	£161,433	£165,445
Camden CIL (indexed)	£871,544	£870,853
Section 106	£805,000	£805,000
Total	**£2,414,338**	**£2,417,659**

Source: Gerald Eve LLP

12.5 In the financial appraisals we have assumed that the CIL and Section 106 payments will be paid on implementation of the Scheme.

Resultant Planning Obligations

12.6 As will be seen in the following sections the Scheme has been tested against a level of planning obligations which could be considered viable. These are then tested through sensitivity and scenario testing having regard to a target rate of return. Therefore the resultant planning obligations that the Scheme is being tested against in order to assess viability is £2,483,542. Counterfactual 1 and 2 are projected to have a total planning obligation requirement £2,414,338 and £2,417,659 respectively.

13 Basis of Viability Assessment

Introduction

13.1 The financial appraisal has been undertaken in accordance with generally accepted guidance and policy in undertaking viability assessments.

13.2 Below we comment on target rates of return, consideration of the results in respect of the Site and risk analysis.

Target Rate of Return

13.3 A significant factor in undertaking viability assessments is the level of return which a developer might reasonably require from undertaking the development and in turn on what basis the Scheme could be funded and financed. This will depend on a number of factors including the size of the development, the perceived risks involved, the degree of competition between funding and finance institutions for the Scheme, the state of the market in terms of demand for and lot size of the completed development and the anticipated timescales for development and for receiving a return.

13.4 Development profit is necessary if private sector investment is to implement and deliver any given project. The level of profit is essentially the reward to the developer for the time, expertise and risk involved in carrying out the process of development.

13.5 It is important to distinguish between the return required to undertake (and implement) a development and that which could be implied when undertaking Market Valuations of the Site in accordance with the RICS "Red Book". As indicated in both paragraphs 173 of the NPPF and the RICS GN, there is a separation of the "competitive return" for the "willing landowner" and the "willing developer". Also the RICS "Red Book" Valuation is an unrestricted value of the Site compared to a restricted value under the RICS GN. Finally, implied returns cannot be market evidenced, are heavily reliant on other inputs into an appraisal and do not represent the term upon which the bank will lend in accordance with the principles set out in paragraph 2.5.2 of the RICS GN.

13.6 The level of return required will vary between projects and will reflect a range of factors as set out in paragraph below. In addition, we have also had regard to the IPD

Development Returns Index.

13.7 Measurements of return such as "profit on cost", "profit on value", "development yield", or "internal rates of return" (IRR) ratios are commonly used as comparable benchmark ratios. The return (profitability) of a scheme should be tested against a target benchmark return based on the risks of the Scheme.

13.8 Profit on value and cost have a direct relationship with one another. They are defined as the overall scheme profit expressed as a percentage of net development value and total costs respectively. As a measure of development return, they are commonly used as a benchmark for quantifying the risks of a development project as a simple measure of return in development appraisals on a present day basis.

13.9 Determination of an appropriate target rate of return can depend on a number of factors, but it is predicated on the risk associated with developing out the proposed Site. The more risk involved, the higher return the developer will require. Development returns sought by developers and required by funders and financing terms have historically tended to lie between [redacted]

13.10 In our financial appraisals, a developer's reasonable target profit has been assessed for each of the uses within the Proposed and Counterfactual Scenarios. We have sought to assess viability adopting primarily a profit on cost benchmark return given the Schemes can be delivered in a single phase, are commercial-led and are being assessed on a present day basis. Target returns by use, along with blended overall targets are summarised in **Table 17** below:

Table 17: Required Returns (Profit on Cost)

Scheme Element	Scheme	Counterfactual 1	Counterfactual 2
Commercial	[redacted]	[redacted]	[redacted]
Private Residential	[redacted]	[redacted]	[redacted]
Affordable Residential	[redacted]	[redacted]	[redacted]
Blended Overall Target	[redacted]	[redacted]	[redacted]

13.11 The target profit level adopted takes into account the following factors, which are specific to the Site and the proposed development:

a) Whilst the Scheme does incorporate a mix of uses: the predominant use is office. The Scheme is therefore heavily reliant on the performance of a specific market.

b) The central London office market (the dominant use as a proportion of floorspace and GDV), has historically been a volatile market in terms of rental values and yield movements. Uncertainty in this market is currently very high following the vote to leave the European Union on 23 June 2016, and as yet there is no clarity in respect of future trading relationships, freedom of movement or financial passporting rights, all of which will affect corporate decisions in terms of office occupancy in London.

[redacted]

[redacted]

[redacted]

f) [redacted]

General Interpretation of Results

13.12 The Scheme has been appraised on a present day basis using current costs and values as presented in previous sections of this report,.

13.13 It should be noted that a small difference in the profit margin is significant. In other words, even a 1% or 2% change (in absolute monetary terms) in the return represents a considerable change in the net profits and this has to be offset against the risk of undertaking the project.

Risk Analysis

13.14 Sensitivity and scenario analysis allows the relationship between changes to key inputs and return levels to be tested from a quantitative perspective. The overall viability of the Scheme can then be assessed having regard to the potential for any upside or downside and the likelihood of these. This is outlined in further detail in Section 14.

14 The Scheme: Financial Appraisal

Introduction

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

Present Day Appraisal

14.2 We attach as **Appendix 18** full details of the appraisal results based on the Scheme.

Table 18: Present day appraisal summary – The Scheme

Developers return	
Profit on Cost	[redacted]
(Target Return)	[redacted]

14.3 We summarise the outcome together with a chart showing the cumulative cashflow as follows:-

Figure 4: Cashflow – Present day appraisal – The Scheme

[Redacted]

14.4 This financial appraisal includes a planning obligations package of £2,974,893 and the provision of 20 affordable residential units on-site.

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

14.6 The proposed planning contributions package of £2,483,542 and 20 affordable residential units on-site is at the maximum reasonable level. Whilst this produces a return which is below the target level set out in this report we are of the view that the Scheme is potentially capable of being viable having regard to the Scheme price and cost figures to date and sensitivity going forward. It clearly, however, cannot support further contributions.

14.7 We test the financial robustness of the development through risk analysis by way of sensitivity and scenario analyses in the following section.

15 Counterfactual Scenarios: Financial Appraisal

Introduction

15.1 This section provides the appraisal outputs for the Counterfactual Scenarios having regard to inputs outlined in previous sections.

Counterfactual Scenario 1

15.2 We attach at **Appendix 19** details of the appraisal results based on Counterfactual Scenario 1.

Table 19: Present day appraisal summary – Counterfactual Scenario 1

Developers return	
Profit on Cost	[redacted]
(Target Return)	

15.3 We summarise the outcome together with a chart showing the cumulative cashflow as follows:

Figure 5: Cashflow – Present day appraisal – Counterfactual Scenario 1

[Redacted]

Counterfactual Scenario 2

15.4 We attach at **Appendix 20** details of the appraisal results based on Counterfactual Scenario 2.

Table 20: Present day appraisal summary – Counterfactual Scenario 2

Developers return	
Profit on Cost	[redacted]
(Target Return)	[redacted]

15.5 We summarise the outcome together with a chart showing the cumulative cashflow as follows:

Figure 6: Cashflow – Present day appraisal – Counterfactual Scenario 2

[Redacted]

15.6 Both Counterfactual Scenarios are loss making and produce a return significantly below both the target profit level and that of the Scheme.

16 Viability Analysis and Risk Assessment

Introduction

16.1 The purpose of this section is to test the robustness of the Scheme and Counterfactual Scenarios from a quantitative perspective via a sensitivity assessment. In order to assess the robustness of the viability of the proposals, it is necessary to consider the pricing and cost inputs to the financial model.

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

16.3 We set out the result of our analysis below.

Sensitivity Analysis Scheme

16.4 We produce below key sensitivity tables for the Scheme:-

Table 21: Scheme Sensitivity Analysis – Office Rents and Costs

[Redacted]

Table 22: Scheme Sensitivity Analysis – Office Rents and Retail Rents

[Redacted]

Sensitivity Analysis Counterfactual Scenario 1

16.5 We produce below key sensitivity tables for the Counterfactual Scenario 1:-

Table 23: Counterfactual Scenario 1 Sensitivity Analysis – Office Rents and Costs

[Redacted]

Table 24: Counterfactual Scenario 1 Sensitivity Analysis – Office Rents and Retail Rents

[Redacted]

Sensitivity Analysis Counterfactual Scenario 2

16.6 We produce below key sensitivity tables for the Counterfactual Scenario 1:-

Table 25: Counterfactual Scenario 2 Sensitivity Analysis – Office Rents and Costs

[Redacted]

Table 26: Counterfactual Scenario 2 Sensitivity Analysis – Office Rents and Retail Rents

[Redacted]

Scenario Analysis

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

16.8 [redacted]

Table 27: Scenario Analysis - the Scheme

[Redacted]

16.9 [redacted]

Summary

16.10 The sensitivity analyses of the Scheme shows that the financial viability is currently on the margins of being acceptable. Even if this were to improve it is clear that any further planning obligations could not be justified on viability grounds.

16.11 Whilst the Scheme is capable of being viable at the upper end of the sensitivity analyses the Counterfactual Scenarios are incapable of being viable.

17 Concluding Financial Justification Statement

17.1 A detailed planning application has been submitted which proposes the comprehensive redevelopment of Castlewood House to create a mixed use office-led scheme along with the remodelling and extension of Medius House to provide 20 affordable housing units and retail space. The proposals present an opportunity to significantly upgrade the existing buildings and provide much-needed affordable homes.

Outline Rationale

17.2 Gerald Eve LLP was instructed by the Applicant to undertake a financial assessment of the above proposal in order to advise on the optimum mix of uses and appropriate level of planning obligations.

17.3 In order to provide a robust assessment, two Counterfactual Scenarios have been appraised to determine whether it would be financially possible to provide an uplift in residential accommodation which accords with LBC's mixed use policy (Policy DP1 of the Camden Development Policies 2010). This is notwithstanding the various structural, technical and access difficulties, as set out in Section 5 that would render the provision of private residential accommodation within Castlewood House very challenging.

17.4 Comparable evidence and market data have been used to establish the overall value of both the Scheme and the Counterfactual Scenarios. Cost reports have been provided in respect of all options and full appraisals undertaken.

17.5 [redacted]

Return Benchmark

17.6 [redacted] The return benchmark has been identified having regard to the inherent risks of developing this Site as set out in the report.

Counterfactual Scenarios

17.7 The Counterfactual Scenarios produce a negative return in comparison to the Scheme and are therefore not deliverable. The results overleaf confirm that these scenarios are neither feasible nor deliverable options.

Table 28: Counterfactual Scenario Returns

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

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

The Scheme

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

Table 29: Scheme Return

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

17.10 From the above table it can be concluded that the present day model shows an unacceptable level of return, which is significantly below the target rate of 19.8%. Therefore the Scheme can only potentially achieve an appropriate target rate of return if there were to be positive movements to the appraisal.

17.11 Through sensitivity analysis it has been shown that on the basis of an optimistic outcome (through a rise in office rental values and construction costs savings) the Scheme is potentially capable of being financially viable. Any further planning obligation contributions would clearly erode the return and therefore the viability of the Scheme

17.12 It follows that the level of on-site affordable housing and a proposed planning obligations package of £2,483,542 is the maximum reasonable level that the Scheme can afford in order for the Applicant to be able to deliver and implement a viable scheme.

17.13 To substantiate our assessment sensitivity analysis has also been undertaken in order to test the Scheme and Counterfactual Scenarios. This demonstrates that the Counterfactual Scenarios, and thus any additional residential accommodation, are not deliverable. Any increase in planning obligations would diminish the return of the Scheme and threaten its overall viability.

Summary

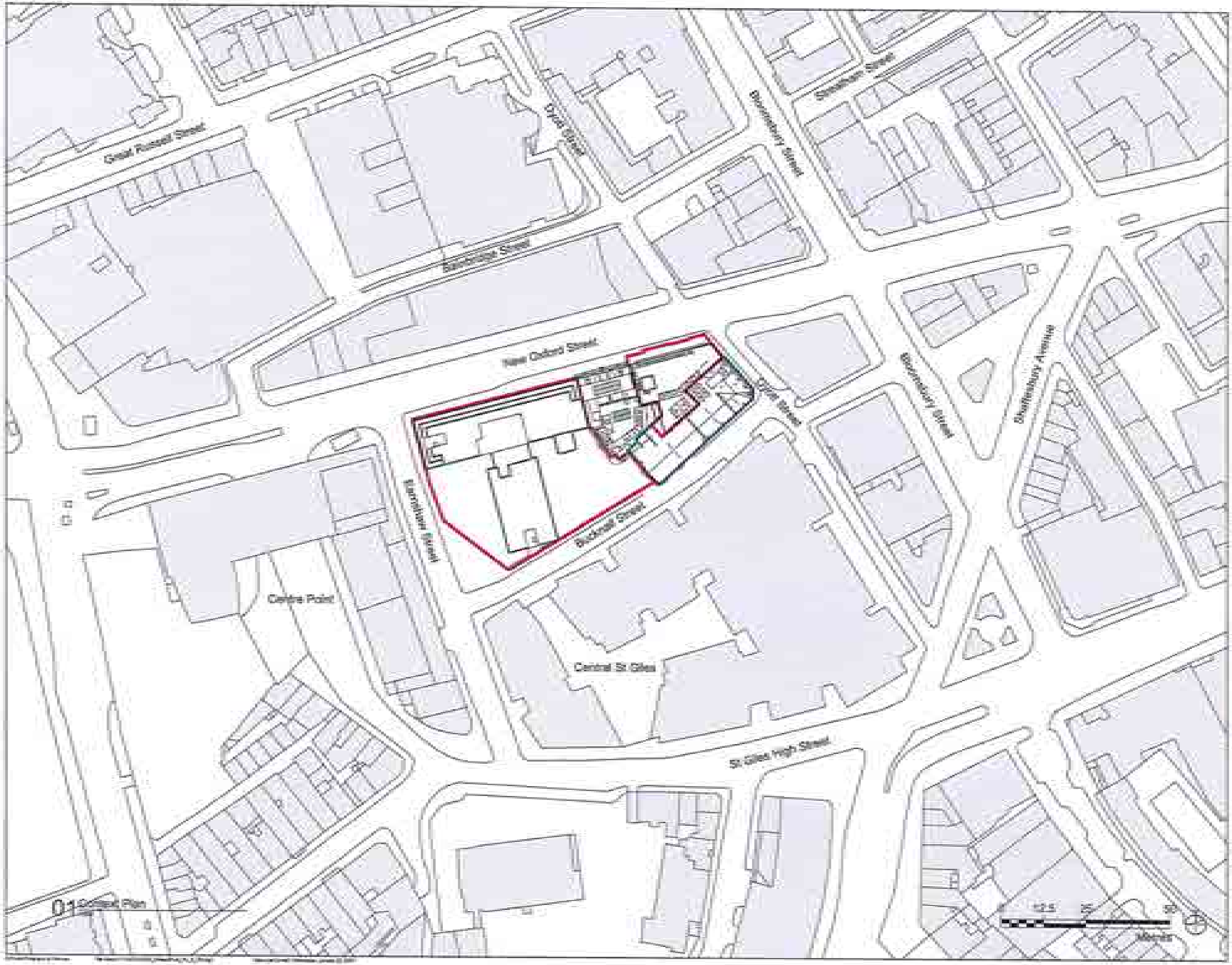
17.14 The proposals for Castlewood House and Medius House represent the most beneficial use of the building and will rejuvenate and transform the surrounding area. Along with the provision of a substantial planning obligations package, the Scheme will deliver the following benefits:

- the provision 20 affordable units supporting Camden's housing need;
- the provision of new and improved high quality retail floorspace, which will activate the ground floor frontage at street level;
- the provision of modern, flexible and sustainable Grade A office floorspace;
- an excellent and contextual design approach incorporating high quality architecture;
- creation of a safe and secure environment for future residents, occupiers and employees;
- significantly contribute to the regeneration and transformation of the local area.

17.15 The Counterfactual Scenarios have shown the inclusion of a greater proportion of residential floor space to be impractical and unviable. Furthermore, the proposed level of 20 on-site affordable housing units with a planning obligations package of £2,483,542 is the maximum reasonable amount the Scheme can afford while remaining viable.

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

Appendix 1



01 Context Plan

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Castlewood House & Medius House
London, WC1A

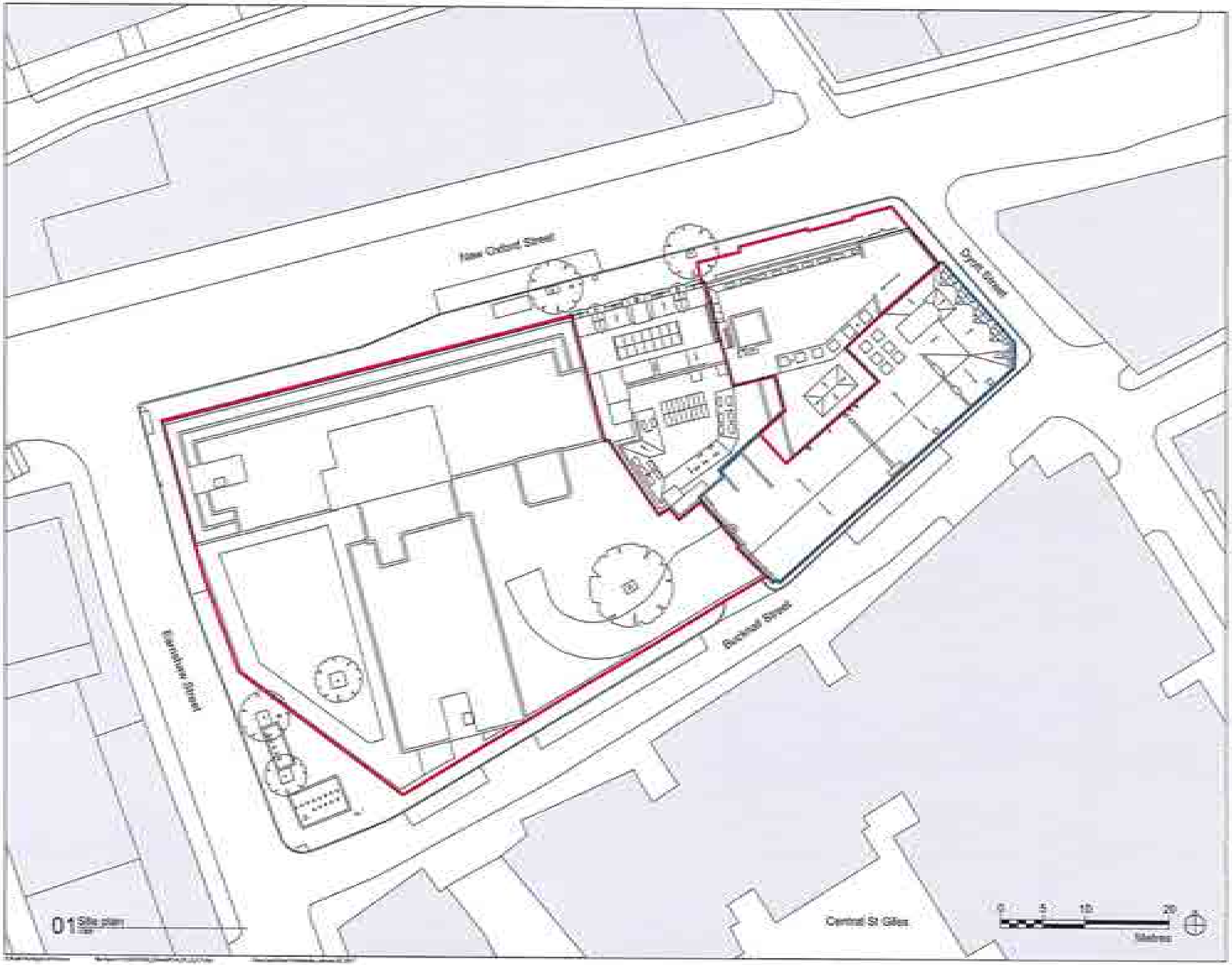
Existing
Context Plan

1:500 @ A1

PLANNING

A_PL_E_010

Appendix 2



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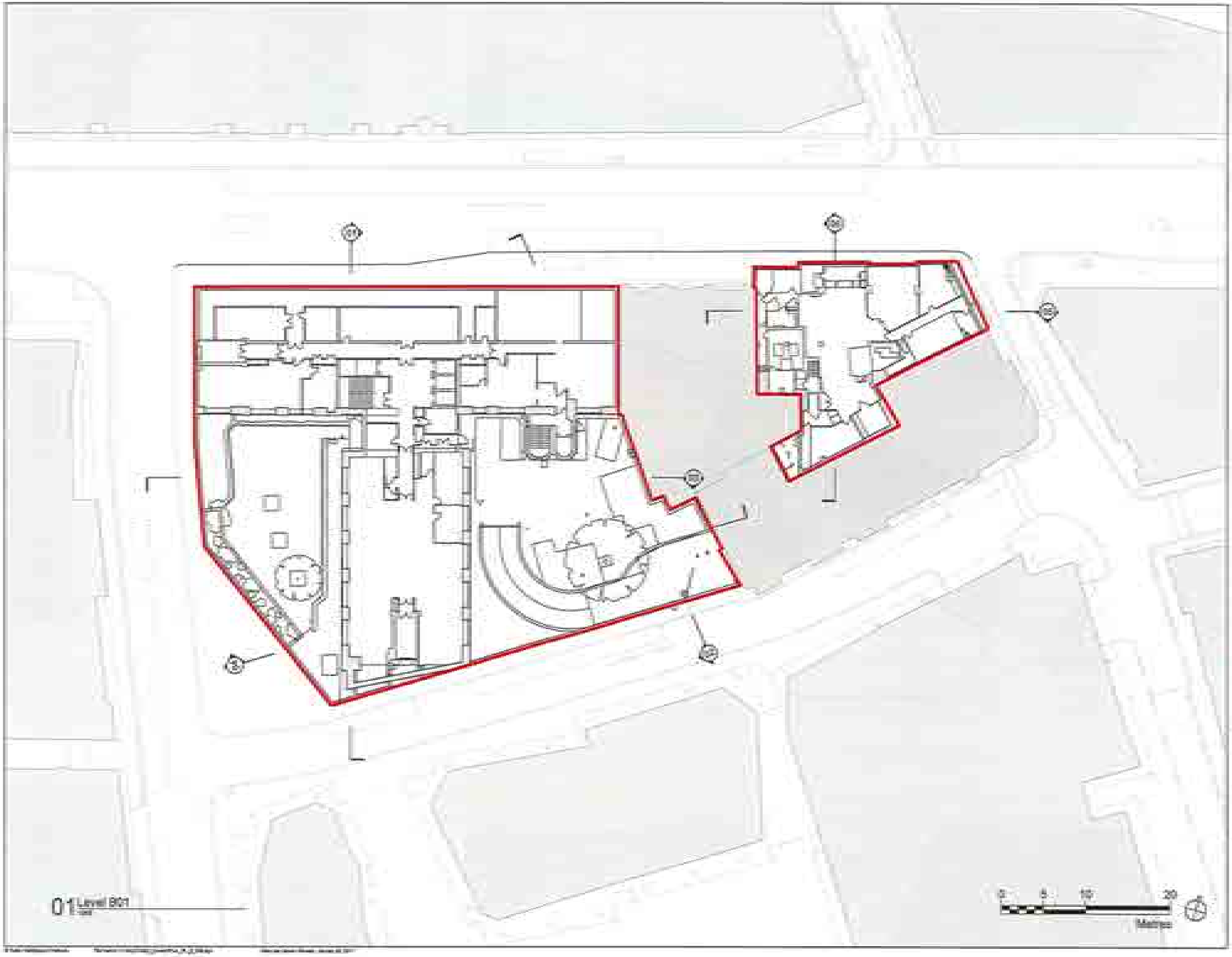
Castlewood House & Medius House
London WC1A

Existing Plan
Sub Basement Level

1:500 @ A3

PLANNING



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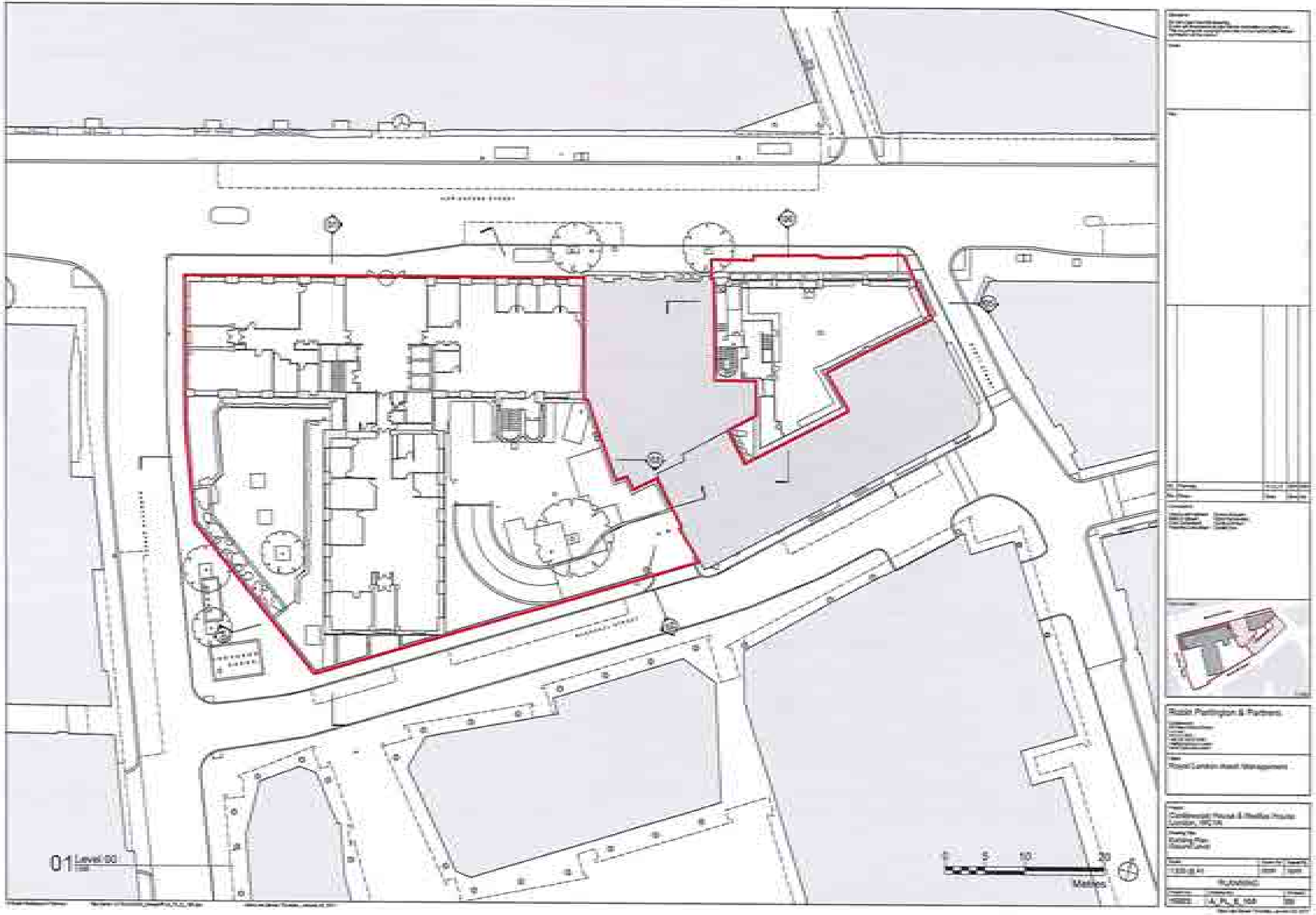
Existing Plan

PLANNING



01 Level 00
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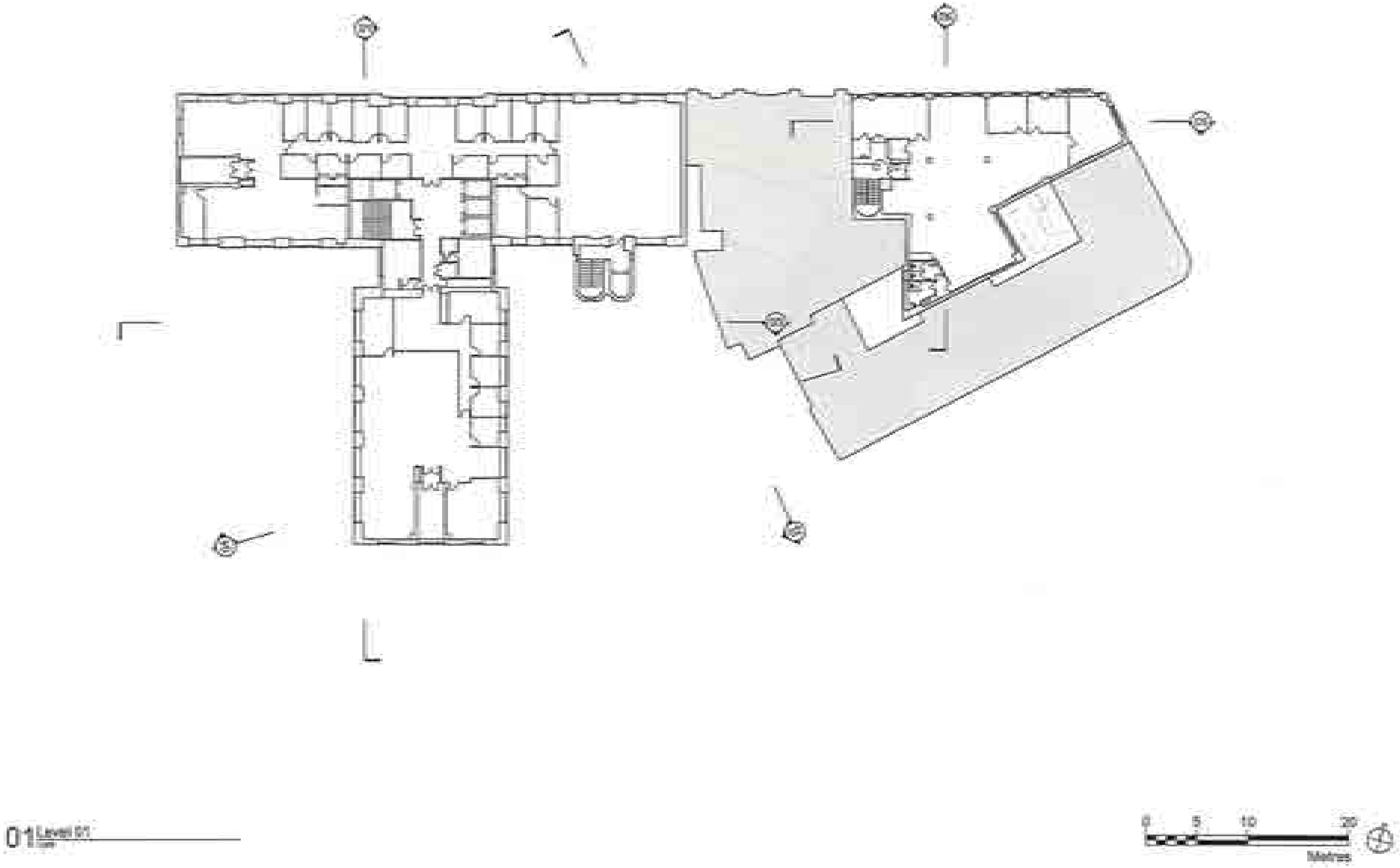
Robin Partington & Partners
Royal London Asset Management
London
Existing Plan
Ground Level
PLANNING



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Castlewood House & Medius House
London, WC1A

Existing Plan
Level 01

1:200 @ A1

PLANNING

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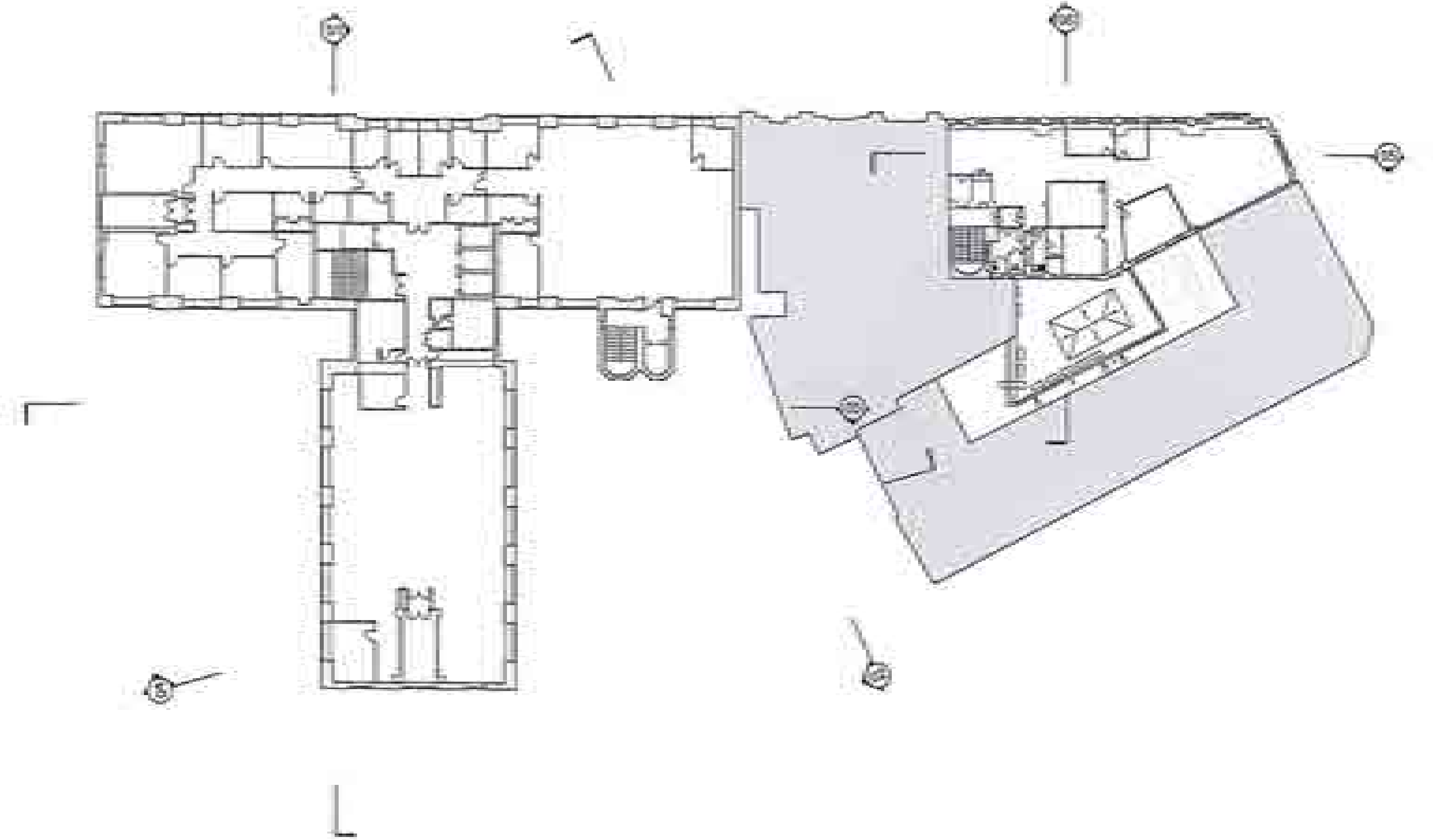

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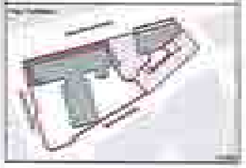

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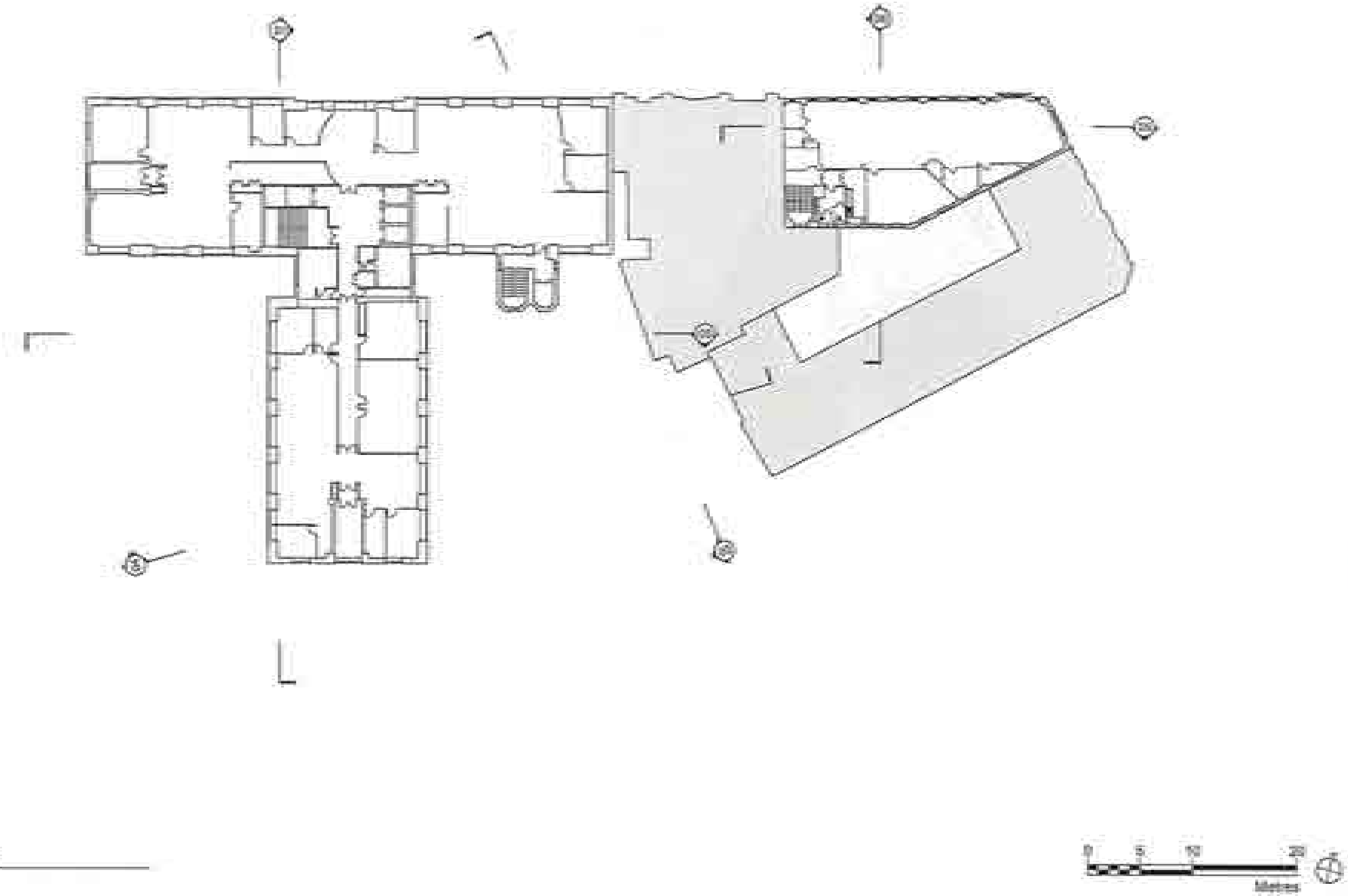
Royal London Asset Management

Castlewood House & Medius House
London, WC1A

Existing Plan
Level 02

PLANNING



01 Level 03

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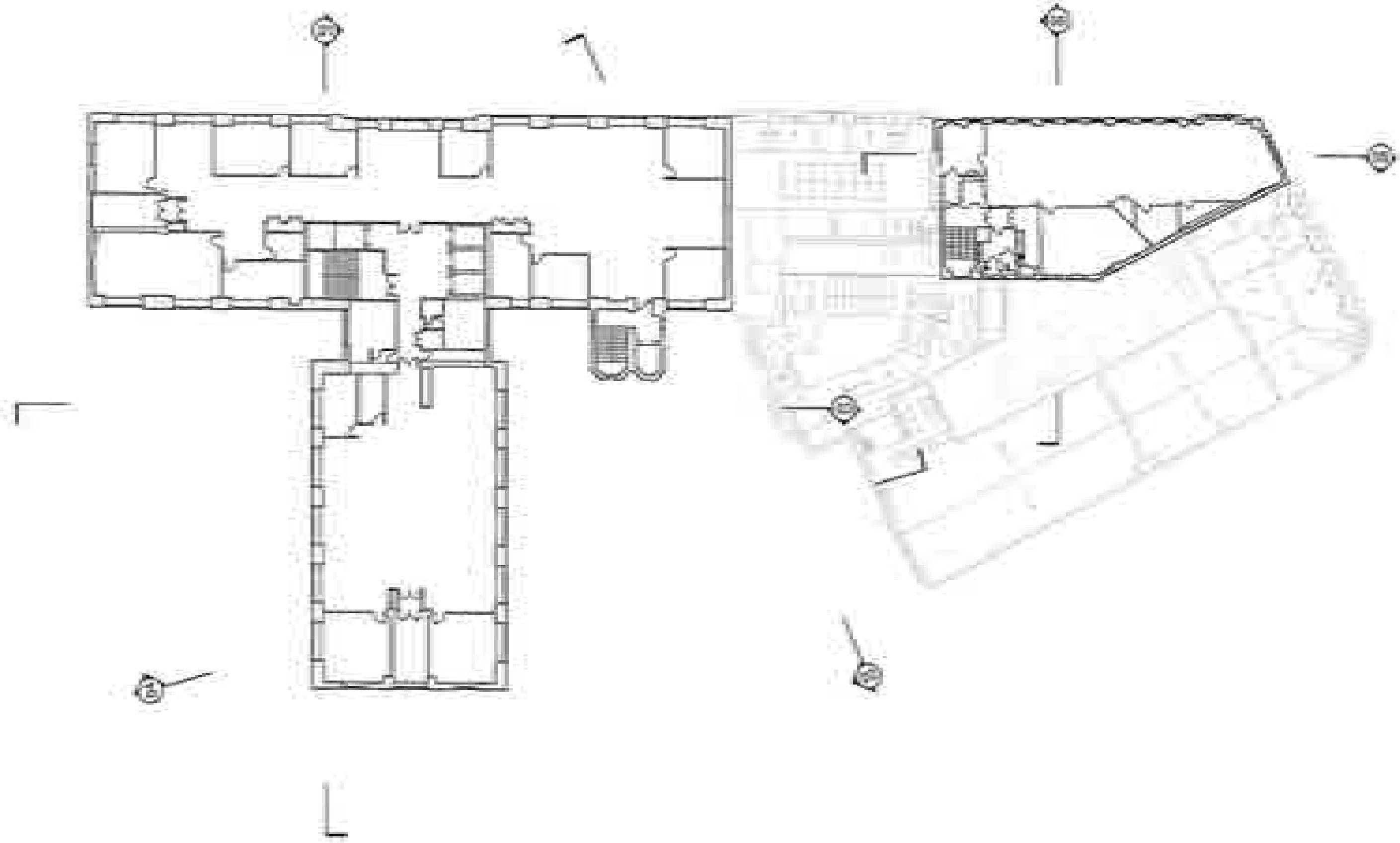
Royal London Asset Management

Existing Plan

PLANNING



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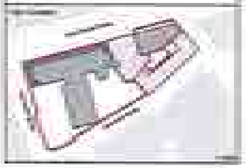

0 5 10 20
Metres

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Castlewood House & Medius House
London, WC1A

Existing Plan
Level 04

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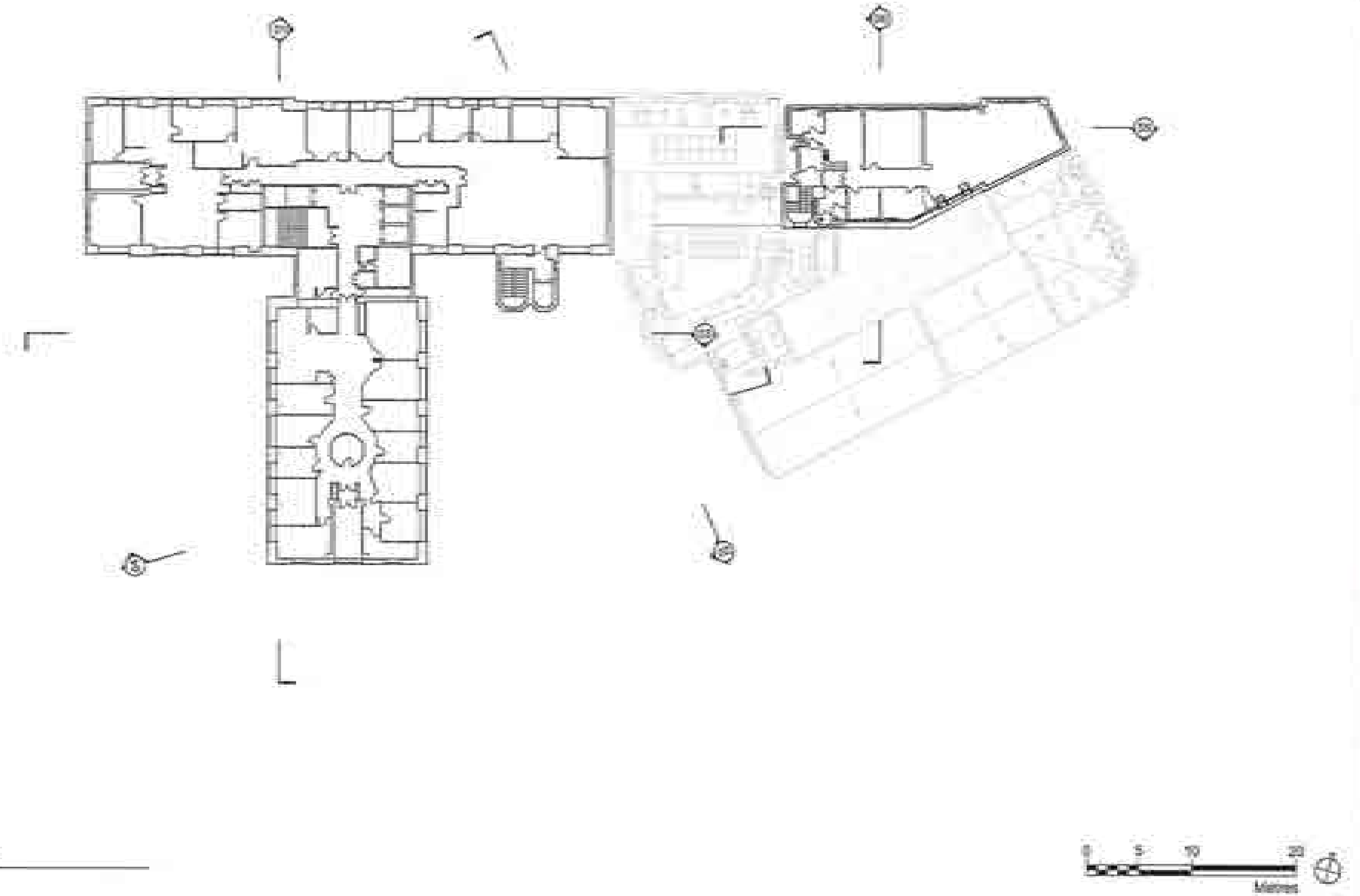
PLANNING

13023 A_PL_E_104 00



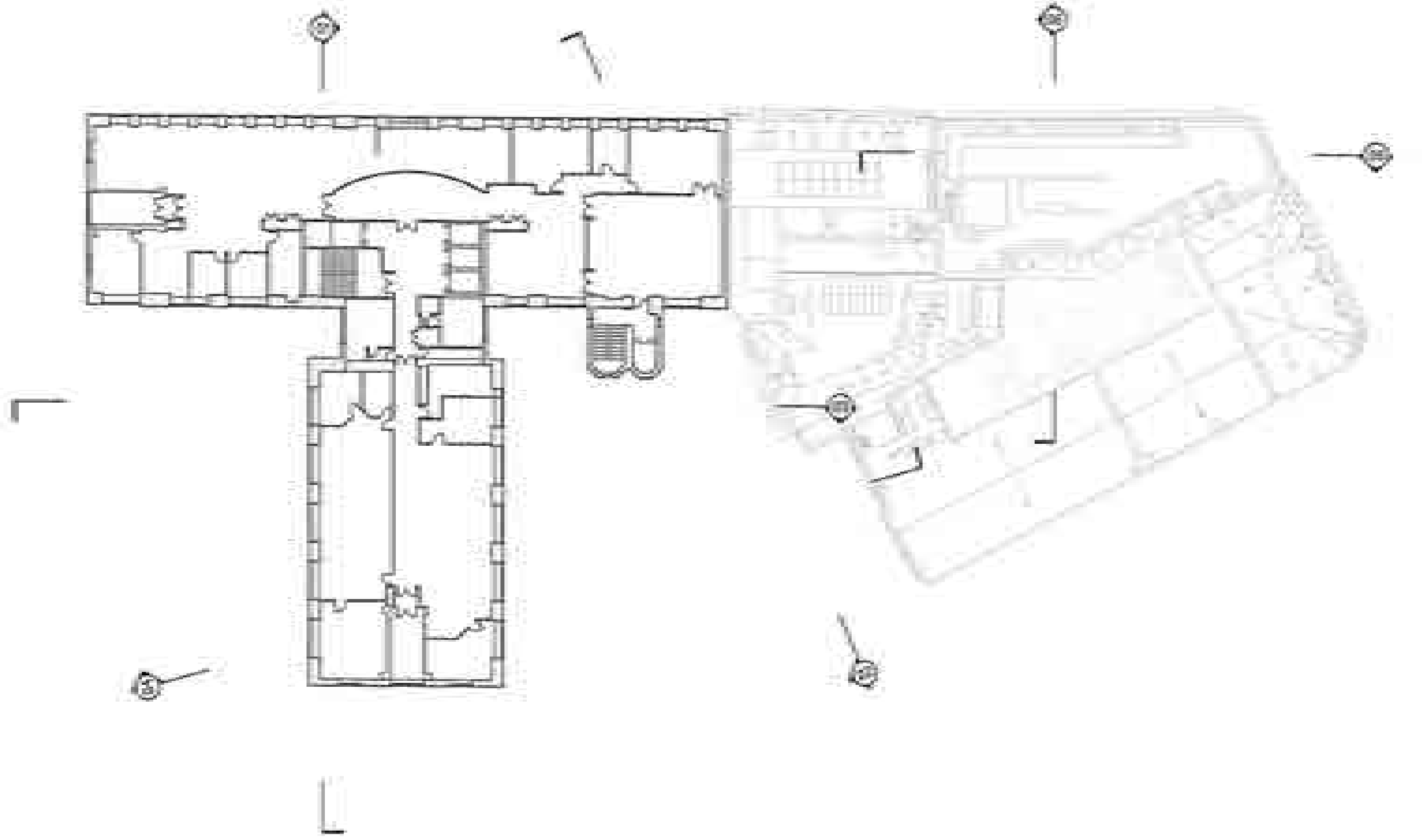
01 Level 05

Robin Partington & Partners

Royal London Asset Management

Existing Plan
Level 05

PLANNING



01 Level 06

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Robin Partington & Partners

Royal London Asset Management

Castlewood House & Medius House, London, WC1A

Existing Plan Level 06

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PLANNING

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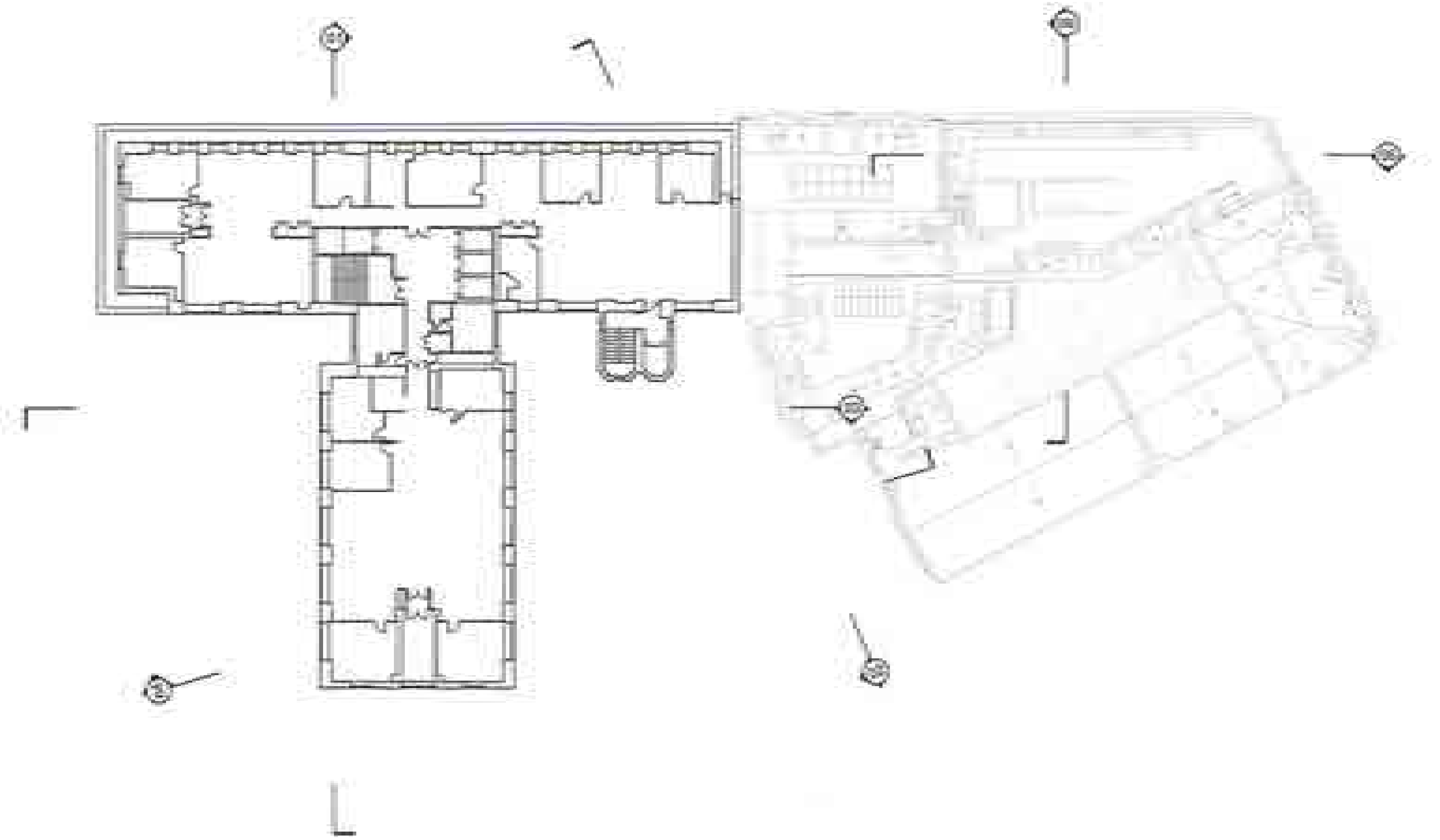

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01 Level 07

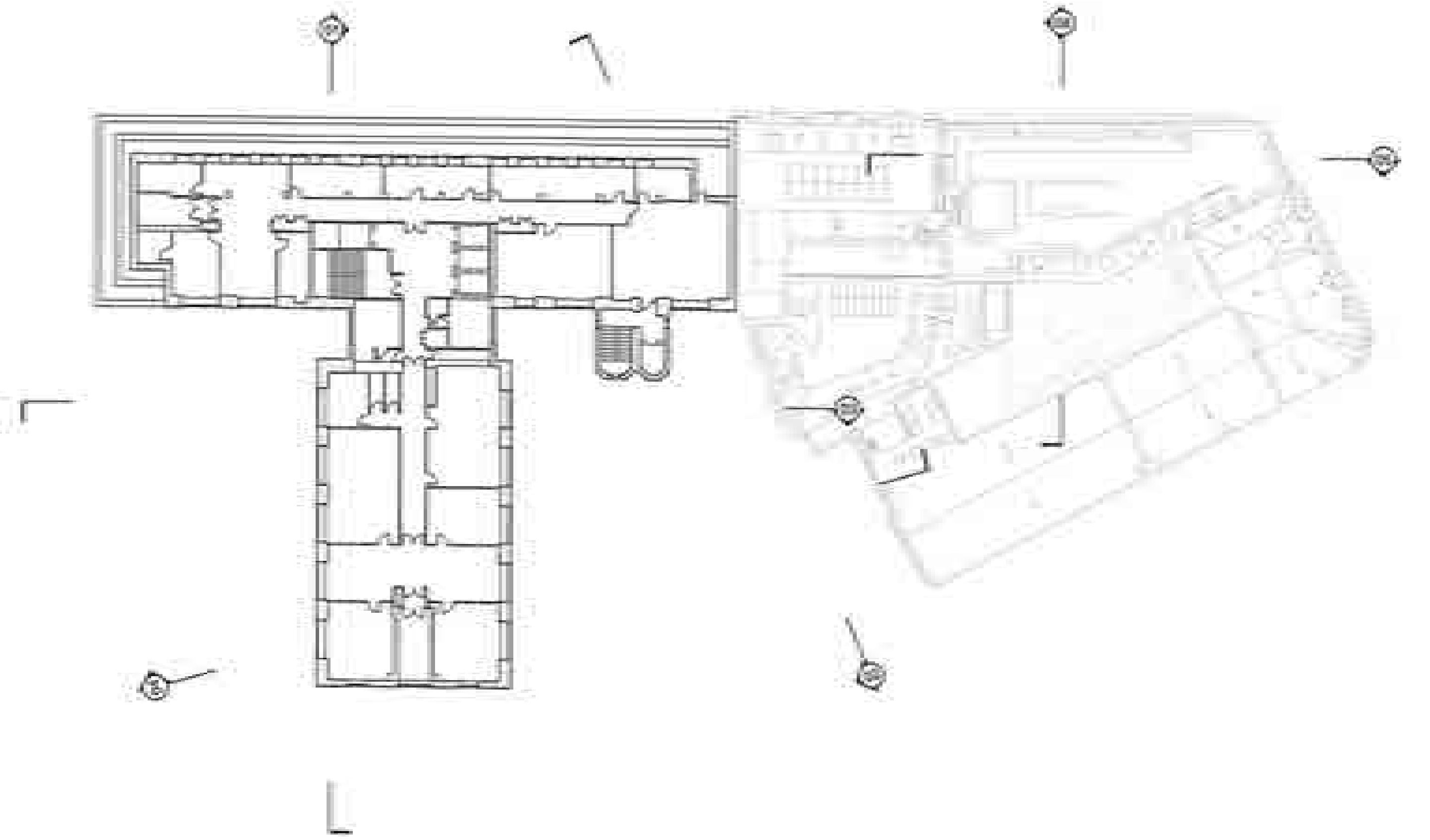
Robin Partington & Partners

Royal London Asset Management

Castlewood House & Medius House
London, WC1A

Existing Plan
Level 07

PLANNING



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Metres

Robin Partington & Partners

Royal London Asset Management

Castlewood House & Medius House
London, WC1A

Building Plan
Level 08

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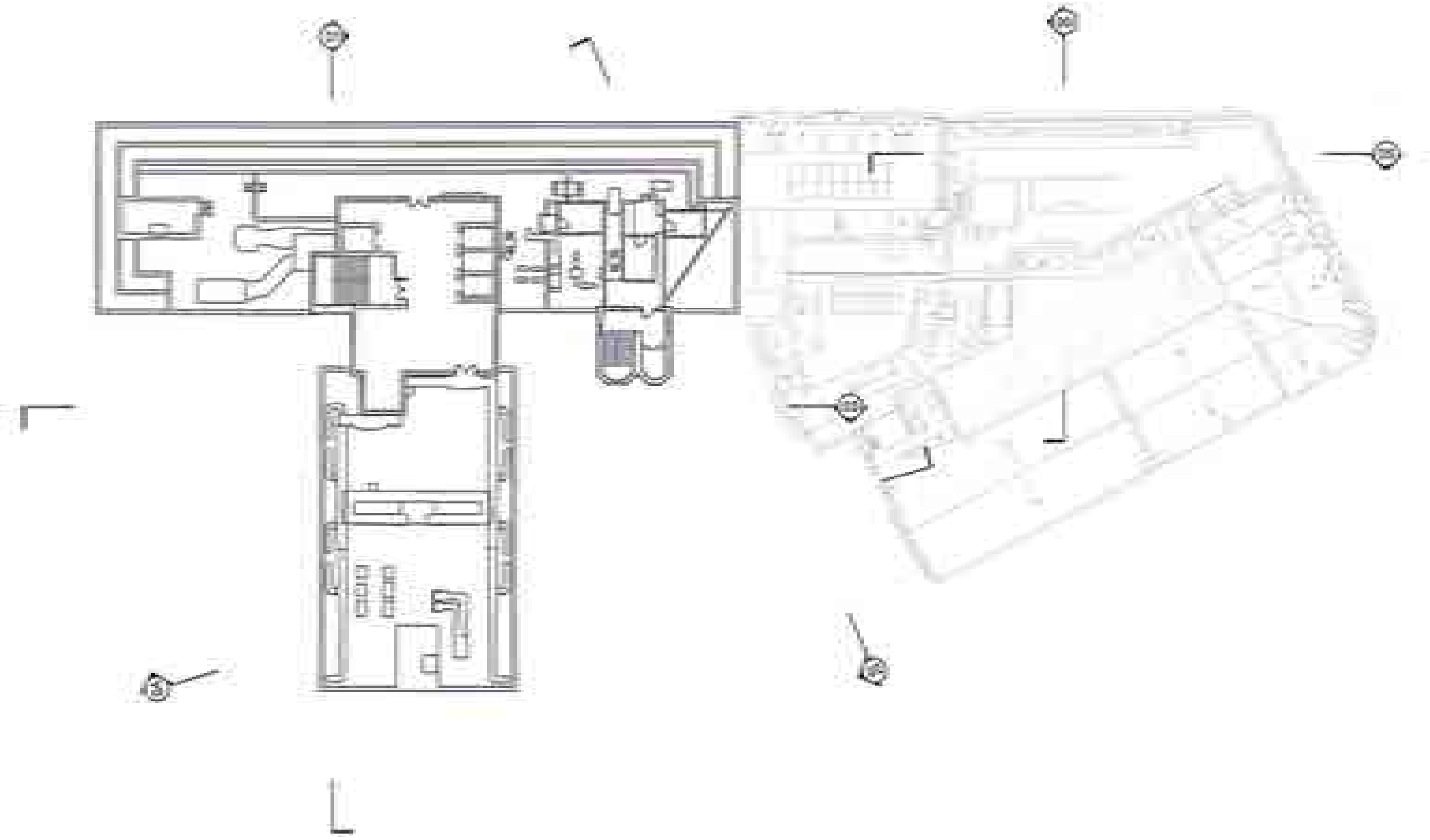
PLANNING

11033 | A_PL_E_108 | 00



01 Level 00

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Metres

Robin Partington & Partners

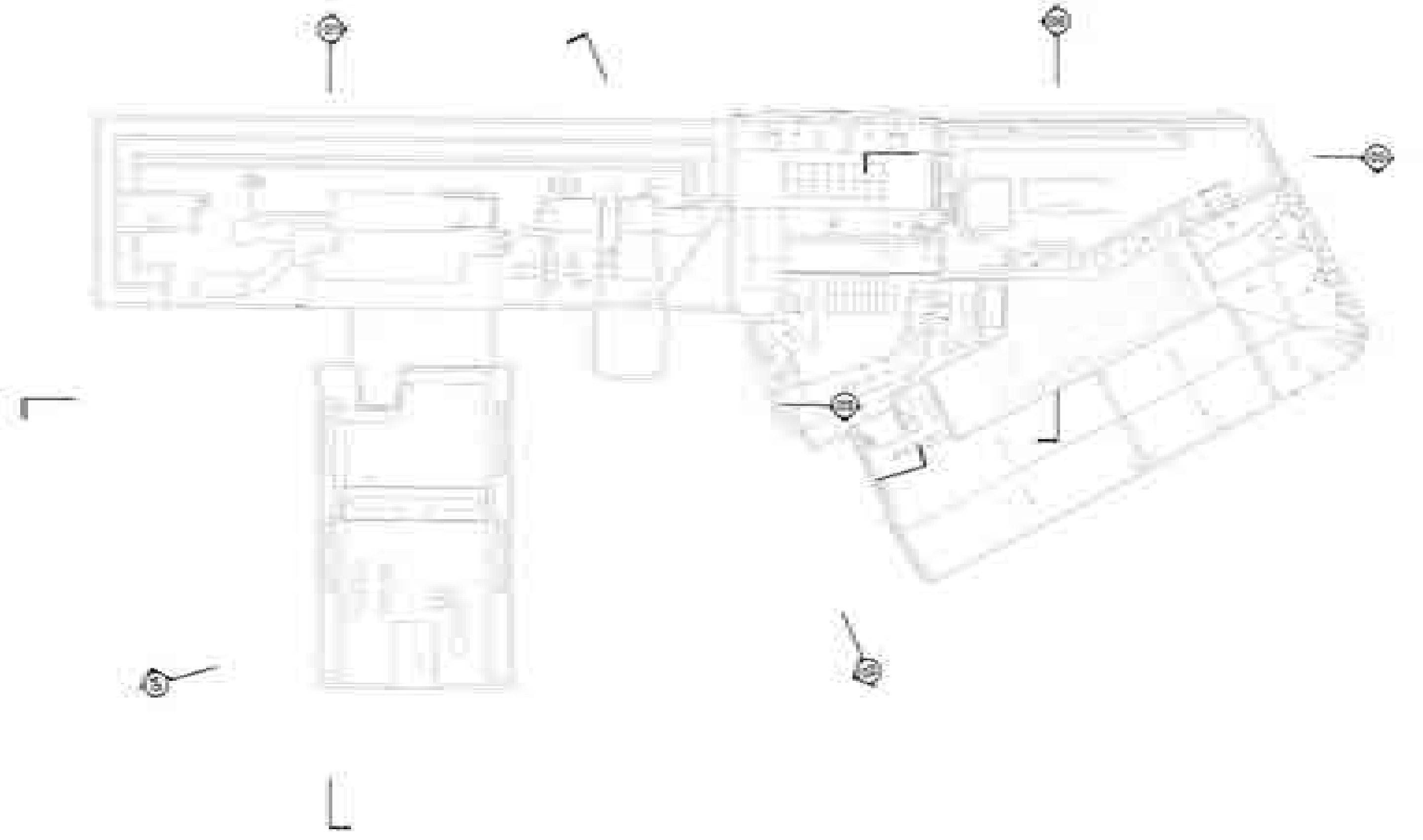
Royal London Asset Management

Continental House & Mellon House

Existing Plan

Level 00

PLANNING



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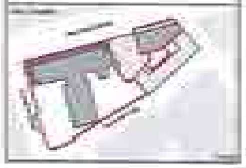

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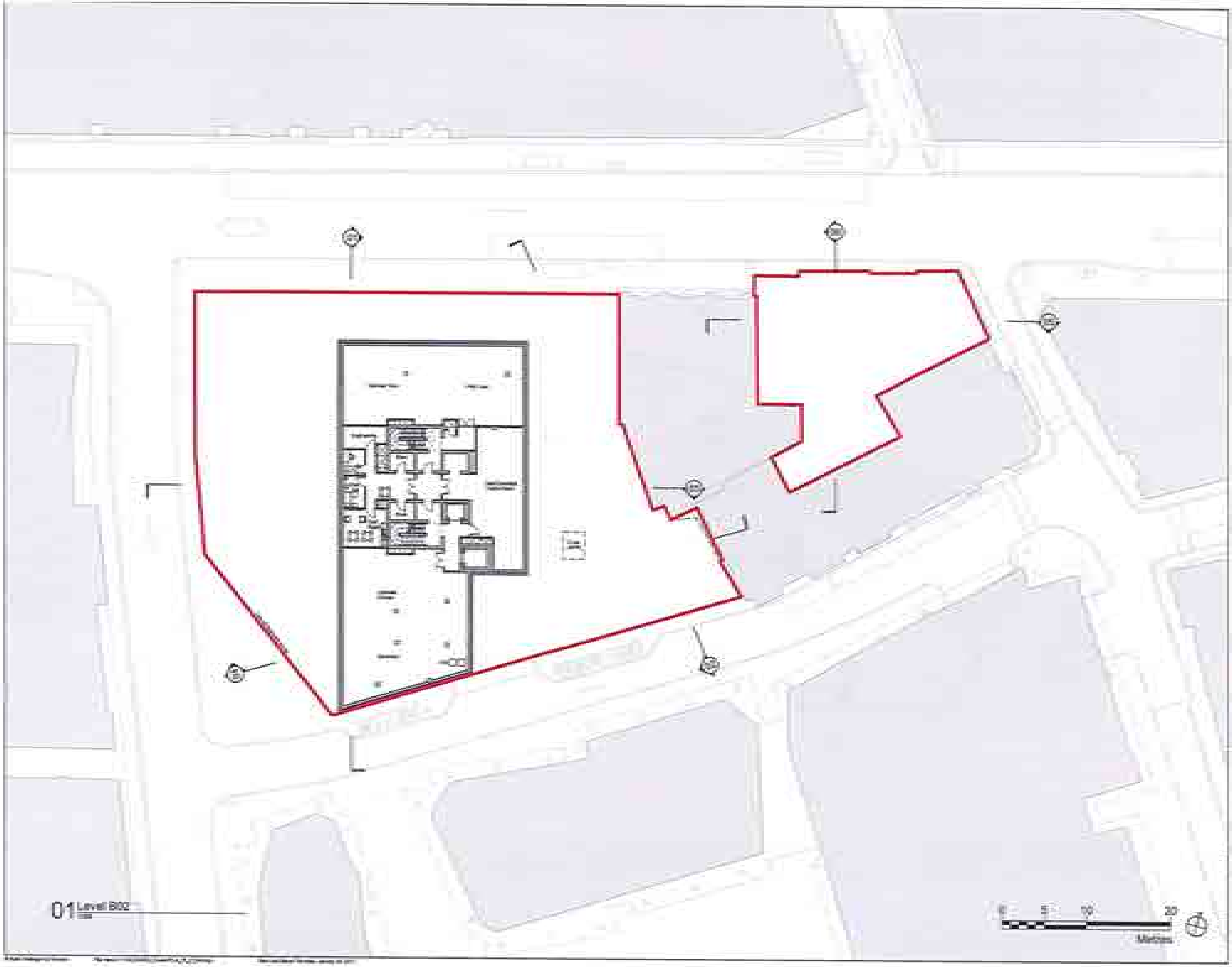
PLANNING

Appendix 8



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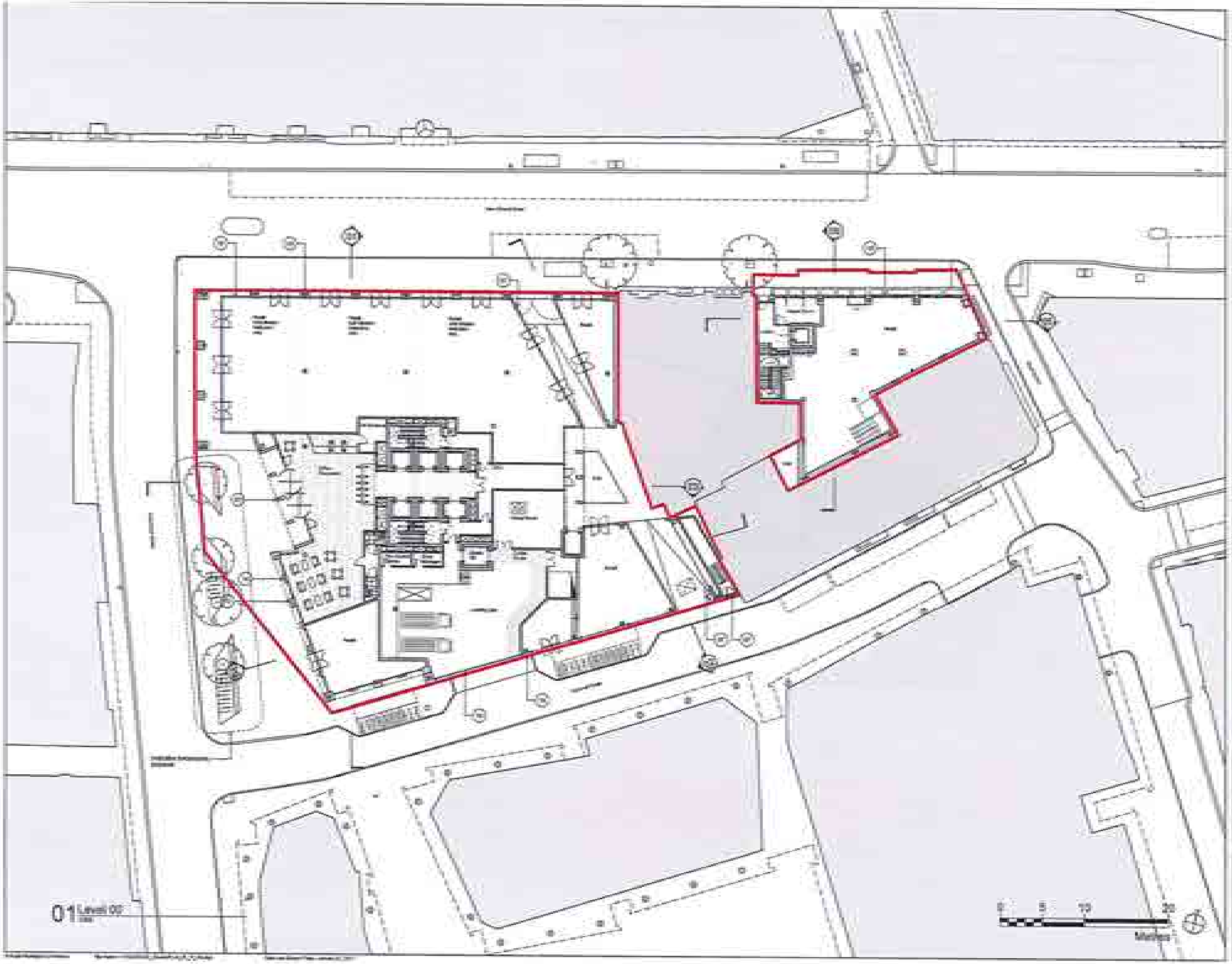

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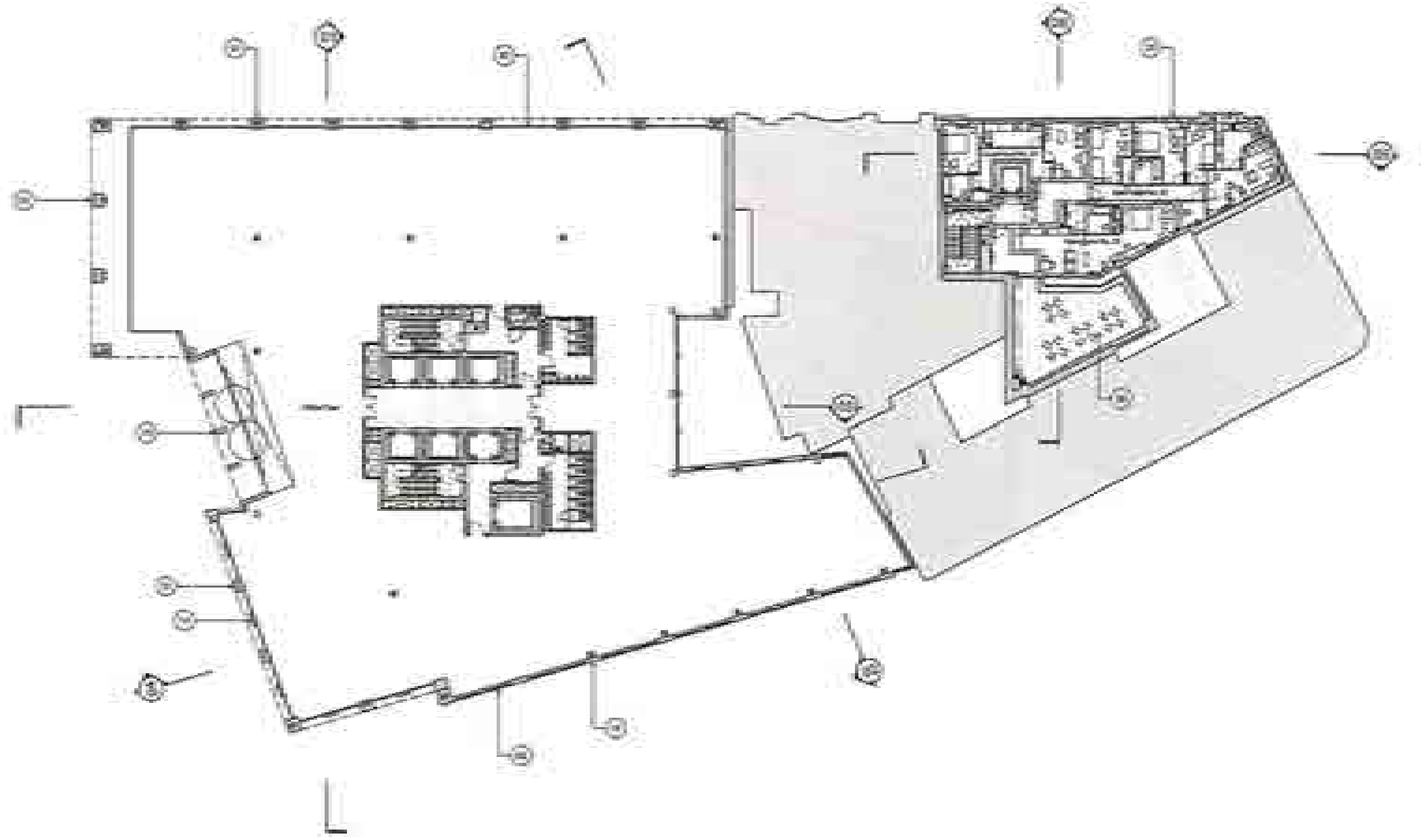
Castlewood House & Medius House
London, WC1A

General Arrangement
Proposed Plan
Ground Level

PLANNING



01 Level 01

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Metres

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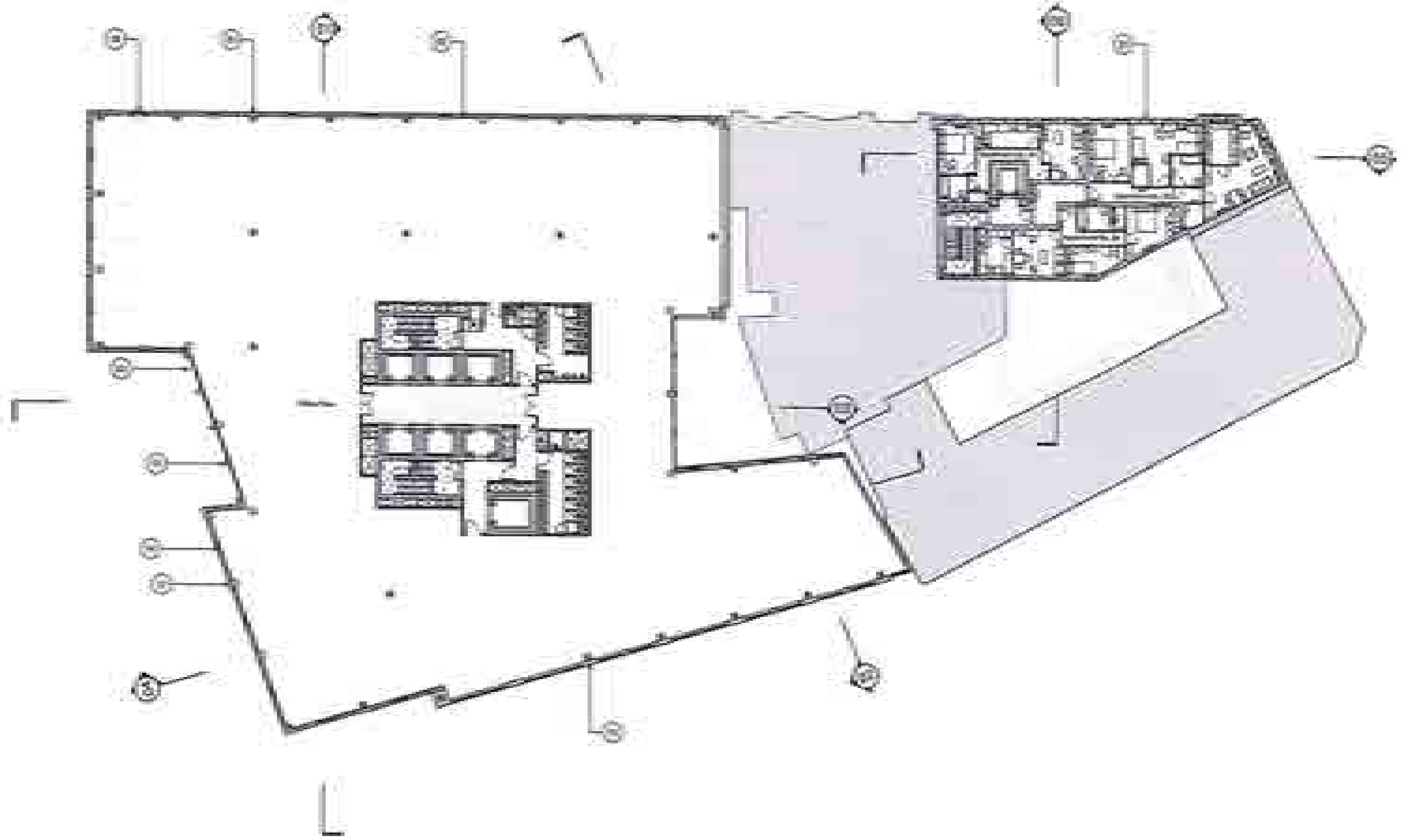
Castlewood House & Medius House
London, WC1A



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Metres

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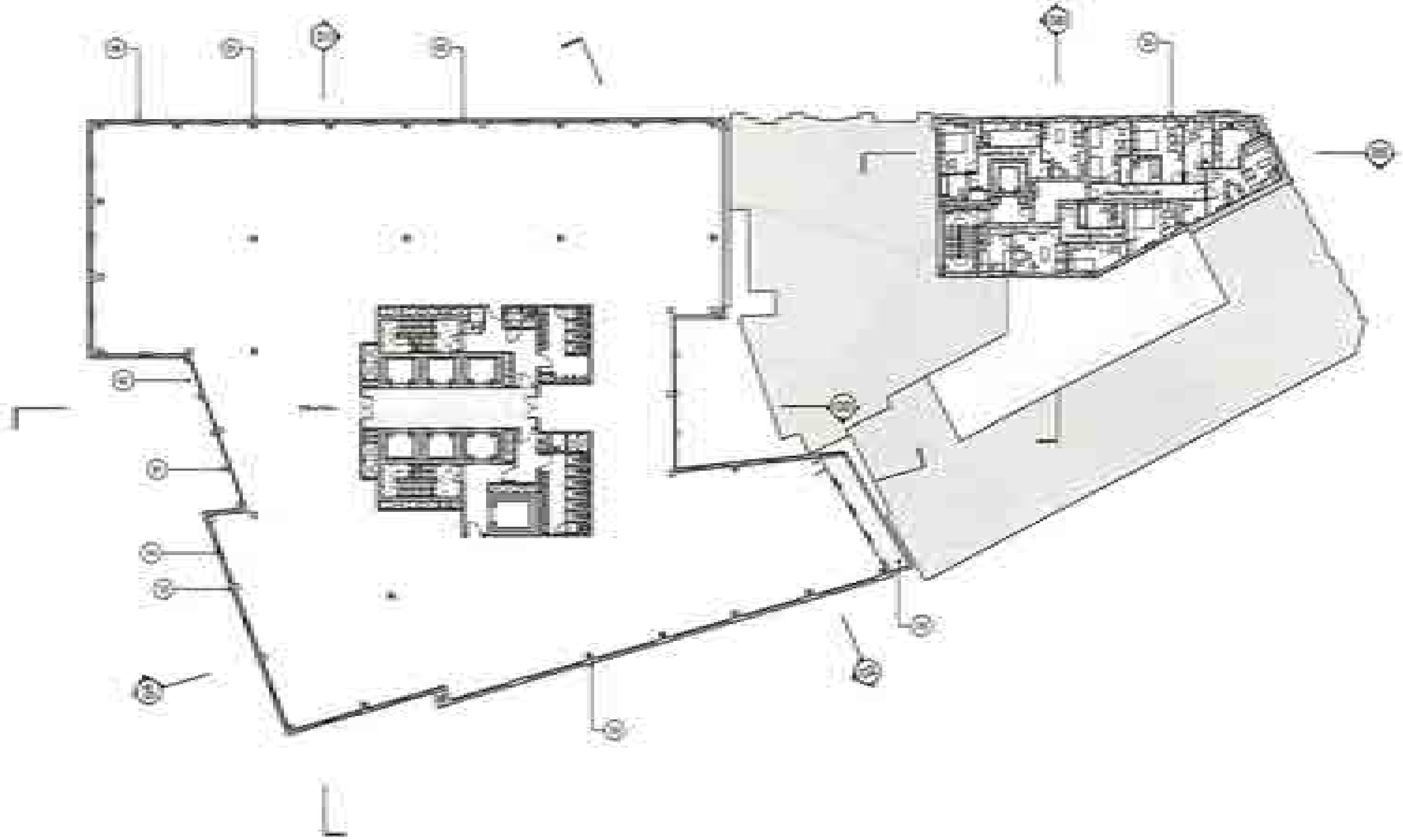
General Arrangement
Proposed Plan
Level 02

PLANNING



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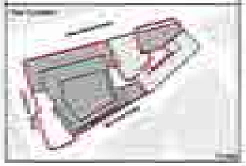

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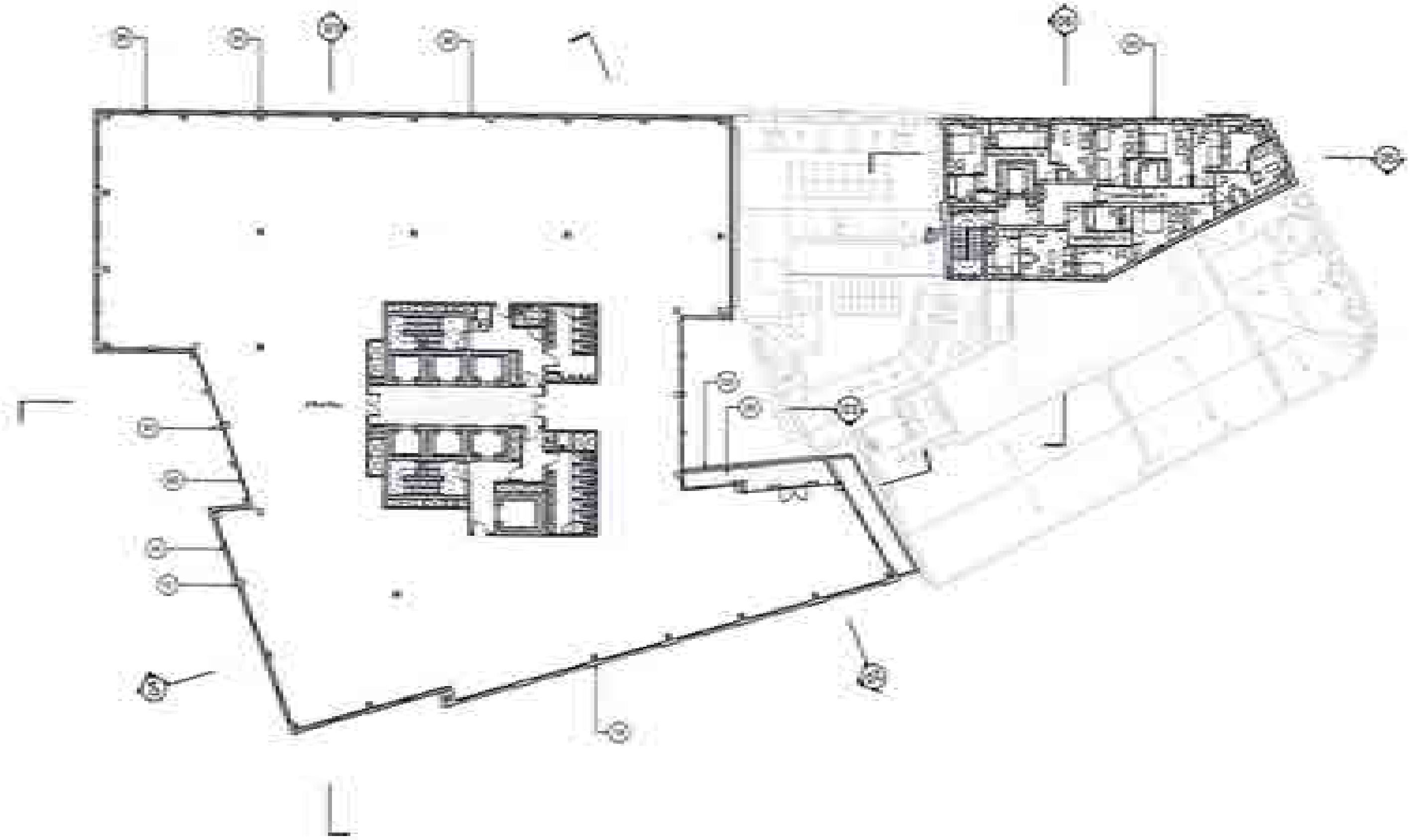
London, WC1A

PLANNING



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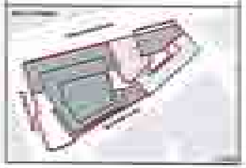

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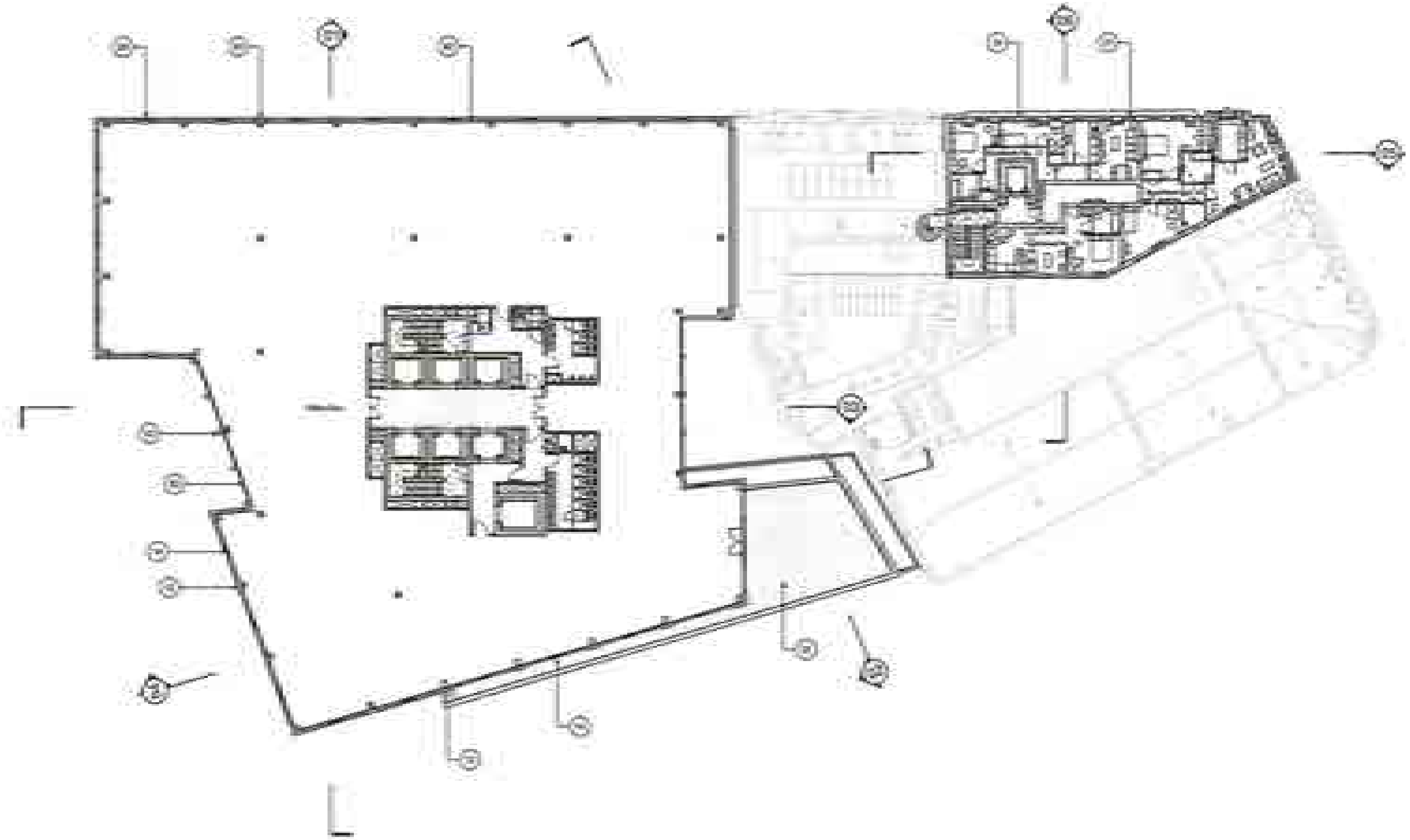
London, WC1A

General Arrangement
Proposed Plan
Level 04

PLANNING



01 Level 05

0 5 10 20
Metres

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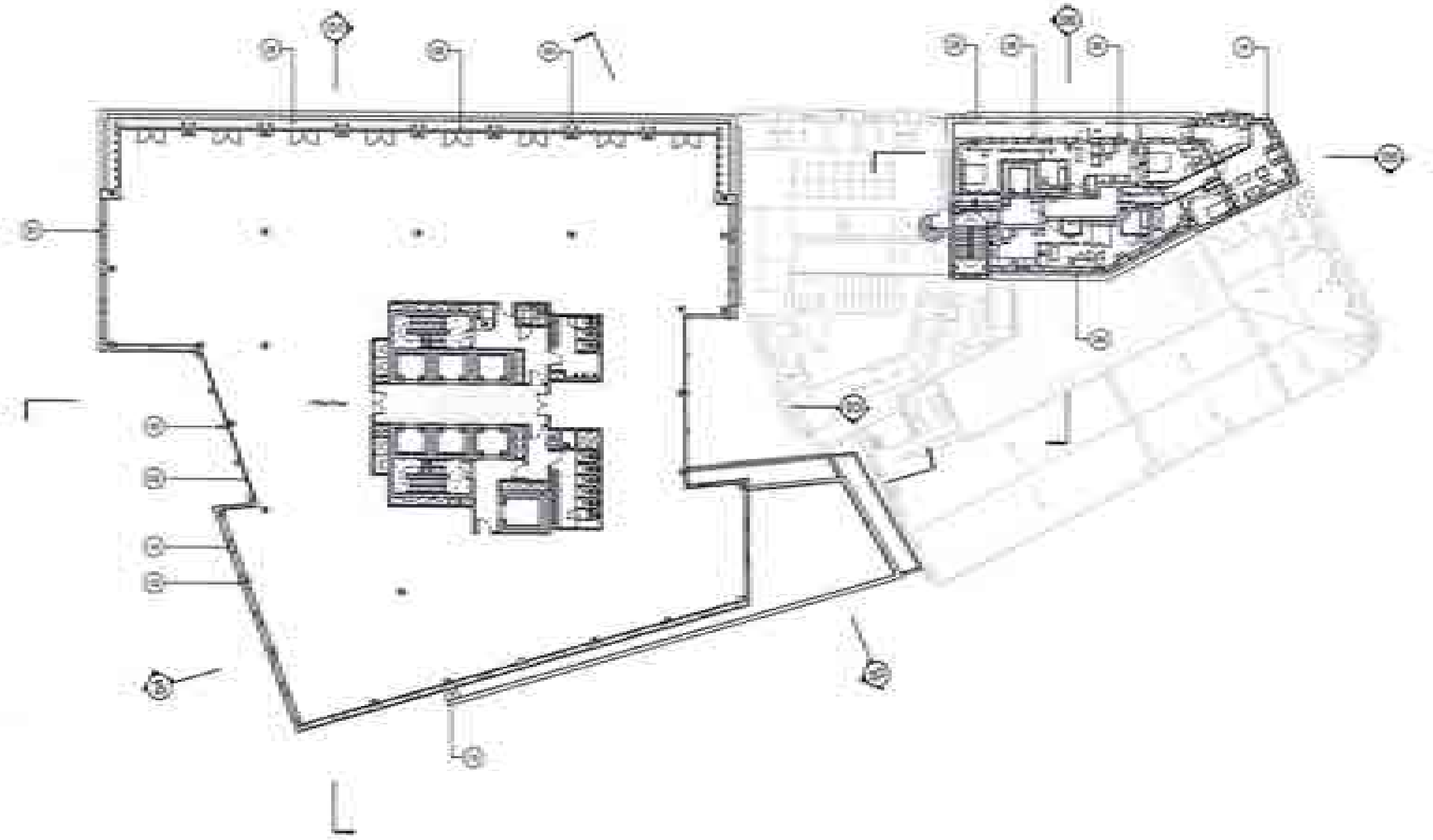
PLANNING



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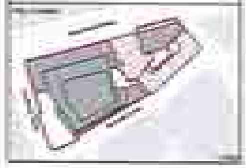

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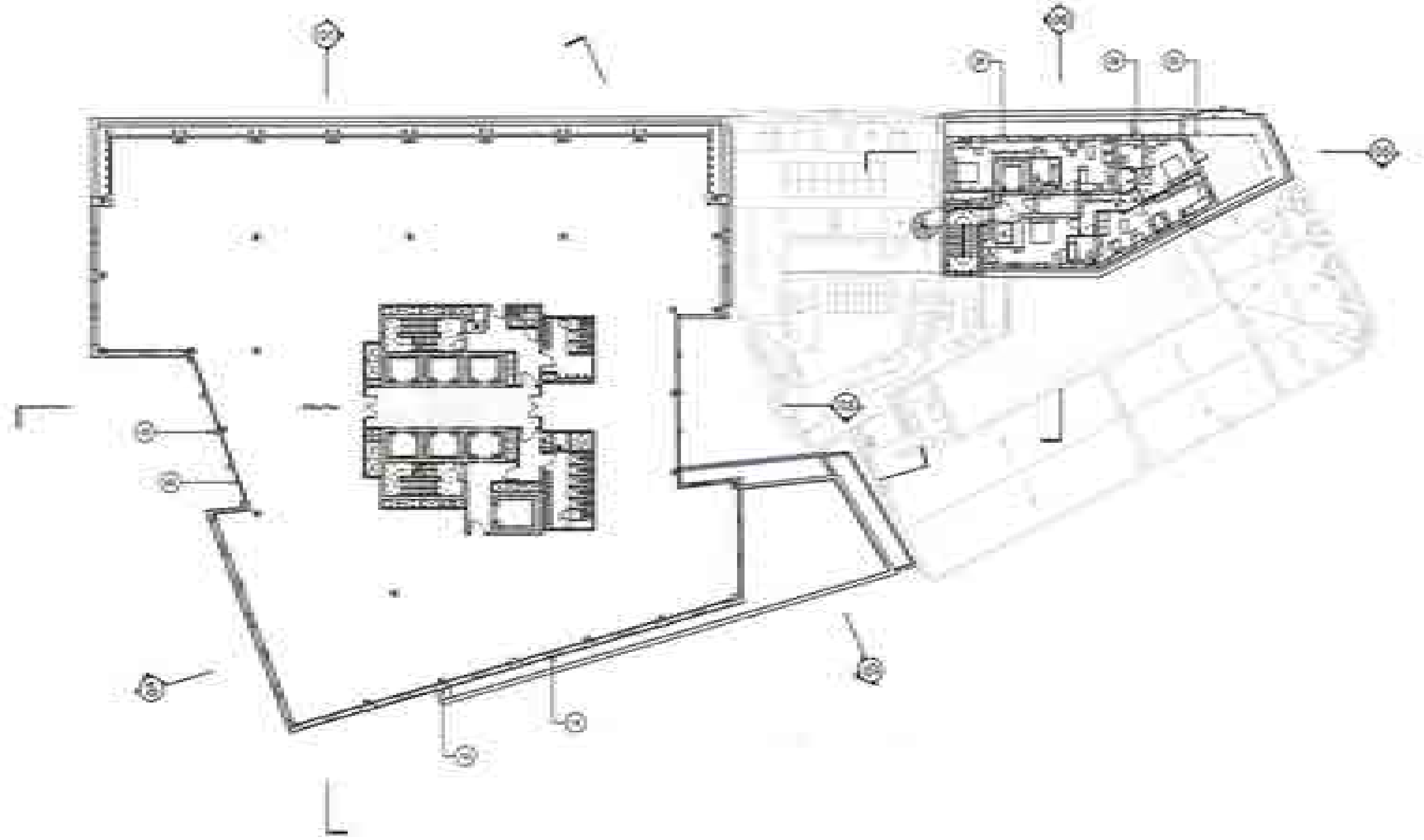
PLANNING



01 Level 07

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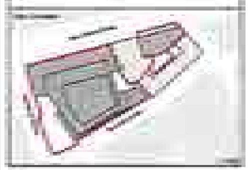
Metres



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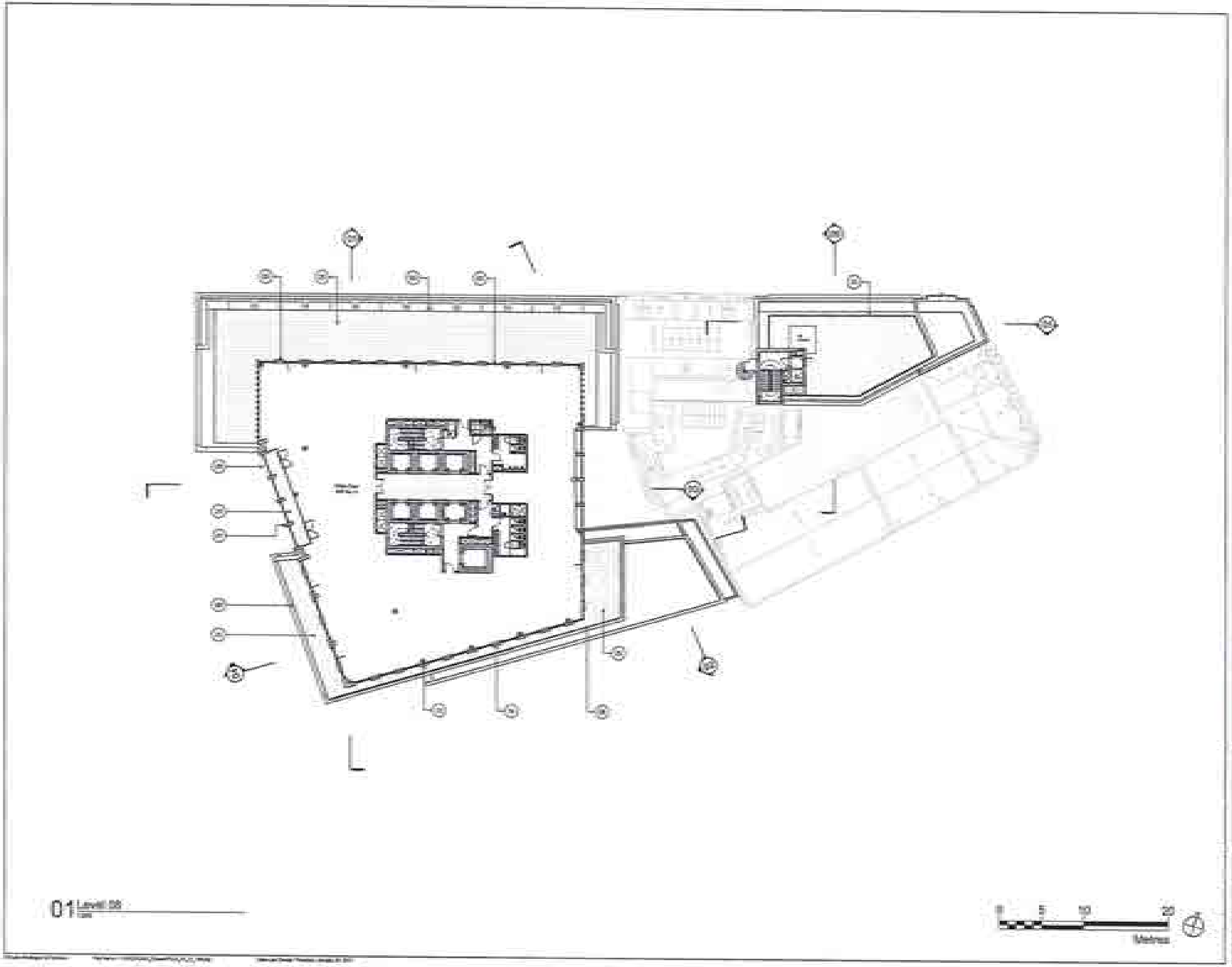
PLANNING



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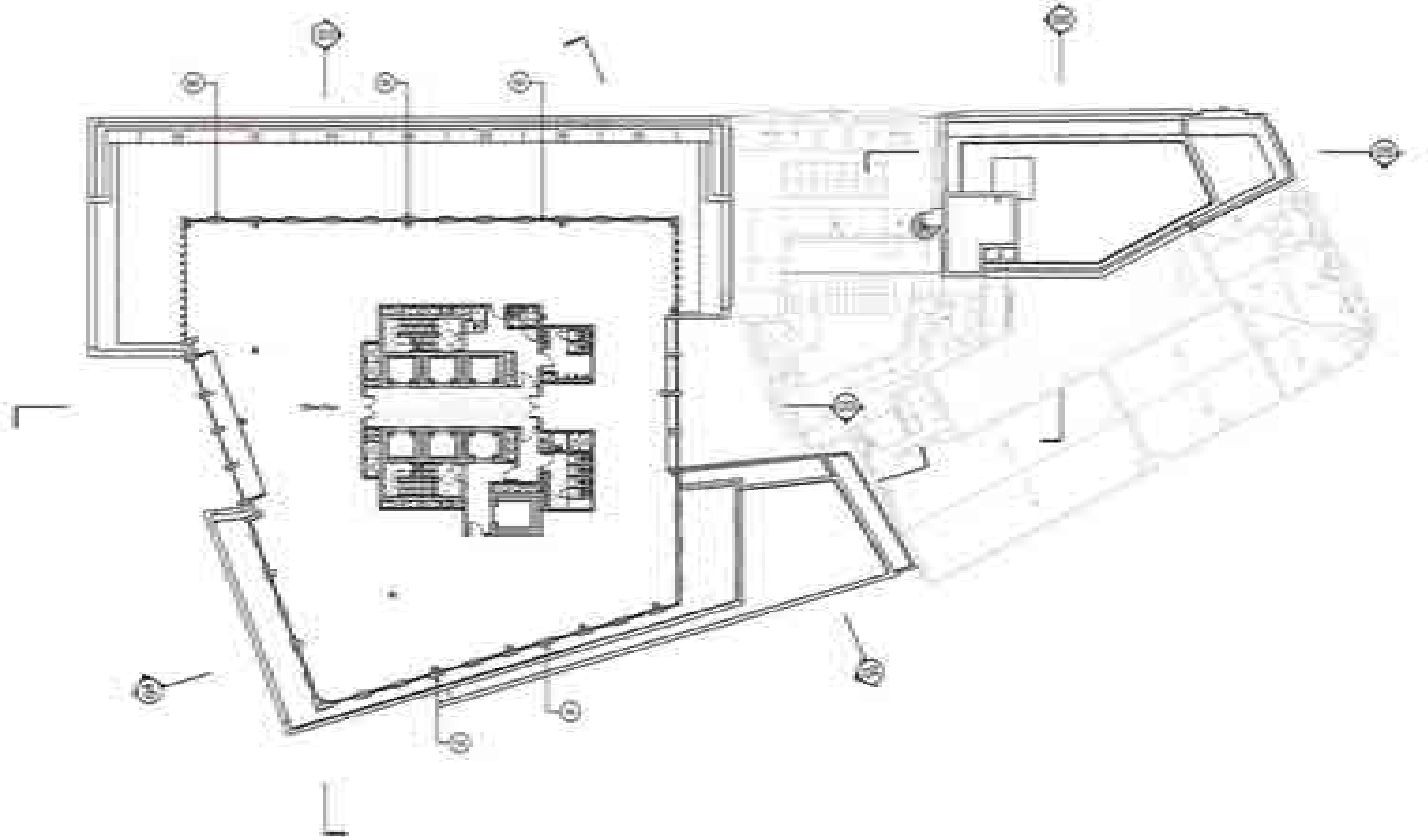
Level 28

PLANNING



01 Level 09

0 5 10 20

Metres

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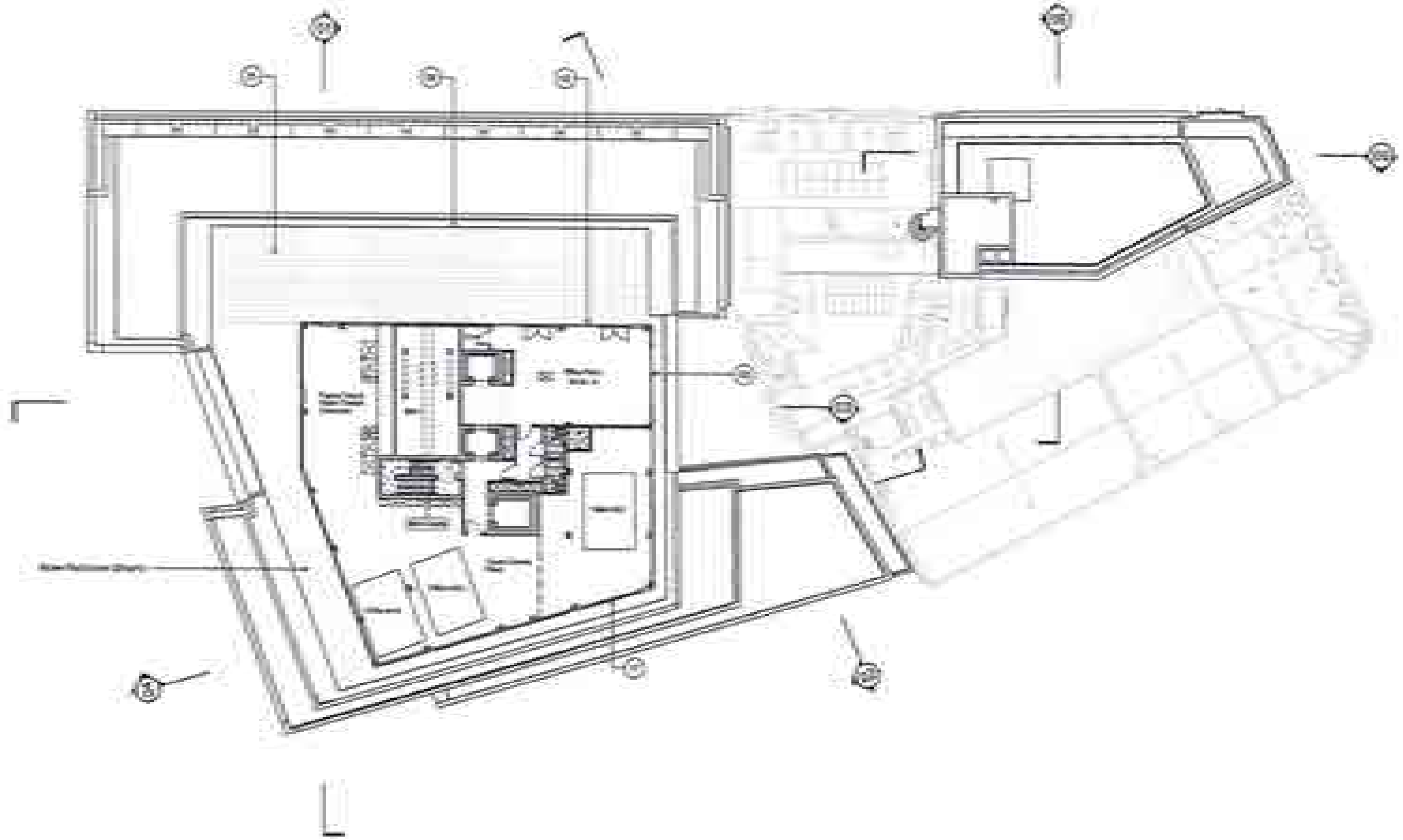
PLANNING



01 Level 10

0 5 10 20

Metres

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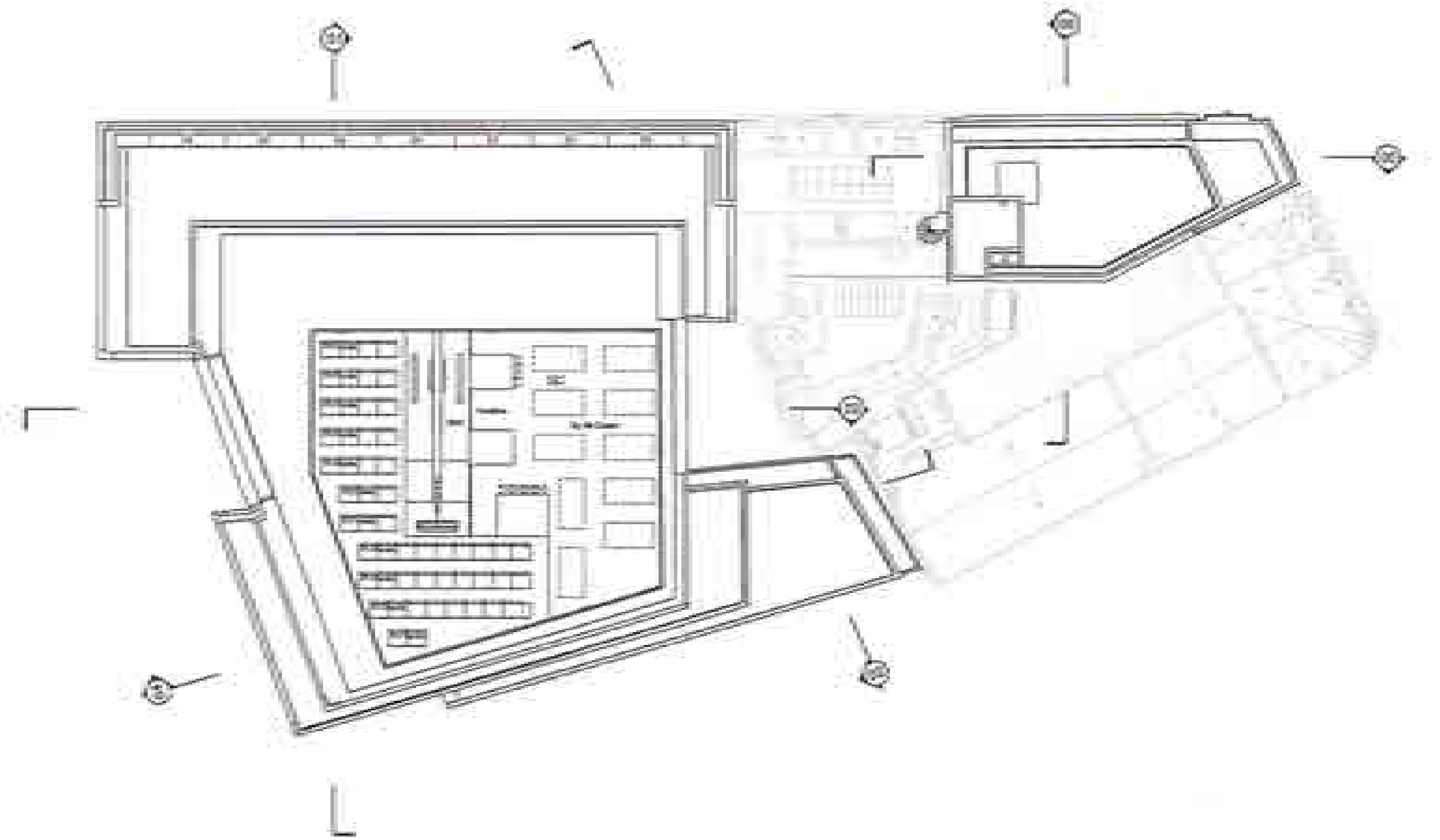
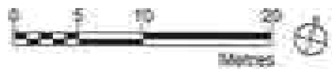
Castlewood House & Medius House
London, WC1A

PLANNING



01 Roof Level



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