
FINANCIAL VIABILITY ASSESSMENT – EXECUTIVE SUMMARY

Network Building, 95-100 Tottenham Court Road & 76-80, 88 Whitfield Street and 14-19 Tottenham Mews

November 2020

Introduction

1. This is an Executive Summary of the Financial Viability Assessment which has been prepared on behalf of Derwent Valley Property Developments Limited and Central London Commercial Estates Limited (the “Applicant”) in respect of the redevelopment of the Network Building at 95-100 Tottenham Court Road & 76-80, 88 Whitfield Street, and the site at 14-19 Tottenham Mews (collectively “the Development”).
2. The Financial Viability Assessment has been submitted in support of an outline planning application in respect of the Network Building and a detailed application in respect of the Tottenham Mews site. For further details please refer to the Planning Statement submitted by DP9.
3. The purpose of the Financial Viability Assessment is to test the level and nature of affordable housing and additional financial obligations, including Section 106 obligations and payments required by the Council, which can be supported by the Development without impeding the viability of the project and the chances of delivery.
4. The Financial Viability Assessment has been prepared in accordance with local, regional and national planning policy as well as best practice guidance. This includes guidance on viability matters within the Planning Practice Guidance, the Greater London Authority’s Affordable Housing and Viability SPG and the Royal Institution of Chartered Surveyors Guidance Note, Financial Viability in Planning.
5. DS2 can confirm that the Financial Viability Assessment has been prepared on an objective and impartial basis and that there are no conflicts of interest in accordance with the RICS Professional Statement Conflicts of Interest, 1st Edition, that came into effect on 1st January 2018.
6. The Financial Viability Assessment follows an earlier version which was submitted at the pre-application stage, and which was subsequently reviewed by the London Borough of Camden’s independent viability consultants. The conclusions of the Council’s review was that the scheme at that time was providing in excess of the maximum reasonable amount of affordable housing.

Site location & context

7. The subject properties occupy two separate sites within the Fitzrovia area of Central London. The Network Building application site occupies the southern half of the block bounded by Tottenham Court Road on the east, Whitfield Street to the west and Howland Street to the south.
8. Network Building is a multi-let, mixed use, building, comprising office and retail accommodation. To the rear of the main office and retail building, are seven residential apartments, which are accessed from Whitfield Street. The Network Building site extends to 0.22 ha.

9. Tottenham Mews is located within circa 400m from the Network Building in a mews location off Tottenham Street. The site comprises a temporary prefabricated building dating from the 1970s, which is located on the western side of Tottenham Mews and which was previously used as a mental health day centre. The building is currently vacant and is soon to be demolished. The Tottenham Mews site extends to 532 sq m.

Proposals

Network Building

10. The Applicant is seeking outline planning permission to provide a new office led, mixed use building, providing ground floor reception area, office accommodation, A1/A3 retail (flexible uses) and ancillary, back of house (BOH) and plant. The application description of development is as follows:

“Demolition of the existing building and construction of a new building to provide for a maximum of 17275 sqm (GIA) of E class use floorspace along with details of access, scale and landscaping and other works incidental to the application (layout and appearance reserved).”

11. The following table sets out the maximum areas proposed under the outline application which have been tested as part of the Financial Viability Assessment:

Use	Area (sq m)		
	NIA	GIA	GEA
Office (Class E (g))	12,293	17,275	19,415
Retail (Class E (a & b))	458	521	586
TOTAL	12,751	17,796	20,001

14-19 Tottenham Mews

12. The Applicant is seeking detailed planning permission for the residential-led redevelopment of the site. The residential homes are to be arranged over ground and five upper storeys and will be provided as 100% affordable housing. The scheme will also include offices, to be provided as Affordable Workspace at basement and ground floor.

13. The application description of development is as follows:

“Erection of a ground plus five storey building (plus one basement level) to provide office (e class) at part ground and basement level and residential dwellings (C3) at ground and floors one to five and associated landscaping, cycling parking and all necessary enabling works.”

14. The following table sets out the areas proposed under the detailed application:

Use	Area (sq m)		
	NIA	GIA	GEA
Residential (Class C3)	1,733	2,339	2,671
Office (Class E (g))	270	375	456
TOTAL	2,003	2,714	3,127

15. A range of unit sizes is proposed. The unit mix for each tenure responds to the Council’s housing needs priorities and comments from the Registered Providers. The full unit mix is set out below

Unit type	Tenure	
	Social Rent	Intermediate Rent
1 bed 1 person	-	2
1 bed 2 person	-	3
2 bed 3 person	-	4
2 bed 4 person	6	4
3 bed 5 person	4	-
TOTAL	10	13

Methodology

16. The methodology adopted to assess viability is to consider the value the land which is subject to the relevant planning application. The most common method for valuing development land for the purposes of a planning viability assessment is the Residual Valuation Method. In short, the Residual Valuation Method assesses the gross value of the completed development, including, amongst others, the aggregated value of any residential properties, commercial income, car parking income and ground rents. Secondly, the cost of building the development is deducted along with professional fees, finance costs and an allowance for development return. What remains (the ‘residue’) is the Residual Land value. This land value is then compared to a Benchmark Land Value.
17. The Benchmark Land Value is thus an integral part of a viability assessment. National, regional and local planning guidance require Benchmark Land Value to be assessed on an Existing Use Value basis; the value of the site(s) in its current planning use, or on an Alternative Use Value basis; the value of the land in another use other than the existing use, but where such uses would fully comply with development plan policies.
18. Simply, if the Residual Land Value produced by a scheme is lower than the Benchmark Land Value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development, unless the level of affordable housing and /or planning obligations can be reduced. If the Residual Land Value is higher than the benchmark then the scheme can, in theory, provide additional affordable housing and /or other planning obligations.
19. Alternatively, the Benchmark Land Value can be inserted as a fixed land cost within the scheme appraisal and the level of development return/ profit becomes the basis by which viability is measured. If the level of development return exceeds an industry agreed benchmark level, then the scheme is deemed to be viable. This is the approach adopted within the Financial Viability Assessment.
20. A part Existing Use Value, part Alternative Use Value approach to Benchmark Land Value, in accordance with both national and the Mayor’s guidance, has been adopted for the purposes of this Financial Viability Assessment. This is based upon the value of the existing office, residential and retail at the Network Building, and the value of a new, alternative medical use building at Tottenham Mews.

21. The target level of development return is based upon a blended approach whereby different risk-adjusted rates of return are applied to different components of the Development. In this instance a rate of 15% on Gross Development Value (“GDV”) has been adopted for any commercial uses (e.g. office, retail), and a lower figure of 6% on GDV for any affordable housing. Combined this equates to a blended target rate of return of 14.84%.
22. ARGUS Developer has been used to demonstrate the project’s financial viability. This is commercially available and widely used development appraisal software. It is considered appropriate to assess a development of this type because of its ability to accurately model development timings and cash flows. The use of ARGUS Developer is widely accepted by local authorities, including the London Borough of Camden.

Financial summary

23. The appraisal assumptions used in the Financial Viability Assessment are summarised below

Input	Amount
GROSS DEVELOPMENT VALUE	
Offices (Network Building)	£251,052,000
Retail (Network Building)	£14,715,000
Affordable housing (Tottenham Mews)	£4,713,000
Affordable workspace (Tottenham Mews)	£968,000
	£271,447,000
<i>Less</i>	
Purchasers costs	-£18,138,000
<i>Equals</i>	
Net Development Value	£253,309,000
LAND COSTS	
Land (Existing Use Value/ Alternative Use Value)	-£92,807,000
Stamp duty	-£4,619,000
Acquisition costs (agents, legals)	-£1,392,000
	-£98,818,000
DEVELOPMENT COSTS	
Construction costs	-£80,371,000
Contingency	-£4,019,000
Professional fees	-£9,645,000
Community Infrastructure Levy & S.106 contributions	-£4,047,000
Marketing, letting, agency & third-party costs	-£8,911,000
Finance costs	-£35,050,000
	-£142,043,000
PROFIT	
Net Development Value	£253,309,000
Total costs	-£240,860,000
Profit	£12,449,000
Profit as % of GDV	4.6%

24. The results of the Financial Viability Assessment demonstrate that the overall level of return of 4.6% falls below the target rate of return of 14.84%. In turn this demonstrates that the Development cannot viably support the delivery of any additional affordable housing over the current provision of 23 homes, providing in excess of the maximum reasonable amount of affordable housing.