Draft Planning Viability Report

135- 149 Shaftesbury Avenue, London (17-D003)

Iceni Projects Limited on behalf of

Capitalstart Ltd

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1. INTRODUCTION

Client Instruction

1.1 Iceni Projects have been instructed by Capitalstart Ltd to produce a report setting out the viability case for the proposed hotel led mixed use redevelopment of 135-149 Shaftesbury Avenue, London WC2H 8AH, currently an Odeon cinema.

Purpose of this Report

1.2 Planning Viability Appraisals are usually required to determine the ability of development to support contributions to social, economic and environmental infrastructure. Contributions take in to account defined Community Infrastructure Levies and may include affordable housing, transport and education among other things.

1.3 The purpose of this viability report is to set out the factors effecting the proposed development and the impact on delivery of the scheme.

1.4 This report and accompanying appraisal is to assist planning discussions with the London Borough of Camden (LB Camden), the Local Planning Authority. It is not a Royal Institution of Chartered Surveyors (RICS) Valuation Manual (Red Book) compliant valuation report and the figures referred to in this report, are not formal valuations. However, we have provided evidence to support the indicated values and/or component inputs that have been used or where we have used data sources, identified them.

1.5 This Report and accompanying appraisals may not be used for investment, funding, lending, borrowing or transactional purposes.

Confidentiality

1.6 This viability report is provided on a strictly confidential basis to Capitalstart Ltd, our client. It is understood that it will be released to LB Camden, the Local Planning Authority and their advisers in support of a planning application for the proposed mixed use development.

1.7 It is understood that the outputs may be disclosed under the under the Freedom of Information Act, 2000 or under the Environmental Information Regulations, 2004. However, the appraisal contains commercially sensitive information, disclosure of which would be prejudicial to Capitalstart Ltd. We therefore request that prior to disclosure, the local planning authority confer with the applicant for redaction of the relevant data that meets the relevant test for commercial confidentiality.

1.8 It is understood that a copy of this report will be provided to LB Camden, and we do not offer LB Camden, their advisors and/or any third parties a professional duty of care.

1.9 This report may not be used for any other purposed than that stated.

1.10 The Date of the Appraisal is the date of this report, unless otherwise stated.

1.11 A Glossary of Terms is contained in Appendix 1

Information Provided

1.12 We have been provided with and relied on, the following information from the applicant:

- Location Plan (Appendix 2)
- Scheme Area Details (Appendix 3)
- Scheme Design Plans (Appendix 4)
- Planning Statement (Iceni Projects) forming part of planning application.
- Transport Statement (Iceni Transport) forming part of the planning application. (December 2017)
- Design and Access Statement completed by Jestico and Whiles (December 2017)
- Sustainability Statement prepared by DSA Engineering (December 2017)
- Report on Hotel and Spa Elements prepared by The Hotel Management Company Ltd (Appendix 5)
- Report on Food and Beverage Proposals prepared by Ford Consultancy Ltd (Appendix 6)
- Report on Cinema Proposals prepared by the Independent Cinema Office (Appendix 7)

2. SITE

Site Description

2.1 The Planning Statement confirms that the existing building on site is a Grade II listed building that was the former Saville Theatre, originally built in 1930-1931.

2.2 The building is currently used as a four-screen cinema (Class C2) run by Odeon Cinemas, an established brand.

2.3 Surrounding the development site are a variety of land uses and buildings of varying ages. Development along Shaftesbury Avenue is primarily commercial, including a variety of retail, hospitality, leisure and office uses. This continues further south towards Seven Dials. Residential uses are located to the north and east of the site, including the Alcazar on Stacey Street and Pendrell House on New Compton Street.

2.4 The building is not located within a conservation area, however the Denmark Street and Seven Dials (Convent Garden) conservation areas are located immediately to the north and the south of the site, respectively. A more detailed description of the site, its history and the surrounding townscape can be found in accompanying Heritage, Townscape and Visual Impact Assessment prepared by Iceni Projects and submitted as part of the planning application.

Location

2.5 The location plan for the site is attached at Appendix 2. The site is close to the boundary junctions of LB Camden, the City of Westminster and the City of London.

2.6 The site is located on the northern side of Shaftesbury Avenue. It is an island site bound to the north by New Compton Street and Phoenix Gardens, to the east by St Giles Passage, to the south by Shaftesbury and the west by Stacey Street.

2.7 The site is located next door to the offices of Yahoo (UK and Ireland), to the southwest, across Stacey Street on the northern side of Shaftesbury Avenue.

2.8 Approximately 80 metres further south-west is the junction with the Charing Cross Road (A400), at Cambridge Circus. It is also close to the 160,000 sq. ft. Google Headquarters at St. Giles Circus, around 350m.

2.9 The site is close to a number of theatres but there is limited retail activity on the north side of Shaftesbury Avenue.

2.10 The existing site does not provide any vehicular access point, with all servicing and deliveries undertaken from the street.

2.11 Access to the site for customers is principally through the main entrance off Shaftesbury Avenue, with staff access and the majority servicing and deliveries made via rear access to the building on New Compton Street.

2.12 There are no car parking spaces on site.

Communications

2.13 The site is located in an area of good public transport accessibility, with access to a diverse mix of different services within close proximity. The site benefits from the highest possible public transport accessibility level (PTAL) rating of 6B, with numerous bus routes operating along Shaftesbury Avenue and London Underground services operating from Leicester Square (0.2 miles south), Covent Garden (0.2 miles south east), Holborn (0.5 miles north east) and Tottenham Court Road stations (0.3 miles north), all within short walking distance.

2.14 The Elizabeth Line (Crossrail) is due to open a station at Tottenham Court Road station in 2019/2020. When complete, Tottenham Court Road will be one of London’s busiest stations, offering an interchange between the Northern, Central and Elizabeth line services with more than 200,000 passengers passing through the station every day. The development of Crossrail at Tottenham Court Road will significantly reduce journey times to the City and Heathrow and is likely to have a significant positive impact on the wider area as a business and shopping destination.

Existing Scheme

2.15 The Planning Statement confirms that the existing building on site is a five storey Grade II listed building, as noted formerly the Saville Theatre, built in the 1930s.

2.16 The building is currently houses a four-screen cinema that was inserted into the building in the late 1960s/early 1970s, resulting in most of the Saville Theatre interior being removed.

2.17 The Odeon cinema offers block buster movies but also shows art house and specialist films including opera, streamed theatre as well as private viewings and catering for corporate events. Despite this however, the cinema still appears to underperform in revenue terms.

2.18 In a cinema industry context, the Odeon Covent Garden is in the London West End catchment, along with the other cinemas on Shaftesbury Avenue, plus cinemas on Haymarket, Panton Street, Lower Regent Street and Tottenham Court Road but differentiated from the core Leicester Square cinema offer which hosts world premier releases. Many of the West End cinemas have been substantially upgraded in recent years, with the redevelopment of Odeon Leicester Square due to open in 2019.

2.19 The Shaftesbury Avenue Odeon primarily competes for audience with the Curzon Soho (3 screens) and the Picturehouse Central (7 screens), both located on the western section of Shaftesbury Avenue, 5 and 10 minutes' walk away respectively. All three cinemas will often show the same films on release date. A little further away is the Odeon Tottenham Court Road to the north, or the various cinemas in Leicester Square to the South, all of which are larger, commercial multiplexes.

Odeon History

2.20 The building was occupied by ABC, part of the EMI group after the theatre/ music venue operation closed. Through various take overs and mergers, a collection of ABC cinemas was bought by Cinven in 1996 and merged with Odeon, which was acquired in 2000. Since 2004 Odeon has been part of the UCI cinemas group which was bought by American Multi-Cinema Entertainment Ltd (AMC) in 2016.

2.21 The property was acquired in 2012 by Capitalstart Ltd, with the occupier Odeon in situ under a lease from 1970. The cinema operation under different branding has been in continuous occupation on the same lease since 1970.

2.22 During over 40 years of occupation, Odeon has been responsible for the maintenance of the building, being required to:

> *'repair and keep the building in good and substantial repair and condition and properly decorated and in a state in every respect for use as a …high class West End theatre'*

2.23 It is clear from the building condition report completed by Hallas & Co (Appendix 8) that they have neglected the responsibility under their lease terms.

2.24 The current occupation is producing insufficient revenue necessary to maintain the building properly and Capitalstart is keen to improve the building through investment so that it can once again become a destination venue for the location.

2.25 Since acquiring the property Capitalstart have secured the ability to break the lease in order to carry out the much-needed improvements to the building.

2.26 Unless investment is urgently made the property will continue to deteriorate and it will become unfit for occupation.

Odeon Capacity

2.27 The existing Odeon occupying the building has 741 seats split as follows:

Screen 1: 153 seats (+2 wheelchair spaces)

Screen 2: 269 seats (including 61 premier seats)

Screen 3: 167 seats

Screen 4: 152 seats

Odeon Performance

2.28 Table 2.1 below outlines the key performance indicators of the Odeon:

Table 2.1

Odeon Shaftesbury Avenue	
Performance Measure	Result
Annual Gross Box Office (Sept 16-Sept 17	**£1.66 million**
Estimated Secondary Sales	**£610,000 – £640,000**
Estimated Screen Advertising/Other Revenue	**Max £98,000**
Ticket Prices (Cinema)	**£12, £8.75, £8.25 (w/c 13 Oct 2017)**
Average Ticket Gross Yield	**£8.73 (£1.66 million / 190,000 admissions)**
Estimated Annual Admissions	**190,000 – 200,000**
Estimated Annual Performances	**5,792**
Estimated Total Annual Capacity	**1,078,896 seats**
Estimated Occupancy Rate	18-19%

Source: ICO Consultancy/Iceni Projects

Industry Rates of Occupancy v Seats Available	
Performance Measure	Result
Commercial Multiplex	12-15%
Commercial Midiplex	15-18%
3-5 Screen Art-House Cinema	20-26%
1-4 Screen Boutique Cinema	30%+ (higher if new or purpose built)

Source: ICO Consultancy/Iceni Projects

2.29 The Independent Cinema Office (ICO) confirm the lower occupancy rate for larger commercial cinemas is due to most full time commercial and commercial independent cinemas offering a standard 4 screenings per day in each screen, often with additional early matinees at the weekend or during school holiday periods. The cost of film hire from a distributor is calculated as a percentage of each week's box office rather than by screening and so it is in the interest of the cinema to include as many screenings as possible, especially in the age of digitised film exhibition, when a cinema can be operated by a minimal number and non-specialised staff. So, for larger commercial cinemas where only a few admissions for midweek daytime shows may be achieved, average box office per screening tends to be low.

2.30 ICO confirm multiplex cinemas, offering 4-5 shows daily in each of their multiple screens, operate at between 15-20% occupancy rate across a full operating year. Independent cinemas with offering 3-4 screenings daily in each of their 3-5 screens will operate at 22-30% occupancy.

2.31 By these benchmarks, ICO have assumed a relatively high occupancy rate for the proposed scheme. This is after considering other key factors about this cinema such as low-ticket price, central London location, distinctive offer and lack of a directly competing offer, all of which it is assumed will help to bring audiences to the new cinema.

2.32 ICO notes that occupancy rates serve usefully as a general performance benchmark for cinema operators but should not be considered in isolation. ICO references numerous factors (programming, size of cinemas and whether purpose-designed, ticket pricing) which determine occupancy rate and in some cases, the average size of the audience in numbers is a better gauge of whether a cinema is successful.

2.33 ICO note that ticket prices at this Odeon are substantially lower than most West End cinema rates. Tickets at the Curzon Soho and Picturehouse Central, both on the same street as Odeon Covent Garden, range up to £15.00 and £16.50 respectively which ICO comment gives an indication of the very different business strategies at play across different cinemas in Central London.

2.34 ICO note that also, just off Shaftesbury Avenue, The Ham Yard Hotel's 190 seat cinema is open to the public with tickets at £15. Other nearby commercial cinemas include The Odeon Leicester Square (£14.25), Empire Leicester Square (£14.25-£18.70), Vue West End Leicester Sq. (£17.49) and Odeon Tottenham Court Road (up to £17.00 depending on the film and the split with the distributor). The lowest ticket price identified by ICO at a commercial cinema in the West End is at the Odeon Panton Street (£7.25), which programmatically has become Odeon's art house and 2nd run site, with cinema screens that do not meet the scale of standard of contemporary cinemas.

3. PROPOSED DEVELOPMENT

3.1 The proposed development would result in the comprehensive refurbishment of the existing Grade II listed building structure and redevelopment of the interior structures, the provision of a new two storey roof extension and terrace and new basement level to provide a 94-bed hotel (Class C1), four-screen cinema (Class D2), spa (sui generis), ground floor restaurant/bar (Class A3/A4) and roof top bar, along with public realm and highways improvements.

3.2 Specifically, the proposals comprise:

- The demolition of existing internal structures within the building and the retention of the existing façade and the excavation of one new basement level;
- The construction of a new ten storey building comprising three basement levels, five levels behind the retained façade of the building and a two-level roof extension;
- The provision of a new 94-bedroom hotel (Class C1) at part ground and first to sixth floors;
- The provision of a new four-screen cinema (Class D2) at basement levels one and two;
- The provision of a restaurant/bar (Class A3/A4), hotel reception and flexible pop up space at ground floor level;
- The provision of a spa (sui generis) at basement level three;
- The provision of a bar (Class A4) and associated terrace at roof top level;
- Highways and public realm improvements including relocated parking bays and loading zone on New Compton Street and a new on-footway layby on Shaftesbury Avenue permitting all servicing and deliveries to occur without impeding traffic and allowing a wider footpath for pedestrians;
- The provision of separate cycle parking areas for staff (12 spaces) at basement level two and for guests (12 spaces) at ground floor level.

3.3 The submitted proposals have followed extensive pre-application meetings and discussions with Council officers. The proposals have evolved and changed on each occasion to respond to comments from officers. Engagement with surrounding residents and local amenity groups has also occurred during the preparation of the proposals, with the scheme responding to specific feedback raised during discussions.

3.4 Accompanying drawings and schedule are set out in Appendix 3 and 4 setting out an indicative land budget of uses

3.5 Details of the scheme proposals are set out in the Design and Access Statement, Design Code and planning application, dated 22 December 2017.

4. METHODOLOGY

4.1 This section considers the Approach to Viability and the basis of assessing the key inputs of Viability Threshold, Benchmark Land Value, Developer Risk Profit, Build Costs and Policy Obligations. Subsequent sections set out the detailed assumptions.

Approach to Viability

4.2 The NPPF (March 2012) sets out at paragraphs 173 to 177 that Local Planning policy should be brought forward to ensure development viability. The costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards or infrastructure contributions 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.

However, NPPF also states at paragraph 176 that “where safeguards are necessary to make a particular development acceptable in planning terms (such as environmental mitigation or compensation), the development should not be approved if the measures required cannot be secured through appropriate conditions or agreements. The need for such safeguards should be clearly justified through discussions with the applicant, and the options for keeping such costs to a minimum fully explored, so that development is not inhibited unnecessarily”.

4.3 Paragraph 177 confirms that “it is equally important to ensure that there is a reasonable prospect that planned infrastructure is deliverable in a timely fashion”.

4.4 In considering the methodology for this appraisal the following national, regional and professional guidance has been taken into account, including:

- Version 4 of the HCA 2012 Development Appraisal Tool, User Manual.
- National Planning Practice Guidance Notes - DCLG
- Viability Testing Local Plans – Advice for Planning Practitioners – Local Housing Delivery Group (June 2012)
- Financial Viability in Planning – Royal Institution of Chartered Surveyors (GN 94/2012)
- The Community Infrastructure Levy Regulations 2010
- The London Plan, 2016
- Camden Local Plan

Viability Threshold

4.5 The Gross Development Value (GDV) of any development is determined by the market; it sets the limit within which all costs associated with delivery of the development must come in order for the development to be viable – the Viability Threshold. Development costs include land costs, construction costs and planning obligations and developer's risk profit. Where the Viability Threshold is the same as the GDV the scheme will progress. The Viability Threshold for any scheme is identified in Figure 1.

4.6 As figure 2 shows, if the Benchmark Land Value is not achieved, or the developer cannot secure an appropriate return on risked capital, or if planning obligations are in excess of what the value of the scheme can bear, the development will not take place because the Viability Threshold is in excess of the Gross Development Value.

Figure 1: Viability Threshold

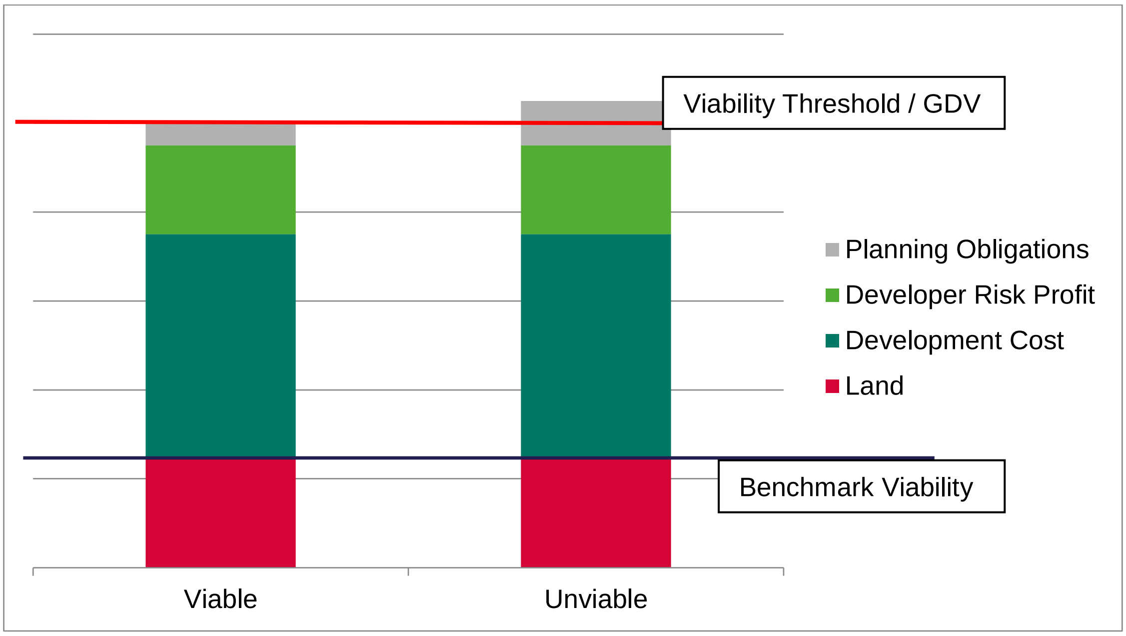
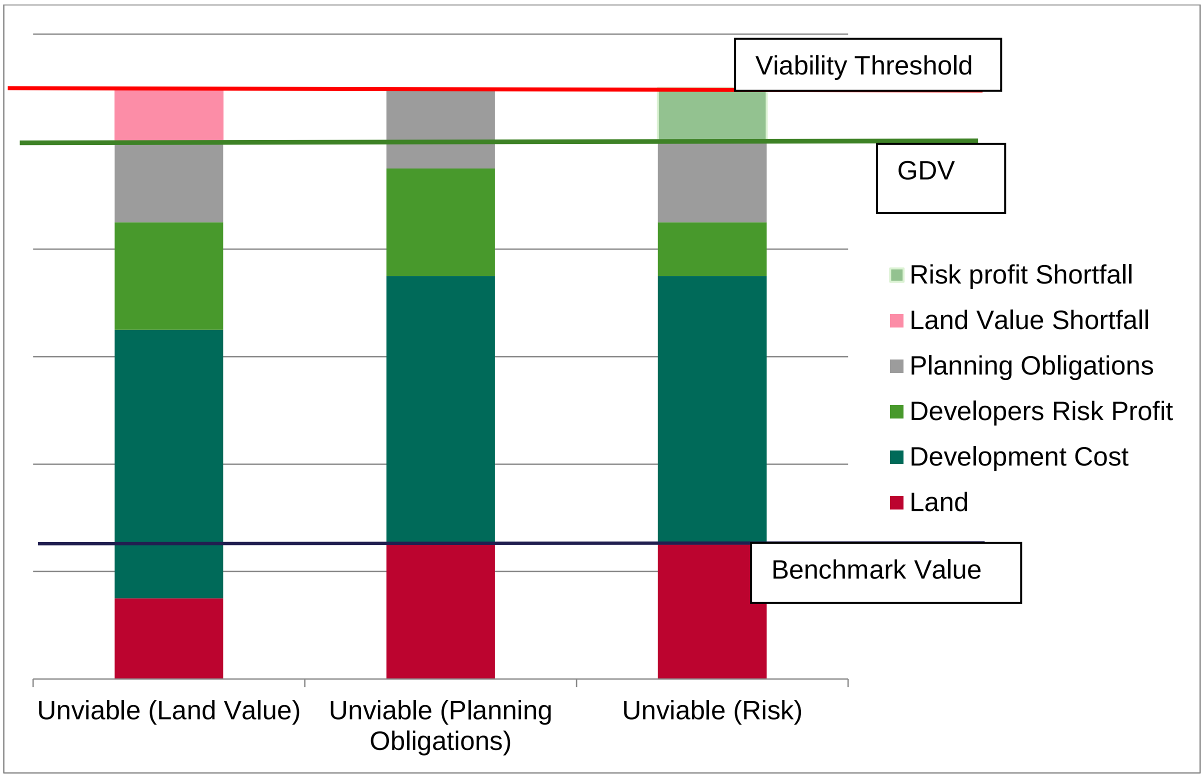


Figure 2: Unviable Development



4.7 In assessing whether a scheme will progress it is assumed that a developer will carry out proper and reasonable due diligence in respect of market demand, prices, construction costs and make a reasoned site assessment of factors that might affect delivery. The developer would also make an allowance for any planning obligations required to secure a planning consent. These factors will determine, along with market conditions, the risk that a developer would be prepared to take to purchase the land at a level that would be acceptable to the vendor, and expend money and time promoting development.

5. BENCHMARK LAND VALUE

5.1 The Benchmark Land Value is the level at which the land would reasonably be sold for by a willing seller to support development. It should reflect the reality of the market pricing of risk and offer an appropriate incentive for the owner to sell.

5.2 There are a number of approaches set out in policy and professional advice, these include:

- Existing use value plus an incentive margin (or Current Use plus an incentive margin)
- Alternative use value
- Market Value with Special Assumptions

5.3 As noted above the NPPF, NPPG and RICS guidance all seek to define a competitive return for the land owner. The RICS 2012 guidance notes the definition of EUV at E.1.8 as:

The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

5.4 The RICS guidance goes on at paragraph E.1.9:

It is clear the definition in E.1.8 is inappropriate when considered in a financial viability in planning context. It is an accounting definition of value for business use and, as such, hypothetical in a market context. Property does not transact on an EUV basis.

5.5 In its existing use the site provides an Odeon Cinema let on a 56-year lease from 25 March 1970. The value in existing use is the capitalised income stream to the end of the lease, however is unlikely to reflect a competitive return to a vendor.

5.6 The incentive over existing use value that a willing seller would apply therefore needs to be considered. Any reasonably willing seller would determine the premium in the context of the development that would be delivered on the land and would look to a share in the profit that a developer bringing forward the development would make after taking off the cost of bringing forward the development.

5.7 An alternative use value as a basis for assessing Benchmark Values implies an alternative higher value use than the Existing Use Value. An alternative use value would need to take into account takes into account the potential costs of securing that alternative use. An alternative use would apply where it is clear that a purchaser in the market is likely to acquire the property for an alternative use that use can be readily identified as generating a higher value than the existing use and is both commercially and legally feasible. In this context consideration of the existing cinema use for an alternative occupier has been considered.

5.8 Market Value is defined in the RICS Red Book RICS Valuation – Professional Standards, effective from 1st July 2017 as the:

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

5.9 Market Value assumes the highest and best use of an asset which is the use of an asset that maximises its productivity and that is possible, legally permissible and financially feasible. It would therefore take into account potential hope value that the market would place on the land in respect of alternative uses, discounted to reflect risk.

5.10 The RICS Red Book 2017 (RICS Valuation Global Standards 2017 includes IVS General Standards which sets out at IVS 104 the Base of Valuation for the factors to be taken into account in assessing value.

5.11 A willing seller would reasonably expect to take the higher of the three options, since a reasonable landowner would not sell for less under one scenario than the other two scenarios. In this context a competitive return for a vendor, i.e. a Benchmark Land Value, must related to a market value. This in essence is the RICS definition of Market Value.

5.12 Both the RICS and planning policy therefore adopt similar approaches in identifying a competitive return driven by market condition: Any development land brought forward by a willing land owner for which a willing developer would speculate time and money for a potential return implies a value that should reflect an appropriate Market Value assuming appropriate policy obligations have been met.

5.13 Benchmark Land Value is compared to the residual value of the proposed scheme to determine whether it can support the planning obligations sought, taking into account relevant assumptions and appropriate policy constraints, as confirmed by reference to comparable evidence.

Existing Use Value

5.14 The existing building as a cinema has been in occupied by Odeon and is badged as their Covent Garden cinema.

5.15 The Independent Cinema Office has assessed the performance of the existing Odeon and have determined that income is likely to be:

Tickets Sales per annum	Average Gross Ticket Price (inc vat at 20%)	Average Gross Secondary Spend per head
190,000	£8.73	£3.37

5.16 Total Net of Vat, Revenue for the existing Odeon is assessed by ICO as:

Average Box Office revenue (pa) (net)	Average secondary revenue (pa) net)	Average Screen Advertising revenue (pa)	**Total net Revenue Odeon**
£1,382,250	£533,300	£98,000	**£2,290,000**

5.17 The ICO reports that while the box office revenues are within the UK top 25 for opening releases, it consistently underperforms nearby cinemas. The ICO report concludes that its location, separated from Charing Cross Road, makes it a relatively unattractive location.

5.18 The result is that the Odeon Covent Garden has not attracted the level of investment needed to maintain attractiveness to audiences; this has been further exacerbated by additional investment on other nearby cinemas, such as Curzon Soho and Picturehouse Central, both to the west of the site, which offer more attractive cinema destinations in better locations, making the Odeon Covent Garden a poor environment by comparison.

5.19 If the exiting Cinema operation were to be maintained and over repairs are needed to the building for it to continue. The condition survey of the building highlights a number of significant issues and cites £10,000,000 of works being required, assumed to exclude fees contingencies (say 5.25%) and cost of capital. It is anticipated for this appraisal these repair works could be carried out while the building remained trading (so as to minimise loss of rental income).

5.20 It is possible that the repairs might result in an increase in rent to potentially 10% of net revenue, or up £15 to £18 per sq ft.

5.21 The existing Cinema is 824 sq m (8,869 sq ft) with 1,013 sq m (10,904 sq ft) back of house space and 1,097 sq m (11,808 sq ft) of circulation space. This would imply a rental income of between £205,000 to £550,000.

5.22 Based on yield of 4.75% this would indicate a gross capital value of in the order of between £4.3 million and £11.6 million.

5.23 The current rent, based on up to 10% of net box office receipts of £138,000. This is under rented by comparison and therefore would attract a sharper yield because of its added security, we have assumed a yield of 4.5%, generating a gross capital value of £3,07 million.

5.24 It is clear that there is no incentive to carry out the investment to repair the property under the current leasehold occupation, even were it to generate at return off the higher lease there is no incentive to carry out the repairs that generate little or no profit.

5.25 The existing tenant therefore cannot sustain use of the building and there would be no incentive to any vendor transacting at the implied value. As such capitalising the existing income, taking into account value the cost of repairs, would not represent form a Benchmark Land Value for planning purposes.

Alternative Cinema Operator Value

5.26 The alternative to the Odeon as occupier would be to secure vacant possession, which is possible under the lease on 6 months' notice, to refurbish it in its current use and configuration but upgrading it to meet modern cinema operator and cinema goer expectations.

5.27 The covenant strength of the luxury operators such as Curzon and Picturehouse, are not yet as strong as the major multiplex operators such as AMC or Cineworld and therefor yields are not as tight, albeit revenues would be stronger for higher ticket prices and higher F&B sales.

5.28 ICO have considered the revenue that could be generated from an alternative occupier to Odeon and have concluded that an alternative food and beverage offer, boutique cinema club style offer, per a Picturehouse, Curzon or Everyman format could generate higher receipts and therefore support a higher rent of in the order of £380,000. This generates which generates a gross capital value of £7.6 million off a yield of 5.00%.

5.29 .

Premium to EUV

5.30 Based on the above information the site has a potential negative value if the capitalised value of the rent is assumed alone and the operational value is not included in any consideration of value. If the operational entity was also the owner, the value of the operation can also be taken into account in assessing value, as is being proposed by the client.

5.31 There is no direct transactional evidence for the site assuming its current use however, taking into account its listed status and current cinema use. The value is therefore determined by the potential development that would be allowable within the confines of the listed building, unless demolition were allowed in which case a variety of development alternatives would be considered.

5.32 Land values for alternative development has not been considered at this stage other than for the proposed scheme. However as a central London site it is unlikely that the site would not be acquired even were it to continue in its existing use at sum reflective of the scarcity of the available sites of this scale. With an income generating lease in place it would be possible to take an extended view of development potential and hold the building until such time an implementable consent were in place.

5.33 In this context a vendor would seek secure a premium which was reflective of a long term hold strategy, based on the ability to secure vacant possession at a time to be determined by the owner and a secure income stream in the interim.

5.34 We would suggest the premium could be therefore double the value of the Existing Use as determined off the capitalised rental income and the Benchmark Land Value is therefore assessed at £6 million.

6. POLICY ASSUMPTIONS

6.1 Planning Policy, as set out in the planning statement accompanying planning application, has been taken into account in assessing the development parameters. In so far as policy has a specific impact on the viability the following has been taken into account:

National Planning Policy

6.2 National Planning Policy Framework (March 2012) (NPPF) and the accompanying guidance sets out a presumption in favour of sustainable development and in doing so requires policies be in place that assist in making sustainable development viable.

6.3 NPPF sets out at paragraphs 173 to 177 that Local Planning policy should be brought forward to ensure development viability. The costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards or infrastructure contributions 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.

6.4 However, the NPPF also states at paragraph 176 that “where safeguards are necessary to make a particular development acceptable in planning terms (such as environmental mitigation or compensation), the development should not be approved if the measures required cannot be secured through appropriate conditions or agreements. The need for such safeguards should be clearly justified through discussions with the applicant, and the options for keeping such costs to a minimum fully explored, so that development is not inhibited unnecessarily”.

6.5 Paragraph 177 confirms that “it is equally important to ensure that there is a reasonable prospect that planned infrastructure is deliverable in a timely fashion”.

6.6 In addition to the NPPF, National Space Standards are in place which determine minimum unit sizes.

Regional Planning Policy

The Development Plan

6.7 The statutory development plan for the proposed development consists of the London Plan (2016), and the Camden Local Plan (2017). The Mayor of London is currently consulting on the draft London Plan which will eventually supersede the currently London Plan, however, this emerging draft London Plan carries limited weight at present.

6.8 The National Planning Policy Framework (NPPF) was published on 27 March 2012 and sets out the Government's economic, environmental and social planning policies. The NPPF outlines a presumption in favour of sustainable development as being at the heart of the planning system.

6.9 The National Planning Policy Guidance (NPPG) is a web-based resource that was published on 6 March 2014 and provides information and guidance on planning. The NPPF and NPPG form material considerations in the determination of the application.

6.10 There are a number of other adopted and emerging supplementary planning guidance and documents which also form a material consideration for the proposals. Principally, at a local level, the Council's Camden Planning Guidance documents are of relevance to the proposals.

The London Plan

6.11 The London Plan, specifically the Affordable Housing and Viability SPG 2017 reaffirms the principles of viability. While part 3 of the SPG deals primarily with viability for delivery of affordable housing the SPG also confirms that viability is a product of a range of factors that will affect delivery on any site, these include:

- Build Costs
- Density of development
- Design and space requirements of homes (e.g. application of National Space Standards/accessibility)
- Commercial lenders' perception of risk
- Market conditions
- Cumulative impact of charges and obligations
- Local character considerations – conservation area, materials, type and mix of units
- Site specific development factors (listed buildings/contamination/ground conditions)
- Tenure split

- Occupation types/needs (rented, older people)
- Infrastructure costs, including transport, social

Local Planning Policy

6.12 The following Local planning policy has been taken into account in assessing the development from a viability perspective:

Site Specific Policy Designations

6.13 The site is Grade 2 listed and therefore subject to protection.

6.14 The site is subject to the following site-specific planning policy designations as identified by the Council's adopted Policies Map (2017):

- Located within the Central Activities Zone (CAZ);
- Located within Camden Council's Central London Area;
- Located within an Archaeological Priority Area.

6.15 The site is also located adjacent to the Phoenix Community Garden, a dedicated Open Space area, and is located adjacent to the Denmark Street Conservation Area to the north and the Seven Dials (Covent Garden) Conservation Area to the south.

Planning Obligations

CIL/ MCIL Contributions

6.16 The principle of introducing CIL was endorsed by LB Camden in April 2015. Being within Zone A (Central) Developers are required to pay a tariff of £40 per sqm for hotel use, £25 per sqm for cinema, café/restaurant and spa uses

6.17 The Mayor of London introduced a Community Infrastructure Levy (CIL) to help fund Crossrail. The Mayoral CIL rate in Camden is £50 per m2.

6.18 The table below has been completed based on the CIL formula using the below floorspace assumptions:

- Gross Proposed Area (sqm) – **6,776 sqm**, inclusive of 4,660 sqm of hotel (C1) floorspace, 1,411 sqm of cinema (D2) floorspace, 292 sqm of spa (sui generis) floorspace and 413 sqm of restaurant/bar (A3/A4) floorspace

- Existing Area to be retained (sqm) – **3,265 sqm**, inclusive of 3265 sqm of cinema (D2) floorspace

- Existing Area to be demolished (sqm) – **0 sqm**

- Net Chargeable Area (sqm) – **3,511 sqm***, inclusive of 2,414.87 sqm of hotel (C1) floorspace, 730.99 sqm of cinema (D2) floorspace, 151.32 sqm of spa (sui generis) floorspace and 214.17 sqm of restaurant/bar (A3/A4) floorspace.

- Indexation – an indexation rate of 1.269 is applicable for Mayoral CIL and a rate of 1.093 is applicable for Camden CIL

6.19 As per the CIL Regulations, the percentage of each separate proposed use forming part of the total Gross Proposed Area is to be the equivalent percentage of the chargeable floorspace. For example, the cinema floorspace (D2) forms 1,411 or 20.82% of the total Gross Proposed Area, meaning that 20.82% of the chargeable area (730.99 sqm) is to be allocated to the cinema (D2) rate.

Table 6.1

CIL Type	Calculation	Charge	Indexation
MCIL – All Uses	3,771 x 50	£175,550	**£222,772.95**
LBC – C1 Use	2414.87 x 40	£96,594.80	**£105,578.12**
LBC – D2 Use	730.99 x 25	£18,274.75	**£19,974.30**
LBC – A3/A4 Use	214.17 x 25	£5,354.25	**£5,852.20**
LBC –Sui Generis	151.32 x 25	£3,783	**£4,134.82**
Total		**£299,556.80**	**£358,312.39**

Source: BCIS/ LB Camden and London Plan/ Iceni Research

Section 106 Contributions

6.20 Camden Council uses Section 106 agreements to secure financial contributions as well as other planning obligations.

6.21 While the proposals would not provide residential floorspace, Camden Council has a mixed-use policy which seeks to secure affordable housing from mixed use development.

6.22 These obligations have formed part of discussions in the lead up to the submission of the planning application so broad heads of terms can be agreed.

6.23 This Viability Report and accompanying appendices is to help determine whether the proposed development is able to support the potential planning obligations sought.

7. DEVELOPMENT PROGRAMME

7.1 The development is complex, and due to the nature of the building is anticipated as taking a significant length of time. It is anticipated that the deconstruction of the existing internal structure, stabilisation and excavation to form the development platform will take 18 months before construction can commence.

7.2 Construction is complex with the exterior existing structure being mostly retained, resulting in a constrained construction site. Construction is anticipated as taking 24 months. This is consistent with other constrained sites in the locality, such as Centre Point (commenced in January 2015 and anticipated as being completed in 2018), St Giles Circus (Construction: 2017 – 2020); former Foyles Bookstore (Demolition: 9 months+). Dependent on further detailed construction methodology, an allowance of 42 months has been allowed for in the in the Appraisal for demolition and construction.

7.3 Following the end of construction, a 1 month snagging and testing period has been allowed for and a 3 month rent free period to allow for operational testing, training and commissioning period before initial guests are received and income generated.

7.4 Targeted opening based on the adopted programme is December 2021. It is noted that the anticipated Year 3 of opening from December 2023 includes the 2024 leap year day which generates an additional day of revenue and costs, which has been allowed for in the appraisals and creates a differential to the assumed year 4 and 5 figures.

7.5 If additional complexity in the demolition or construction delivery arises this will have an impact on programme. The following optimistic programme has been allowed for:

Stage	Estimated Time
Pre - Construction	1 month
De-Construction	18months
Construction	24 months
Post-Construction/ Snagging	1 month
Total	**44 months (3 years 8 months)**

8. PROPOSED SCHEME – HOTEL

Hotel Offer/Style

8.1 The Hotel Management Company (THMC) have considered both the hotel and the guest spa that is integral to the upscale Hotel offer proposed.

8.2 THMC report at Appendix 5 sets their analysis of the hotel market and projected quality of the proposed accommodation and corresponding room rates, occupancy and potential trading through to an assumed stabilised performance in year 3. The proposed hotel is based on a potential upscale branded offer providing 94 bedrooms.

8.3 The Hotel Management Company comment within their consultancy report that the standard rooms at the proposed hotel are appropriately sized for an upper upscale brand, but are somewhat small for a luxury offering.

8.4 Capitalstart Ltd is exploring the brand level offered by Sofitel's M Gallery offer presented by Accor Hotels. A branded offer would allow the access to a larger visitor data base and booking system but would lead to additional franchise/licencing payments to the brand owner.

8.5 The bedroom count is in line with the brand standards of a number of potential operators and the proposed count enables reasonable economies of scale to be achieved across the operation.

8.6 As set out in Appendix 4 detailing the floor plans and elevations, the hotel will be over six upper floors set above a restaurant, bar, lobby and reception at ground floor, with cinema and spa in the basement floors.

Occupancy

8.7 HMC have determined average room occupancy would grow from year 1, plateauing to stability in Year 3 as follows:

Table 8.1 Proposed Hotel Average Room Occupancy

Year Commencing 1 January 2	Average Annual Room Occupancy
Year 1	75.5%
Year 2	80.6%
Year 3 to 5	83.5%

Source: The Hotel Management Company, 2017

8.8 The HMC report envisions occupancy growth of 8 percentage between 2020 and 2022 on assumed continued demand for up-scale hotel accommodation in this location remaining strong through to the proposed opening in 2021, in spite of significant planned openings of hotels bed spaces planned in the next few years.

8.9 According to the HMC report, based on the STR Global data, occupancy in the local market has average at 84.9% from 2011 to 2016. The projection of average annual room occupancy by the third and stabilised year of operation positions the proposed hotel development slightly below the current STR Global sample of local hotels at 83.5 per cent. This is because of the inclusion of the new hotels currently in planning or under construction, such as the Indigo Hotel Leicester Square, the Radisson Blu Edwardian LSQ and the Waldorf Astoria Admiralty Arch, which are likely to dilute the wider market and make the environment that much more competitive.

8.10 Further details concerning occupier type and seasonality can be found within the THMC consultancy report at Appendix 5.

Room Rate

8.11 Based on Comparable evidence the HMC have estimated that the hotel will achieve the following average annual room rates in 2017 values exclusive of VAT.

Table 8.2 Proposed Average Room Rate (net of vat)

Year Commencing 1 January	Year 1	Year 2	Year 3 – 5
Overall Average Room Rate	£231.81	£236.85	£238.53

Source: The Hotel Management Company, 2017

8.12 Greater levels of discounting will be applied in the first 2 years of operation as the hotel penetrates relevant markets in order to establish its position.

8.13 It is projected that by the third and stabilised year of operation the proposed hotel development will achieve an average room rate of £238.53 excluding vat (£286.24 inclusive of vat), at 2017 values.

Hotel Revenue Summary

8.14 Based upon The Hotel Management Co report and assumptions detailed above, contained in the report at Appendix 5, the below table summarises the key revenue.

Table 8.3 HMC Revenue Summary

The Hotel Management Company Revenue Summary (net)			
	Year 1	**Year 2**	**Year 3-5**
Room Revenue	£6,008,800	£6,552,700	£6,829,600
Minor Operations (Spa)	£427,600	£495,900	£559,800
Rental and Other income	£152,000	£209,200	£257,500
Total	£6,588,400	£7,257,800	£7,646,600

8.15 The terms and classification of hotel-related revenues and expenses are based upon the Uniform System of Accounts for Hotels. All HMC revenue summaries and average spend are, unless otherwise stated, shown exclusive of VAT.

8.16 Rental and Other Income includes the revenue derived from commissions, concessions and room hire at approximately £257,500 by the third and stabilised year of operation.

8.17 It is projected that the proposed hotel at Shaftesbury Avenue, will generate a total revenue of approximately £7.6 million by the third and stabilised year of operation at 2017 values.

8.18 Slight differences in rounding in the Iceni appraisal results in the following:

Table 8.4 Iceni revenue Summary (net)

Hotel Income	**Year 1**	**Year 2**	**Year 3**	**Year 4-5**
Minor Department inc Spa	£427,600	£495,900	£559,800	£559,800
Rental & Other Income	£152,000	£209,200	£256,292	£257,500
Room Revenue	£6,008,818	£6,552,742	£6,848,229	£6,829,518
Total for Hotel Income	£6,588,418	£7,257,842	£7,664,321	£7,646,818

Minor Operations (Spa) and Other Income

8.19 A spa has become a necessity for many better-quality brands, who use it as one of the attributes promoted in marketing materials.

8.20 The Spa will be limited and be situated within the sub-basement of the development.

8.21 The HMC used a ratio-driven approach to project other revenues for the proposed hotel, based on room revenue projections, experience of working on hotels of a similar market positioning in the UK and HotStats data for hotels operating in London.

8.22 Minor Operated Departments includes the revenue derived from the spa, sale of inhouse movies, internet, telephone, newspapers, etc and is projected at approximately £559,800 for Minor Operating Departments which is predominantly the Spa by the third and stabilised year of operation.

8.23 Rental and other Income is anticipated as being £257,500 by the third and stabilised year of income.

Hotel Expenditure Summary.

8.24 The HMC assessed summary of expenditure is as follows:

The Hotel Management Company Expenditure Summary			
	Year 1	Year 2	Year 3-5
Cost of Sales (Spa)	£21,400	£22,300	£24,100
Direct Payroll Totals	£876,900	£940,600	£965,300
Direct Other Expenses	£822,900	£900,900	£947,200
Payroll and Related	£657,600	£657,600	£657,600
Undistributed Other Expenses	£1,033,800	£1,1,8,000	£1154,700
Management and Property Costs	£652,500	£798,100	£921,400
Total	£4,064,600	£4,437,800	£4,670,400

8.25 There are minor rounding differences and allowing for a leap year in in year 3 between the Iceni appraisals and the proposed totals from HMC as follows:

Iceni Hotel Expenditure Summary				
	Year 1	Year 2	Year 3	Year 4 -5
Cost of Sales (Spa)	£21,337	£22,365	£24,071	£24,071
Direct Payroll Totals	£877,424	£940,573	£967,634	£965,258
Direct Other Expenses	£822,648	£900,919	£949,235	£947,177
Payroll and Related	£658,842	£658,286	£659,132	£657,626
Undistributed Other Expenses	£1,034,382	£1,117,708	£1,154,247	£1,151,611
Management and Property Costs	£652,912	£797,637	£923,551	£921,442
Total	£4,067,544	£4,437,488	£4,677,870	£4,667,185

Summary of Hotel and Spa Performance

8.26 The summary of performance between the HMC report and the Iceni is set out in the table below:

Table 8.5 Hotel and Spa Surplus

EBITDA before Debt Service and Taxation and Rent				
	Year 1	Year 2	Year 3	Year 4 -5
HMC	£2,520,300	£2,822,100	£2,976,700	£2,976,700
Iceni	£2,520,874	£2,820,354	£2,986,451	£2,979,633

Hotel Specific Capex.

8.27 Gardiner and Theobald have set the construction budget for the scheme at Appendix 9. There are some specific expenditure heads which have been identified as being out with the enabling works cost plan and Construction Costs. The two elements total £3,055,000 and are:

- Fixtures and Fittings and Equipment £2,350,000
- Operational Supplied and Equipment £705,000

Capital Values of Hotel and Spa

8.28 The capital value of the Hotel and Spa elements consist of the value of the Capitalised EBITDA after rent and the capitalised value of the rent.

8.29 The sustainable rent for an up-scale hotel is higher than would anticipated for a budget hotel, such a Premier Inn or Travel Lodge, which have similar room sizing requirements, efficient business models through similarity of operations and offer institutionally attractive leases, underwritten by corporate covenant strength.

8.30 The yields for standard budget hotels, at around 4.5%, tend to reflect the strength of the business operation supporting sustainable rents per room as well as a similar trading format allowing potential alternative occupiers to operate from the premises should tenancies be terminated.

8.31 The proposed scheme has more bespoke room sizes however its central London location and the range of significant operators that have operational formats suited to more bespoke or unique buildings styles could generate a reasonable supply of operators.

8.32 With Operating Profit in year 3 being c £60,700 per key and Gross Operating profit projected at £41,500 per key an anticipated rent of £15,000 per room this has been adopted as sustainable. This represents a gross rent of £1,410,000.

8.33 A number of the upscale hotels brands operate unique hotels, recognising the constraints that apply in some locations. The bespoke approach for the proposed scheme to reflect the unique challenges of the building and the policy that governs is use would place the scheme in a bespoke category for most operators. To reflect the non-standard sizing of rooms and configuration a yield of 5.00% has been adopted, generating a gross capital value for the hotel property element of £28,200,000.

8.34 In addition to the capitalised rent the Hotel's business operation has also been considered. Deducting the rent of £1.4million from EBITDA in the HMC report to £1.57 million. On the basis of stabilised income stream being achieved a multiplier of 12.5 – a yield of 8.00% has been used to generate a capital value for the operational business of £19.6 million.

8.35 In aggregate therefore the hotel's capital value has been calculated at £47.82 million.

9. PROPOSED SCHEME - CINEMA

9.1 The proposed scheme comprises a hotel with a spa for guests, a ground floor restaurant, a roof top bar and a 4 screen cinema.

9.2 The cinema will be individually branded, but operated on the principals of "The Light" Cinema Experience (by Cinema Next) – a premium, mainstream cinema, exciting and inclusive, with reclining seats, higher quality descriptor branded food and alcoholic beverages. It is typically a second screening venue, offering better value tickets for the showing of movies that are not quite the latest releases, all set in comfortable surroundings.

9.3 The key assumptions for the Cinema appraisal are set out below:

Cinema Offer/Styling

9.4 The Independent Cinema Office (ICO) Report at Appendix 7 sets out the detailed assumptions that have been used in the Viability Appraisal.

9.5 The proposed cinema will have 4-screens with DCI-compliant Digital Cinema projection and sound, a high level of audience comfort, and a high-quality food and drink offer is proposed.

9.6 The cinema will be promoted with substantially lower admission charges than other London West End cinemas, offering all audiences access to a contemporary, high standard cinema showing a wide range of theatrical film releases.

9.7 There will be an additional concession for Camden residents to ensure that the cinema is as accessible as possible to local people.

9.8 Key Features will include:

- A programme of just off-date titles at universally accessible admission prices (compared to current West End rates)

- A high-quality cinema experience with comfortable modern cinema seats, great sightlines, big screens and digital projection and sound

- Low ticket prices, making the cinemas completely accessible to a wider range of audiences; where elsewhere it is available only at much higher ticket prices and/or via cinemas that operate membership schemes

- Second run titles – providing audiences with only opportunity in central London to catch up on films released 5-8 weeks previously; and providing distributors with a chance to extend the central London presence of their films after the initial play period is completed.

9.9 ICO confirm occupancy rates serve usefully as a general performance benchmark for cinema operators but should not be considered in isolation. There are numerous factors (programming, size of cinemas and whether purpose-designed, ticket pricing) which determine occupancy rate and in some cases, the average size of the audience in numbers is a better gauge of whether a cinema is successful.

9.10 While ICO confirm independent cinemas offering 3-4 screenings daily in each of their 3-5 screens will operate at 22-30% occupancy, ICO have suggested a stabilised average occupancy level of 40% for the proposed cinema.

9.11 ICO confirm that multiplex cinemas, offering 4 daily screens in each of their multiple screens, operating 363 days per year which is equivalent to 99.45% of a 365 day year.

9.12 Total Number of seats:

Number of Seats	
Screen 1	40
Screen 2	46
Screen 3	69
Screen 4	65
Total Number of Seats	220
Number of Screenings	
Early Matinee/Lunchtime Screenings per day	1
Late Matinee Screenings per Day	1
Evening Screenings per Day	2
Number of Screening per day	4
Total Number of Seats Available per day	880

9.13 Based on a 363 day year the total number of seats that can be sold is 319,440.

9.14 Drawn from the ICO report it is assumed that the closure of the building and re launching will require time to grow the offer back to a stabilised income level. The stabilised income level is assessed at 40% of the available seats which is anticipated as being achieved in Year 3.

9.15 The ICO have indicated a week day admission split as follows:

Table 9.1 Admissions Split:

	Monday to Thursday	Friday to Sun	Total
Admissions Split	40%	60%	100%

9.16 The report indicates a programme split as follows during each screening day

Table 9.2 Audience split by performance

Programme Split	
Early Matinee	20%
Late Matinee	10%
Early Evening	30%
Late Evening	40%
Total	100%

9.17 These in turn, based on a 365 day year represent the following daily admissions:

Table 9.3 Admissions per Day

Average Admissions per Day (365 day year)	Year 1	Year 1	Year 2	Year 2	Year 3	Year 3
	Monday to Thursday	Friday to Sunday	Monday to Thursday	Friday to Sunday	Monday to Thursday	Friday to Sunday
Early Matinee	14	21	21	31	28	42
Late Matinee	7	10	10	16	14	21
Early Evening	21	31	31	47	42	63
Late Evening	28	42	42	63	56	84
Totals	70	105	105	157	140	210
Admissions per Day (365 Day Year)		175		262		350

9.18 ICO have assumed that the concession rate to local (London Borough of Camden) residents would be at £1.00 discount to the non-concession rate of £6.50, inclusive of vat, per ticket. It is anticipated that 25% of tickets sold would be at the concession rate of £5.50 inclusive of vat. This give a weighted average ticket price of £6.25 inclusive of vat. Vat is assumed at 20%.

9.19 Total gross (i.e. inclusive of vat) Box Office sales are therefore anticipated as being as follows:

Table 9.4 Box Office Income per annum:

Assumed Gross Box Office income per Year						
	Year 1	Year 1	Year 2	Year 2	Year 3	Year 3
	Monday to Thursday	Friday to Sunday	Monday to Thursday	Friday to Sunday	Monday to Thursday	Friday to Sunday
Early Matinee	£39,930	£59,895	£52,708	£79,061	£63,888	£95,832
Late Matinee	£19,965	£29,948	£26,354	£39,531	£31,944	£47,916
Early Evening	£59,895	£89,843	£79,061	£118,592	£95,832	£143,748
Late Evening	£79,860	£119,790	£105,415	£158,123	£127,776	£191,664
Total Ticket Revenue	£199,650	£299,475	£263,538	£395,307	£319,440	£479,160
Total Ticket Revenue per annum		**£ 499,125**		**£ 658,845**		**£ 798,600**

9.20 Due to slight rounding and timing differences the Iceni the cashflow totals are as follows:

Table 9.5 Gross Box Office Revenue

Box Office Gross Income					
	Year 1	Year 2	Year 3	Year 4	Year 5
ICO Totals	£499,125	£658,845	£798,600	£798,600	£798,600
Iceni Totals	£499,065	£658,845	£800,771	£798,584	£798,584

9.21 The year of sale is assumed to be in year 5, based on three years of stabilised income from year 3 onwards.

Additional Cinema Revenue

9.22 Additional revenue for the cinema operation is generated from Screen Advertising and Private Hire. Kiosk Sales (Food and Beverage) have been separately accounted for.

9.23 The revenue from Screen Advertising will be determined once audience numbers have stabilised. An allowance has been made of £20,000 in Year 1, £30,000 in Year and £44,000 in Year 3 as stabilised Screen income by the ICO.

9.24 Private Hire is anticipated as reaching a stabilised quantum of £30,000 per annum based on an assumed 120 hours of rental at £250.00 per hour in the year.

Cinema Expenditure.

9.25 The ICO report sets out indicative costs and staffing requirements for the cinema and these have been replicated in the appraisal.

9.26 Where expenditure is related to box office sales, which are calculated by actual date related income in Iceni, there are some slight rounding differences which are reflected in the net of vat box office related expenditure, such as Film Hire (38.00% of net Box office receipts) and Performing Rights Society (PRS) levy (1.00% of net box office receipts).

9.27 The ICO anticipate a modest increase in Heating and Lighting as the cinema reaches its stabilised income. Heating and lighting has been anticipated as being £14,400 in Years 1 and 2, increasing to £15,000 in Year 3.

9.28 The current Business Rateable Value on the existing fours screen, 713 seat Odeon Cinema is £101,000, with rates payable of £48,379 per annum. It is anticipated that this will change following the redevelopment. It is noted that the basement and Ground floor Curzon Cinema at 99 Shaftesbury Avenue (3 Screens, 502 seats including café and bar) has a rateable value of £216,000 (assumed Rates Payable of £103,464). On a similar basis the rateable Value for the proposed Rates could be in the order of £40,000. An allowance has been made for rates payable of £18,000 for years 1 and 2, rising to £20,000 per annum from year 3 as an apportionment of the overall rates payable.

9.29 The cinema will have limited street visibility due to the listed nature of the building and therefore the programme and activities of the cinema will require a continuous marketing spend to attract audience numbers. This has been assessed by ICO as

£8,000 per month, £96,000 per annum, however Year 1 marketing, to reflect the launch requirements of a new cinema, has been increased to £120,000.

Cinema Capital Expenditure

9.30 The majority of capital expenditure is contained in the construction cost report written by Gardiner and Theobald per Appendix 9 and as commented on at Section 11. There is cinema specific capital expenditure which is detailed in the ICO report and reflected in the Gardiner and Theobald Cost Plan with an allowance of £412,000 for digital display systems, sound, screens and seating.

Cinema Summary Assumptions

9.31 The Summary below sets out the advice from the Independent Cinema Office consultancy report for the proposed scheme of a 4-screen cinema (220 seats) with hotel, bar, café/ restaurant and licenced auditoria and the comparison to the Iceni Viability Appraisal identifying the effect of rounding:

Table 9.6 Summary of Cinema Income and Expenditure

Proposed Hotel - ICO Shaftesbury Avenue	Year 1	Year 2	Year3	Year 4 & 5
Income	Result (£)	Result (£)	Result (£)	
Cinema box office (gross)	£499,125	£658,844	£798,600	£798,600
Cinema secondary sales (kiosk sales)	Shown in F&B sales	Shown in F&B sales	Shown in F&B sales	Shown in F&B sales
Screen advertising	£40,000	£40,000	£44,000	£44,000
Private hire	£30,000	£30,000	£30,000	£30,000
Total Income	£569,125	£728,844	£872,600	£872,600
Expenditure				
Film Hire @38% of (net) box office	£158,056	£208,634	£252,890	£252,890
PRS @1% of box office	£4,159	£5,490	£6,655	£6,655
VAT on Ticket Sales	£83,188	£109,807	£133,100	£133,100
Projection servicing costs/new lamps	£8,000	£8,000	£8,000	£8,000
Box office operating system licence	£5,000	£5,000	£5,000	£5,000
Heating and Lighting	£14,400	£14,400	£15,000	£15,000
Rates (estimate, apportioned to cinema)	£18,000	£18,000	£20,000	£20,000
Insurance	£6,000	£6,000	£10,000	£10,000
Cinema Managers X 2 (FTE)	£66,000	£66,000	£68,000	£68,000
Cinema staff (X 8 FTE including Employer's NI)	£116,688	£116,688	£120,188	£120,188
Marketing	£120,000	£96,000	£96,000	£96,000
IT	£10,000	£10,000	£10,000	£10,000

Kiosk stock	Shown in F&B sales	Shown in F&B sales	Shown in F&B sales	Shown in F&B sales
Film transport	£3,000	£3,000	£3,000	£3,000
Total Expenditure	£612,491	£667,020	£747,833	£747,833
ICO Totals	-£43,366	£61,824	£124,767	£124,767
Iceni Totals	-£45,430	£59,782	£124,133	£124,703

9.32 Further notes explaining the operational budget can be found at Appendix 7 within the consultancy report completed by ICO.

Cinema Capital Values

9.33 The ICO report does not budget for rents however it is understood that the current passing rent is related to the box office takings, as opposed to total net revenues.

9.34 A rent of £73,950 per annum,10% of revenue, net of vat, has been allowed for as rent.

9.35 The F&B offer, critical to the functioning of any cinema and has been separately accounted for in the Food and Beverage section.

9.36 There is little transactional evidence of recent disposals of cinemas. Where forming part of larger mixed-use leisure scheme or as standalone portfolios yields have been reported of down to 5.25% for a leisure complex including a 14 screen cinema in Nottingham.

9.37 Industry reports cite yields ranging from 4.75% to 5.00%, however for the purposes of this report we have applied a yield of 5.50% to reflect the constraints of the proposed scheme and limited occupier market for the envisaged product.

9.38 The Gross Capital Value of the cinema element from a property perspective is assessed at £1.06 million.

9.39 The rent, if set at £73,950 would represent a significant proportion of the trading surplus or EBITDA, in year 3.

9.40 There is useful evidence of the multiplier that can be applied to cinemas with the acquisition of the Odeon Group by AMC. AMC quoted a multiplier of 9.1 times earnings. This is equivalent of a 10.5% yield on the EBITDA (less rent), i.e £50,800 giving an implied value of £495,300.

9.41 Therefore, in aggregate, the value attributed to both the trading entity and the capitalised rent is £1,8439,829, say £1.84 million.

10. PROPOSED SCHEME – FOOD AND BEVERAGE

10.1 This Viability Report draws on the Ford Consultancy Report at Appendix 6. The proposed food and beverage provision is made up of the elements set out in Table 10.1 below:

Table 10.1

Element	Service Times
Hotel Breakfast	06:30 – 12:00
Hotel Restaurant	12:00 – 23:00
Hotel Room Service	06:30 – 23:00
Rooftop Bar	12:00 – 01:00
Cinema In-Screen Dining	12:00 – 23:00

Food and Beverage Revenue Assumptions

Breakfast F&B

10.2 The breakfast offer is driven significantly by the hotel occupancy, which is proposed with 94 bedrooms. The hotel is anticipated as taking three years to achieve a sustainable, stabilised occupancy level, growing from 75.5% occupancy in year 1 to 83.5% in Year 3. Ford Consultancy advise that an anticipated 60% of hotel guests will breakfast in the hotel.

10.3 Double occupancy rates are derived from The Hotel Management Company Report at Appendix 5 which Ford Consultancy have determined as equating to and average room occupancy of 1.1 persons during the week (Monday to Friday) and 1.7 persons at weekends.

10.4 The proposed breakfast rate is determined as being £16.50 net of vat (£19.80 including vat) based on comparable pricing in the locality.

10.5 Ford Consultancy determined a Year 3 stabilised income for Monday to Friday Breakfasts of £359,619 per annum. This equates to 54.96% of the available rooms purchasing breakfasts.

10.6 Ford have assumed that there will be use growth from Year 1 to Year 3 as the Restaurant becomes established, with stabilised growth in Year 3 and year 1 and 2 representing 90% and 97% of Year 3 trade respectively.

10.7 The breakfast usage factor for year is based on the number of diners as a percentage of the number of bedrooms rooms as follows:

	Years 3 -5 Breakfast Revenue p.a.	Price of Breakfast	Number of Breakfast Dining Guests per annum (202,033/15)	Total Number of available Rooms per annum (94*365)	Number Dining Guests as % of Total Number of available Rooms
Monday to Friday Breakfast	£ 202,033	£16.50	13,469	34,310	39.26%
Week End Breakfast	£ 124,893	£16.50	8,326	34,310	24.27%
Total Breakfast Sales	£326,926				

10.8 Usage factors, which take into account room occupancy, double occupancy and a weighted different between week days and weekends, are as follows:

Breakfast Usage Factor	Year 1	Year 2	Year 3 - 5
Mon – Fri	35.50%	37.89%	39.26%
Sat – Sun	21.94%	23.42%	24.27%

10.9 There are some minor rounding differences between the Ford Consultancy Breakfast totals and the totals in Iceni. For Total Breakfast Revenues are as follows:

Breakfast Total Revenue	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	£325,165	£347,129	£359,619	£326,926
Iceni Totals	£325,176	£347,085	£360,638	£359,653

Restaurant – Lunch F&B

10.10 The Restaurant sales are based on the available covers in the restaurant (95); this would generate a total number of covers of 34,310 per sitting. As with other meal times Ford Consultancy have identified differences between Monday to Friday and Weekend trade patterns, which is reflected in the Viability Appraisal.

10.11 Ford have assumed that there will be use growth from Year 1 to Year 3 as the Restaurant becomes established, with stabilised growth in Year 3 and Year 1 and 2 representing 86% and 92% of year 3 trade respectively.

10.12 Usage Factor, the table occupancy as a percentage of total number of covers per sitting, in the year for the lunch time trade, taking into account table occupancy and the weighted difference between weekdays and weekend is as follows:

Lunch Restaurant Usage Factor	Year 1	Year 2	Year 3 -5
Mon – Fri	40.26%	42.64%	45.62
Sat – Sun	19.20%	20.35%	21.78%

10.13 The assumed spend during the week is £18.33 per diner (£22.00 inc vat) and the assumed spend at the weekend is £27.50 (£33.00 inc vat) at weekends.

10.14 There are minor rounding differences between the Ford Consultancy totals and the Iceni totals as set out below:

Lunch/Early Matinee Total Revenue	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	£438,741	£465,065	£497,620	£497,620
Iceni Totals	£438,592	£464,876	£498,816	£497,453

Restaurant – Afternoon F&B

10.15 Based on 34,310 covers available for the Afternoon Restaurant (95x365) and pricing at £18.33 (£22.00 inc vat) per cover, for both weekday and weekends the assumed usage has been assessed as being:

Afternoon Restaurant Total Revenue	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	361,990	383,709	410,569	410,569
Iceni Totals	361,779	383,453	411,463	410,339

Restaurant – Evening F&B

10.16 Based on 34,310 covers available for the evening meals the assumed usage, drawn from the Ford Consultancy, is as follows:

Evening Restaurant Usage Factor	Year 1	Year 2	Year 3 - 5
Mon – Fri	32.35%	34.46%	36.88%
Sat - Sun	23.19%	24.58%	22.65%

10.17 Based a spend of £27.50 per cover weekdays and £32.08 per cover for the weekends the assessed total evening restaurant spend is as set out below. Minor variations due to rounding re identified.

Evening Restaurant Total Revenue	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	£568,063	£602,147	£644,297	£644,297
Iceni Totals	£567,963	£602,019	£645,993	£644,228

Restaurant Summary

10.18 The Summary revenue from the Breakfast, Lunch, Afternoon and Evening Restaurant activities (and differences to Iceni due to rounding) are as follows:

Restaurant Totals	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	£1,693,959	£1,798,050	£1,912,105	£1,912,105
Iceni Totals	£1,693,511	£1,797,433	£1,916,910	£1,911,672

Room Service F&B

10.19 Room Service revenues have been included by Ford Consultancy in the overall revenue assumptions for the Restaurant.

Rooftop Bar F&B

10.20 The Roof Top Bar makes a significant positive contribution to the F&B revenue. The roof top bar is estimated to have a capacity of 142 people and has trading periods at lunch, afternoon and evening. Total Capacity is therefore 142 people for 365 days – 51,830 people, per trading period.

10.21 Bar expenditure is variable by day and by trading period as follows:

Bar Average Spend Per Head (net)		
Trading period		
Lunch	Mon - Fri	£11.00
	Weekend	£13.75
Afternoon	Mon - Fri	£13.75
	Weekend	£13.75
Evening	Mon - Fri	£16.50
	Weekend	£13.75

10.22 Assumed usage varies between weekday and weekend use with the overall usage as a percentage of total capacity is as follows:

Bar Usage Factor (Capacity 142)					
		Year 1	Year 2	Year 3	Year 4 & 5
Lunch	Mon - Fri	23.80%	25.23%	27.75%	27.75%
	Weekend	16.13%	17.10%	18.29%	18.29%
Afternoon	Mon - Fri	12.77%	13.53%	14.89%	14.89%
	Weekend	8.06%	8.55%	9.23%	9.23%
Evening	Mon - Fri	58.89%	62.43%	68.67%	68.67%
	Weekend	17.81%	18.88%	22.65%	22.65%

10.23 Ford Consultancy has assumed that there will be use growth from Year 1 to Year 3 as the Restaurant becomes established, achieving stabilised growth in Year 3 with Year 1 and 2 representing 77% and 87% of Year 3 trade respectively.

10.24 Total Bar Revenue is estimated as follows:

Bar Revenue Total				
	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	£1,029,678	£1,091,459	£1,209,185	£1,209,185
Iceni Totals	£1,029,569	£1,019,514	£1,212,444	£1,209,132

Cinema F&B

10.25 Cinema attendance as set out in the ICO report at Appendix 7, with the assumptions set out in Section 4, assumes a breakdown in audience numbers between Early Matinee, F&B expenditure for which has been included in Lunch Trading Period, Late Matinee F7B Expenditure has been included in Afternoon Trading Period and two viewings in the evenings which corresponds to the Evening F&B trading period.

10.26 The ICO report also highlights differences between Monday to Thursday Attendance and Friday to Sunday attendance; the anticipated attendance is as set out below:

Ticket Sales Per Screening Period						
	Year 1	Year 1	Year 2	Year 2	Year 3	Year 3
	Monday to Thursday	Friday to Sunday	Monday to Thursday	Friday to Sunday	Monday to Thursday	Friday to Sunday
Early Matinee (Lunch)	9,583	6,389	12,650	8,433	15,333	10,222

Late Matinee (Afternoon)	4,792	3,194	6,325	4,217	7,667	5,111
Early Evening (Evening)	14,375	9,583	18,975	12,650	23,000	15,333
Late Evening (Evening)	19,166	12,778	25,300	16,866	30,666	20,444
Total Tickets Sold		79,860		105,415		127,776

10.27 Estimated spend per cinema visitor is £5.00 inc vat, this is £4.17 net of vat. Based on the number of attendees identified earlier in this report this results in the following anticipated revenue profile:

F&B Cinema Revenue: net of vat						
	Year 1	**Year 1**	**Year 2**	**Year 2**	**Year 3**	**Year 3**
	Monday to Friday	Saturday to Sunday	Monday to Friday	Saturday to Sunday	Monday to Friday	Saturday to Sunday
Early Matinee	£39,930	£26,620	£52,708	£35,138	£63,888	£42,592
Late Matinee	£19,965	£13,310	£26,354	£17,569	£31,944	£21,296
Early Evening	£59,895	£39,930	£79,061	£52,708	£95,832	£63,888
Late Evening	£79,860	£53,240	£105,415	£70,277	£127,776	£85,184
Sub Total	£199,650	£133,100	£263,538	£175,692	£319,440	£212,960
Total Cinema FB Revenue		**£332,750**		**£439,230**		**£532,400**

F&B Trade through the Day

10.28 Total Breakfast Trade, which includes room service but assumes no trade from the Cinema or the Bar, is as set out at xx above

10.29 Total Lunch time trade, including all restaurant, room, cinema and bar sales is assessed by the Ford Consultancy compared to Iceni is as follows:

Lunch/Early Matinee Total Revenue				
	Year 1	**Year 2**	**Year 3**	**Year 4 & 5**
Ford Consultancy Totals	£755,925	£818,583	£892,685	£892,685
Iceni Totals	£756,206	£818,986	£895,609	£893,162

10.30 Total afternoon trade including all restaurant, room, cinema and bar sales is assessed by the Ford Consultancy as follows:

Afternoon Total Revenue				
	Year 1	**Year 2**	**Year 3**	**Year 4 & 5**

Ford Consultancy Totals	£543,729	£585,004	£635,699	£635,699
Iceni Totals	£543,641	£585,009	£637,551	£635,809

10.31 Total Evening Trade including all restaurant, room, cinema and bar sales is assessed by the Ford Consultancy compared to Iceni is as follows:

Evening Total Revenue				
	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	£1,431,568	£1,578,023	£1,765,687	£1,765,687
Iceni Totals	£1,432,908	£1,579,870	£1,772,785	£1,767,942

Summary F&B Revenue Assumptions

10.32 The Total F&B revenue from all sources of is as follows:

Total F & B Revenue				
	Year 1	Year 2	Year 3	Year 4 & 5
Ford Consultancy Totals	£3,056,386	£3,328,739	£3,653,691	£3,653,691
Iceni Totals	£3,057,931	£3,330,951	£3,666,584	£3,656,566

F & B Expenditure assumptions

10.33 The Ford Consultancy Report sets out assumed expenditure costs which are replicated in the Iceni Appraisals.

10.34 The lack of ground floor entrances and windows means that any F&B offer will not benefit from a street-facing presence as a means of attracting and capturing passing trade. This lack of visibility will result in higher marketing costs to promote the venue and a greater reliance on the entertainment elements and hotel residents to populate the F&B spaces.

10.35 Marketing of F&B offers within the hotel would normally fall under the overall business strategy and overhead, but Ford Consultancy have assumed independent PR activity to create specific awareness and drive footfall to the bar and restaurant at an additional cost of £25,000 per annum (PR agency contract) plus sundry costs associated with promotional activities.

10.36 Ford Consultancy note the marketing spend is more in line with the level of cost associated with a concession or licensed F&B offer operating independently within a hotel property.

10.37 There are minor rounding differences where the costs are expressed as a percentage of income. In Summary these are as follows:

Ford Consultancy Summary of Costs (excluding rent)				
	Year 1	Year 2	Year 3	Year 4 & 5
Total Cost of Sales	£794,334	£866,016	£950,220	£950,220
Staff Salaries	£1,173,652	£1,278,236	£1,403,016	£1,403,016
Total Operational Costs	£187,270	£203,067	£221,914	£221,914
Total Fixed Costs	£286,877	£310,436	£338,544	£338,544
Totals	£2,442,134	£2,657,754	£2,913,695	£2,913,695

10.38 Which compares to the Iceni totals as follows:

Iceni Summary of Cost (excluding rent)				
	Year 1	Year 2	Year 3	Year 4 & 5
Total Cost of Sales	£794,754	£866,611	£953,604	£950,999
Staff Salaries	£1,174,246	£1,279,085	£1,407,968	£1,404,121
Total Operational Costs	£187,360	£203,195	£222,662	£222,081
Total Fixed Costs	£287,011	£310,627	£339,659	£338,793
Totals	£2,443,371	£2,659,519	£2,923,894	£2,915,994

10.39 In addition to the expenditure noted above as part of the initial commissioning during the end of construction £42,500 of expenditure has been identified for staff uniforms, tableware as a one off expense.

F & B Summary

10.40 In Summary the EDITDA of the Food and Beverage Offer as advised by Ford Consultancy is as follows:

Ford Consultancy P&L			

	Year 1	Year 2	Year 3	Year 4 & 5
Total Revenue	£3,056,386	£3,328,739	£3,653,688	£3,653,688
Total Costs	-£2,808,900	- £3,057,203	-£3,352,137	-£2,913,695
EBITDA	**£247,487**	**£271,536**	**£301,551**	**£301,551**

10.41 This compares with the Iceni Appraisal totals as follows:

Iceni P&L drawn from Ford Consultancy Inputs				
	Year 1	**Year 2**	**Year 3**	**Year 4 & 5**
Total revenue	£3,057,931	£3,330,951	£3,666,584	£3,656,566
Total Costs	-£2,807,290	-£3,059,233	-£3,363,884	-£3,354,782
EBITDA	**£250,641**	**£271,718**	**£302,700**	**£301,784**

Capital Values F&B

10.42 The based on a rent for the F&B operation across all activities being at 12% of revenue net of vat, the rent rises in line with the revenue. There is an assumed 3 month rent free period to assist with the initial trading.

10.43

11. DEVELOPMENT ASSUMPTIONS

11.1 In addition to the revenue and expenditure assumption set out in sections xx to xx the following Assumptions are also made:

Professional Fees

11.2 The complex nature of the development both in terms of the retention of the existing structure, deconstruction of the existing interior and construction of the new scheme will result in significantly higher consultancy costs to manage the risk of delivery. The retention of the existing external structure will require a more iterative and responsive approach increasing fees. These higher fees will help mitigate increased contingency allowances.

11.3 It would be usual for professional fees for a cleared site to be in the order of 10% to 12% of construction costs. These tend to be higher for central London development, where constrained sites tend to require more complex solutions.

11.4 The allowance for fees for this significantly more complex and constrained site are set out below. Overall these fees total £3,373,307 and represents a total of 16.75% of Construction Costs.

Professional Fees	% of Construction/ £ Budget
Architect	4.00%
Heritage	0.10%
Ecologist	0.05%
Interior Design	0.25%
Daylight/Sunlight	0.15%
Construction Drawings	0.50%
Sustainability	0.15%
Quantity Surveyor	1.75%
Structural Engineer	2.00%
Mech/Elec Engineer	0.50%
Project Manager	2.00%
C.D Manager	0.50%
Planning	0.50%
Utilities	0.15%
Transport	0.10%
Viability	0.10%
Air Quality	0.10%
Engagement and Consultation	0.10%
Planning Lawyers	0.25%
Marketing	1.50%
Sales Agency	1.50%
Sales Legal	0.50%

Build Costs

11.5 Build Costs have been determined by Gardiner and Theobald with additional inputs and dialogue with the hotel, cinema and F&B sector specialists who reports are contained in appendices to this report.

11.6 The constrained location restricted site and listed nature of the building, will generate additional costs in management and execution of the works. The initial enabling phase is going to be a process of deconstruction in the first instance before new structure can be introduced.

11.7 In summary the build costs are as set out below:

Table 11.1 Enabling Works

Enabling Works Costs	Sub-Total
Enabling Works Nett Trade	£9,360,000
Enabling Works Preliminaries (18.0%)	£1,690,000
Enabling Works OHP (15.0%)	£1,660,000
Enabling Works Design (5%)	£640,000
Enabling Works Construction (5%)	£640,000
Enabling Works Costs	**£14,020,000**

Table 11.2 Construction Works

Construction Works Costs	Sub-Total
Shell and Core Nett Trade	£13,808,000
Fit Out Nett Trade	£11,136,000
Construction Works Preliminaries (16.5%)	£4,120,000
Construction OHP (6%)	£1,750,000
Design Contingency (5%)	£4,800
Construction Contingency (5%)	£14,400
Construction Works Costs	**£33,984,00**

Table 11.3 Fixtures Fittings & Equipment/Operating Supplies & Equipment

FF&E/OSE	Sub-Total
Hotel	£3,055,000
Cinema	£412,000
Other (Infrastructure Upgrade)	£300,000
FF&E /OSE	**£3,767,000**

11.8 These elements sum to construction costs of £51,771,000. And are set out in detail in the Gardiner and Theobald Report at Appendix 9.

Borrowing and Funding Rates

11.9 It is assumed that site acquisition and the development is funded through borrowing and the opportunity cost of equity. The cost of borrowing is determined by risk for the capital.

11.10 The development is an usual project, given the status of the building and mixture of uses proposed and the development is likely to be placed as a higher risk than some other newbuild developments, which in turn will lead to higher interest rates and is likely to attract a highly bespoke funding package.

11.11 At this juncture a borrowing rate of 6.25% has been utilised with a presumed inclusion of arrangement, utilisation, non-utilisation, redemption and monitoring fees.

11.12 However it would not be unsurprising if for the complexity and nature of this project that once funders have bid, rates sought by lenders may be higher.

11.13 For a project of this nature it would not be unusual to a have a structured funding solution that relies on significant equity as well as senior debt and potentially mezzanine finance.

12. YIELD ASSUMPTIONS

12.1 Recent yields alongside agency reports have been considered using both comparable second hand and new sales evidence within the nearby area.

12.2 When giving regard to available data there were few hotel-led mixed-use investment sales. There are 2 comparable schemes which have been outlined below.

12.3 Data is however scarce, we have therefore included yield data and applied it to the different elements of the proposed scheme. Please see table 12.1 below which outlines the two comparable sales.

Table 12.1

Property Address	Date	Price	Yield	Comment
South Place Hotel, Liverpool Street	April-17	£41m	4.20%	Hotel is operated by D&D, includes Michelin starred Angler restaurant, South Place Chop House and the Secret Garden, Event space, Spa and Gym.
W Hotel, Leicester Square	Sept-11	£200m	3.64%	192 room Hotel run by Starwood Hotels, restaurant and bars, a 35,000-square foot M&M's store (Mars Retail Group) and 11 apartments. The hotel includes two 40sqm meetings rooms
Average			**3.92%**	

Source: Property Week/ EGi/ Iceni Research 2017

12.4 The W Hotel was the former Swiss Centre in Leicester Square. the 10-storey property opened in February 2011, launched sale in March 2011 and sold in September 2011. The hotel was bought by a Qatari Sovereign Wealth Fund from Northern Irish developer McAleer & Rushe and is situated in a hugely popular tourist destination. The hotel is a trophy asset for the Fund and there was significant yield tightening to reflect that.

12.5 The 80 room South Place Hotel opened in 2012 and so had a good history of occupational data for prospective buyers. The property was sold to Hong Kong listed investor Tian An China by Frogmore. Being situated between Moorgate and Liverpool Street and the hotel is aimed at international business rather than tourism. The high-end boutique hotel property is a similar size to the proposed development, small than the W hotel cited above. The property is also set to benefit from the new Crossrail Station at Liverpool Street, due to open in 2018/2019. Marc Nelson, a director in CBRE Hotels commented that the sale "demonstrates the sustained interest from international buyers to London as well as the significant appetite from long-dated fixed income investments in the hotel sector." (CBRE, 2017)

Hotel

12.6 Look above we can see there are a good demand and supply balance within the hotel sector. JLL note within their Hotel Intelligence Report in Q3 2017 that hotel investment volumes in London reached nearly £1.9 billion in the first eight months of 2017, up an impressive 117% compared to same period last year. The uplift was largely driven by the £575m sale of the 496-room JW Marriott Grosvenor House London. Nevertheless, the market was still up 50% if we exclude this deal.

12.7 JLL also suggest a strong and varied buyer base as "London continues to attract investors' interest, both domestically and from abroad. North American investor was the largest buyer group, taking up 36% of deal volumes, mainly driven by the Grosvenor House sale. British buyers accounted for 35% of London hotel investment, followed by European buyers, at 18%." (JLL, 2017)

12.8 In terms of outlook, several agents agree that the UK remains an attractive global destination. The softening of the pound, together with the strength of both U.S and Eurozone economics, have attracted more tourists to the city, this was reflected through the positive uplift in both RevPAR and international tourists from November 2016 onwards. This trend is expected to carry on to next year. The latest PwC forecast predicted a RevPAR uplift in both 2017 and 2018, supported mostly by average rate.

12.9 Please see table 12.2 below outlining agency prime hotel yield forecasts we have gathered.

Table 12.2

Agency	Report Title	Prime Hotel Yield
JLL	Capital Markets Report H1 2017	4.50%
Knight Frank	Specialist Sector Report 2017	3.50%
Savills	UK Hotel Investment Q4 2016 Report	4.25 – 4.75% (Fixed lease with strong covenant)
Average		**4.17%**

Source: Agency Reports/Iceni Research 2017

12.10 Being labelled "prime" we understand these yields reflect well known assets with secure or proven income streams, with this in mind we have loosen the hotel yield applied to the capital stream to 4.50%. This reflects the greater risk inherent in the Shaftesbury Avenue asset, the location and mixed use nature of the asset.

Leisure

12.11 According to Savills, consumer spending on leisure services grew by 7.8% in 2016. Despite economic headwinds and Brexit fears, this is forecast to continue to grow at 4% per annum over the next 5 years (Savills, Q1 2017). Accordingly, investors are increasingly enthusiastic about the sectors secure-income characteristics.

12.12 According to the latest Family Expenditure Survey, the typical household now spends 22% of its weekly outgoings on leisure, compared to 14% on housing. This is however unlikely to continue, as the outlook for household incomes and spending is weakening due to inflation rises.

12.13 Investment agent reports produce the following yield forecasts:

Table 12.3

Agency	Report Title	Prime Leisure Yield
Knight Frank	Yield Guide July 2017	5%
Savills	Spotlight UK Commercial Leisure Q1 2017	5%
Average		**5%**

Source: Agency Reports/Iceni Research 2017

12.14 These yields have been confirmed by comparables sales within Zone 1 or similar type attractive locations, please see table 12.4 below outlining comparable high-end restaurant and fitness sales.

Table 12.4

Property Address	Date	Price	Yield	Comment
Kinnaird House, Pall Mall	Feb-16	£85m	3.95%	The six-storey building was redeveloped in 2001 and provides 61,500 sq. ft. of offices and 10,000 sq. ft. of restaurant space. The office space is let to McKinsey & Co until March 2018 and the restaurant is let to Out of Africa Investments until September 2037.
Bene't Street, Cambridge	On Market	£5.6m	5.50%	Fully let to Ask Restaurants, which will trade it as a Zizzi, and Cau, the "affordable" steak format of Gaucho Holdings. Both tenants have 25-year leases. Bidwells are selling agents
2 St Anne's Court, Soho	Dec-14	£8.25m	3.50%	The 5,560-sq. ft. restaurant was recently let to Burger & Lobster Restaurant Group on a 25-year lease with no breaks and is trading as seafood restaurant Rex and Mariano
35 Chiswell Street, City of London	Dec-17	£17.6m	4.50%	Multi-let to eight tenants, with reversionary potential. The1990 property had recently been refurbished and provides 17,285 sq. ft. of office, healthcare and gym accommodation arranged over basement, lower ground, ground and five upper floors.
David Lloyd Leisure, Newbury	Sept-17	£14.85m	4.13%	The sale and leaseback purchase, David Lloyd has agreed a new 30-year lease subject to annual RPI linked rent reviews. Opened in December 2015, the purpose-built health club totals 59,000 sq. ft. and is located on a 4.5-acre site. Facilities include indoor and outdoor tennis courts, squash courts, indoor and outdoor swimming pools, spa facilities, a fitness centre, members' lounge and kids club, a café/restaurant and 180 parking spaces.

Virgin Active, Wandsworth	Mar-17	£12.95m	5%	The property is single let to Virgin Active with about 20 years unexpired and benefits from an RPI-linked rent review in 2021. Located in a three-storey building totalling 40,192 sq. ft., the Virgin Active gym comprises two floors of gym and fitness class facilities and a 25m heated swimming pool, as well as a steam room and sauna.
Average			**4.43%**	

Source: EGi /Iceni Research 2017

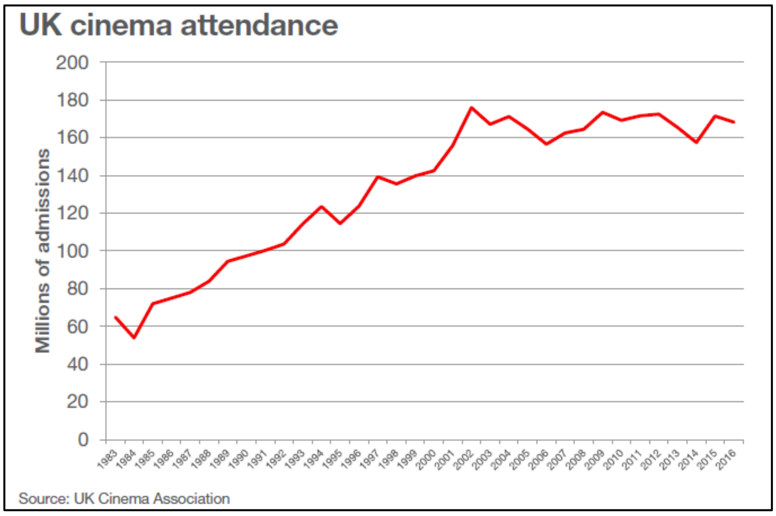
12.15 Looking to the transactions above, The Virgin Active gym at Wandsworth hold a long and secure income stream to a nationally recognised covenant. This will have tightened the yield as well as the wealth of facilities. This security is balanced by a poorer location being further from Central London than the subject site.

12.16 The proposed gym provision, albeit exclusive, will have less facilities and be entirely underground but will in within Zone 1 and hold a transitory but regular catchment from the hotel. Considering this we would expect the gym to have a tighter yield.

12.17 A yield of 5% has been applied to the restaurant and 4.5% to the spa facilities in line with the agent forecasts and comparable evidence, adjusting for location, situation and scale.

Cinema

12.18 According to Savills, Cinema attendance in the UK fell by 2% in 2016 to 168 million visits. However, they expect to see further growth amongst boutique cinemas. The graph below outlines UK cinema attendance with data from the UK Cinema Association, this shows that 2016 visits are broadly in line with the average annual level of the last 15 years.



12.19 The graph above shows that cinema operators are generally in good health, having been through the massive cap ex of digitalisation and being less exposed to rising costs and consumer restraint seen in other leisure areas.

12.20 Cushman and Wakefield in their UK cinema market briefing report in April 2017 outline the localisation of cinema. They note:

"While multiplex cinemas without doubt have a long and lasting place, consumers broadly now see two ways of visiting the cinema. They may want to see the latest Bond film on a huge IMAX screen but for a more intimate occasion they want something more local, more personable and more intimate." (Cushman & Wakefield, 2017)

12.21 So increased segmentation is likely and we would expect therefore yields to be focused by niche investors and be considered a more emerging market.

12.22 Considering the above and with the lack of yield data for specific cinema transactions, a yield of 5% has been applied in line with Savills forecasting for leisure investments.

Conclusion

12.23 Table 12.5 below sets out the separate yields being applied to the elements of the proposed development:

Table 12.5

Element	Yield Applied
Hotel / Spa	4.50%
Restaurant	5.00%
Cinema	5.00%

13. CONCLUSION

13.1 The scheme is complex because of the nature of the building and constraint that are placed on its potential economic uses. These in turn determine the development that may be deliverable in it.

13.2 It would be usual for a developer to seek a 17.5% return on costs for a project of this nature. With a zero land cost this would require a return of in the order of £13.7 million.

13.3 With a Benchmark Land Value of £6 million the scheme would need to generate in excess of £15.7 million before it was able to support contributions to section 106 obligations over and above the LB Camden CIL and Mayoral CIL which is accounted for in the project.

13.4 This project produces a deficit as follows:

Development Summary	Sub-Total
Net Development Value (Property)	£60,468,918
Net Operational Income prior to Sale (Operational)	£9,007,552
Operating Revenue	£9,184,608
Net Income	**£78,661,078**
Land Value	£0
Gross Construction Costs	-£83,966,489
Development Deficit	**-£5,305,410**

13.5 A deficit of this nature would usually generate a capital contribution from a source not requiring a commercial return, such a grant making body, to support the investment.

A1. GLOSSARY

Extracts from policy and guidance

Gross Development Value

On an individual development, detailed assessment of Gross Development Value is required. On housing schemes, this will comprise the assessment of the total sales and/or capitalised rental income from the development. Grant and other external sources of funding should be considered. Wherever possible, specific evidence from comparable developments should be used after adjustment to take into account types of land use, form of property, scale, location, rents and yields. For housing, historic information about delivery rates can be informative.

Revision date: 06 03 2014

Planning Practice Guidance Paragraph: 022 Reference ID: 10-022-20140306

Costs

Assessment of costs should be based on robust evidence which is reflective of market conditions. All development costs should be taken into account including:

- build costs based on appropriate data, for example that of the Building Cost Information Service;
- abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or historic costs associated with brownfield, phased or complex sites;
- infrastructure costs, which might include roads, sustainable drainage systems, and other green infrastructure, connection to utilities and decentralised energy and provision of social and cultural infrastructure;
- cumulative policy costs and planning obligations. The full cost of planning standards, policies and obligations will need to be taken into account, including the cost of the Community Infrastructure Levy.
- finance costs including those incurred through loans;
- professional, project management and sales and legal costs.

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Land Value

Central to the consideration of viability is the assessment of land or site value. Land or site value will be an important input into the assessment. The most appropriate way to assess land or site value will vary from case to case but there are common principles which should be reflected.

In all cases, land or site value should:

- reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;
- provide a competitive return to willing developers and land owners (including equity resulting from those wanting to build their own homes); and
- be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.

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Planning Practice Guidance Paragraph: 024 Reference ID: 10-024-20140306

Market Value

A1.1 Market Value assumes the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion

A1.2 It ignores any price distortions caused by special value or synergistic value. It represents the price that would most likely be achievable for an asset across a wide range of circumstances. Market rent applies similar criteria for estimating a recurring payment rather than a capital sum.

A1.3 In applying market value, regard must also be had to the conceptual framework set out in IVS Framework paragraphs 30–34 Market Value, which includes the requirement that the valuation amount reflects the actual market state and circumstances as of the effective valuation date.

A1.4 Notwithstanding the disregard of special value (see definition in IVS Framework paragraphs 43–46 Special Value), where the price offered by prospective buyers generally in the market would reflect an expectation of a change in the circumstances of the asset in the future, the impact of that expectation is reflected in market value. Examples of where the expectation of additional value being created or obtained in the future may have an impact on the market value include:

- the prospect of development where there is no current permission for that development and •
- the prospect of synergistic value (see definition in IVS Framework paragraph 47) arising from merger with another property or asset, or interests within the same property or asset, at a future date.

A1.5 Development Viability: National Planning Policy guidance which states:

> "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."
>
> Planning Practice Guidance Paragraph: 016 Reference ID: 10-016-20140306 (Revision date: 06 03 2014

Competitive return to developers and land owners

Viability should consider "competitive returns to a willing landowner and willing developer to enable the development to be deliverable." This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.

A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.

The National Planning Policy Framework, 2012

A2. LOCATION PLAN

A3. SCHEME AREA SCHEDULE

A4. SCHEME DESIGN PLANS

A5. HMC CONSULTANCY REPORT

A6. FORD CONSULTANCY REPORT

A7. ICO CONSULTANCY REPORT

A8. BUILDING CONDITION REPORT

A9. GARDINER AND THEOBALD BUILD COST REPORT

A10. APPRAISAL SUMMARY