FINANCIAL VIABILITY ASSESSMENT

330 Gray’s Inn Road, London

On behalf of:

330 Gray’s Inn Road Ltd

Date: February 2023

Prepared by: Alex Brown MRICS MRTPI
Sarah Bolitho MRICS

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RICS MANDATORY REQUIREMENTS

Requirement	**This assessment has been produced having regard to and abiding to the requirements of RICS Professional Statement Financial viability in planning: conduct and reporting (1st edition 2019).**
Impartiality	In preparing this viability assessment, we confirm that we have acted with reasonableness, impartiality and without interference. We have also complied with the requirements of PS2 Ethics, competency, objectivity, and disclosures in the RICS Valuation – Global Standards 2020 in connection with valuation reports.
Terms & Conflicts	This document sets out our terms of engagement for undertaking this viability assessment. We declare that to the best of our knowledge there is no conflict of interest (paragraph 1.1 of the Conflict-of-Interest Professional Statement of January 2018), Other than, if necessary, where stated in the report, circumstances which fall under Informed Consent (as per the Conflict-of-Interest Professional Statement).
Fee	We confirm that our fee basis for undertaking this viability assessment is neither performance related nor involves contingent fees.
Commercial Sensitivity	We confirm that this viability assessment has been prepared in the full knowledge that it may be made public at some point in the future. Where we believe there to be commercially sensitive information that we have relied upon to arrive at our opinion, we have stated so in our report. We request that permission is sought by the instructing/applicant prior to being made public to ensure commercially sensitive or personal information does not infringe upon other statutory regulatory requirements.
Area Wide	We confirm that we have not undertaken an area-wide viability assessment concerning existing and future policies against which the scheme will in due course be considered. We have confirmed with the instructing party that no conflict exists in undertaking the viability assessment. Should this position change, we will immediately notify the parties involved. We understand that if any of the parties identified in this report consider there to be a conflict that we would immediately stand down from the instruction.
Evidence	Throughout this viability assessment we have set out a full justification of the evidence and have also supported our opinions where they differ from the Council's advisor with a reasoned justification. We note in due course the emphasis within the RICS Professional Statement on conduct and reporting in Financial Viability in Planning the need to see to resolve differences of opinion wherever possible.
BLV	In determining Benchmark Land Value (if required), we have followed NPG (Viability) (2019), setting out this in detail within the Benchmark Land Value section.
Purpose	We make a clear distinction in our report between preparation/review of a viability assessment and subsequent negotiations. Such negotiations may be identified as part of an addendum documents and may relate to S106 agreements.
Sensitivity Analysis	Sensitivity analysis and accompanying explanation and interpretation of the results is undertaken for the purposes of a viability assessment. This enables the reader to consider the impact on the result of changes to key variables in the appraisal having regard to the risk and return of the proposed scheme.
Transparency	We confirm that we advocate for transparent and appropriate engagement between the Applicant and Council's viability advisors.
Summary	This report includes a non-technical summary at its commencement which includes all key figures and issues relating to the assessment.
Reporting	We confirm this report has been formally reviewed and signed off by the individuals who have carried out the assessment and confirm that this FVA [as above] has been prepared in accordance with the need for objectivity, impartiality and without interference. Subject to the completion of any discussion and resolution or note of differences, we will be retained to then subsequently advise upon and negotiate the Section 106 Agreement.
Contributions	All contributors to this report have been considered competent and are aware of the RICS requirements, and as such understand they must comply with the mandatory requirements.
Time	We were provided an adequate time to produce this report, proportionate to the scale of the project and its degree of complexity.

SIGN OFF

This report has been prepared by Sarah Bolitho MRICS and reviewed by Alex Brown MRICS MRTPI and Alexander Vaughan-Jones MRICS.

S Bolitho

Sarah Bolitho MRICS
Associate

For and on behalf of Gerald Eve LLP

Alex Brown MRICS MRTPI
Partner

For and on behalf of Gerald Eve LLP

Alexander Vaughan-Jones MRICS
Partner

For and on behalf of Gerald Eve LLP

NOTE: This report has been produced in accordance with National Planning Policy Framework (2021) and Planning Policy Guidance (as amended). Gerald Eve LLP can confirm that the report has been produced by suitably qualified Practitioners of the Royal Institution of the Chartered Surveyors (RICS) and that the report has been produced in accordance with RICS Practitioner guidance on viability in planning matters.

The contents of this report are specific to the circumstance of the Proposed Scheme and date of publication; and it together with any further information supplied shall not be copied, reproduced, or distributed to any third parties for any purpose other than determining the application for which it is intended. Furthermore, the information is being supplied to the client on the express understanding that it shall be used only to assist in the financial assessment in relation to the Application. The information contained within this report is believed to be correct as at the date of publication, but Gerald Eve LLP give notice that:

I. all statements contained within this report are made without acceptance of any liability in negligence or otherwise by Gerald Eve LLP. The information contained in this report has not been independently verified by Gerald Eve LLP.
II. none of the statements contained within this report are to be relied upon as statements or representations of fact or warranty whatsoever without referring to Gerald Eve LLP in the first instance and taking appropriate legal advice.
III. references to national and local government legislation and regulations should be verified with Gerald Eve LLP and legal opinion sought as appropriate.
IV. Gerald Eve LLP does not accept any liability, nor should any of the statements or representations be relied upon, in respect of intending lenders or otherwise providing or raising finance to which this report as a whole or in part may be referred to.
V. Any estimates of values or similar, other than specifically referred to otherwise, are subject to and for the purposes of discussion and are therefore only draft and excluded from the provisions of the RICS Valuation – Professional Standards 2020; and
VI. Information in this report should not be relied upon or used as evidence in relation to other viability assessments without the agreement of Gerald Eve LLP.

CONTENTS

EXECUTIVE SUMMARY (NON-TECHNICAL)

Instruction	1.	Gerald Eve LLP ('GE') has been instructed to undertake a Financial Viability Assessment **('FVA')** on behalf of 330 Gray's Inn Road Limited **('the Applicant') f**or planning purposes, in connection with a planning application at 330 Gray's Inn Road, London **('the Site')**. GE's instructions are to undertake an objective, impartial viability assessment of the development proposals to enable discussions and justify the maximum reasonable level of planning contributions that can be anticipated by the Council.
NPPF (2021)	2.	This FVA has regard to whether the viability evidence underpinning the plan is up to date, and any changes in site circumstances since the plan was adopted. The FVA reflects the recommended approach set out in National Planning guidance ('**NPG'**) (**2019**), including the standardised inputs set out in Paragraph 58 of the National Planning Policy Framework.
NPG (2019)	3.	This report has considered **NPG (2019)**, with reference to all relevant planning policy applicable to the Site at the date of writing. The report adheres to the RICS Guidance note Financial Viability in Planning (2021) (the **'RICS GN'**) and the RICS Professional Statement on Conduct and Reporting in viability that supports the RICS GN (the '**RICS Professional Statement**').
Site	4.	The Site currently comprises the former Royal National Throat, Nose and Ear Hospital (RNTNE Hospital), offering c. 139,000 sq ft of medical accommodation across 0.53 hectares. The Site is currently vacant with the RNTNE Hospital having relocated to a purpose-built premises in Huntley Street, WC1.
Consented Scheme	5.	In July 2022, planning permission was granted for a scheme comprising 100,537 sq ft NIA of flexible lab-enabled office accommodation, a 182-room hotel, 72 residential units within two blocks (54,853 sq ft NIA) including 28 affordable units and a gym (12,370 sq ft NIA).
	6.	GE prepared an FVA for the Consented Scheme, which was reviewed by BPS on behalf of the Council. It was concluded that the Scheme could not support any additional affordable housing or S106 contributions over and above the level proposed.
Proposed Scheme	7.	The Applicant is submitting a new planning application for a revised Scheme that includes: • 114,640 sq ft NIA of office accommodation (part of which is flexible / lab-enabled); • 2,937 sq ft NIA of permanent affordable workspace; • 10,374 sq ft of temporary affordable workspace (provided on a meanwhile basis); • A 182-room hotel totalling 89,639 sq ft GIA; • 72 residential units within two blocks totalling 54,885 sq ft NIA (including 28 affordable housing units); and • 24,546 sq ft NIA of laboratory space.
	8.	A key objective is to incorporate the UCL Ear Institute into the proposals during the construction period of the Scheme, which will enable the Site to come forward for development.
	9.	In this regard, the Applicant and UCL have agreed that the Ear Institute will temporarily occupy 24,546 sq ft of laboratory space over the ground and basement floors of residential Block B during the construction period, at nil rent, after which it will return to its original premises. In addition, the Applicant has agreed to fit out the UCL accommodation on a turnkey basis as well as paying UCL £1.4 million for both the decant and recant (£2.8 million in total, index linked).
	10.	The Proposed Scheme also includes 2,937 sq ft of Affordable Workspace, to be located within the retained building on the Site, fronting Gray's Inn Road. The Scheme also proposes to utilise the existing ward

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		buildings during the construction period to provide further affordable workspace, on a meanwhile use basis, totalling 10,374 sq ft (NIA).
	11.	The Proposed Scheme maintains the same number of affordable housing units agreed under the Consented Scheme, i.e. 28 affordable units. The affordable housing measures 29,706 sq ft GIA, reflecting approximately 43% on a gross floorspace basis and 50% by habitable room.
	12.	A summary of proposed changes is set out in Section 1.10.
Planning Policy	13.	The proposals trigger LBC Local Plan policy H2, which promotes the provision of residential development as part of mixed-use schemes. Given the quantum of commercial accommodation proposed at the Site, there is a requirement to seek the provision of 50% of the additional floorspace as self-contained housing. Due to the constrained nature of the Site and certain bulk, scale, and massing restrictions applicable to the residential blocks, it is not possible in this instance to provide all of this requirement on site.
	14.	Our appraisal allows for 43% affordable housing by GIA (50% by habitable room), with a policy compliant tenure split (i.e. 61.7% social rent and 38.3% intermediate).
	15.	As a result of the shortfall in residential accommodation on site having regard to LBC (Mixed Use) Policy H2 and the shortfall in affordable housing on site regarding Policy H4, the residential payment in lieu (PIL) requirement totals £6,001,500[1].
Approach	16.	The purpose of a Viability assessment is to determine a site or scheme's financial viability by considering whether the value generated from development is greater than the cost of developing. The assessment should include a review of key elements including the gross development value, costs, land value, landowner premium, and developer return. As set out in the RICS viability guidance (2021), the primary role of FVAs for planning purposes is to determine the profit output of a scheme while allowing for a BLV. This profit output is then compared to a target rate of return. As such, developer contributions can be assessed against the BLV.
	17.	If the scheme return exceeds the target rate of return, the financial surplus represents the potential additional S106 financial contributions that the Proposed Scheme can viably support. However, if the FVA determines a financial deficit, this indicates that the proposals cannot viably deliver any further contributions over and those already allowed for in the FVA.
Standardised Inputs	18.	In undertaking this FVA, GE has considered the planning documents and cost reports provided by the Applicant. Our financial analysis has been undertaken in accordance with the standardised approach set out in viability guidance.
	19.	Where appropriate, in accordance with NPG, the report applies standardised inputs with additional consideration of the Site and proposed development's specific conditions. Standardised evidence denotes inputs derived from primary, secondary, or tertiary data sources, including evidence from other relevant viability assessments in the Borough and the wider London area. These inputs are set out in the summary of inputs tables overleaf.
GDV	20.	The total GDV of the Proposed Scheme GDV is estimated to be approximately £329 million.

[1] Payment of this contribution is subject to viability – the conclusions of this report indicate that the Proposed Scheme cannot afford this contribution on viability grounds.

Cost	21.	The total construction costs for the Proposed Scheme are estimated at approximately £179 million, excluding contingency and professional fees.
Benchmark Land Value (BLV)	22.	GE has tested the Scheme against a BLV of £19.4 million, reflecting the BLV agreed between GE and the Council's advisers, BPS, in 2021. The BLV is the value of the Site in its existing use, on a refurbished basis, and therefore comprises an alternative use value (AUV).
Premium	23.	No premium has been added as the BLV in this instance is inclusive of the premium.
Planning Obligations	24.	GE has tested the Proposed Scheme having regard to a notional (estimated) planning contributions package including: • CIL: £6,291,458; and • S106: £2,918,277.
Return	25.	In accordance with NPG, the FVA includes a return to the developer accounting for the risk of undertaking the development. We have tested the proposals against a target rate of return reflective of 17.5% on GDV for the private residential element, 6.0% on GDV for the affordable housing and 15% for the commercial elements. Based on the GDV mix of the Scheme, this equates to a blended return of 15.2% on GDV, or £50.8 million in monetary terms.
Viability	26.	Based upon the analysis undertaken and having regard to the BLV and profit allowances set out above, GE's Proposed Scheme appraisal results in return of 2.7% profit on GDV, or £8.7 million in monetary terms. This return reflects a financial deficit of **-£42.1 million** against the target of £50.8 million (15.2% profit on GDV). GE therefore concludes that the Scheme is not viable based on this analysis, as the Scheme return is below the target rate of return. Therefore, the proposed planning contributions package including CIL of £6,291,458 and S106 contributions of £2,918,277 represents the maximum reasonable level to be anticipated by the Council. Further contributions, including the residential PIL, cannot be justified based upon viability.
Sensitivity Testing	27.	The FVA includes sensitivity testing on the following bases: 1. Variations in build costs; 2. Variations in commercial rents; 3. Variations in interest rate.
Deliverability	28.	Based upon the sensitivity analysis undertaken, the Proposed Scheme is potentially capable being viable. GE concludes therefore that the Proposed Scheme is deliverable.
FVA	29.	This FVA should not be considered a financial certainty. It is an assessment of the Scheme having regard to the best available evidence at the time of this report.
Commercial Sensitivity	30.	It is anticipated that this report will be published and contains no confidential information which has not been reasonably identified and addressed (aggregated) to enable the report to be shared publicly.
	31.	GE considers that all inputs into the appraisal are reasonably justified. GE has clearly set out supporting evidence and reasonable justification for all inputs considered. Furthermore, we have undertaken appropriate sensitivity analyses to demonstrate the impact of variance.

SUMMARY OF INPUTS

RESIDENTIAL UNIT BREAKDOWN

Use		Source
Residential Units – Block A	28	Allford Hall Monaghan Morris Ltd
Residential Units – Block B	44	Allford Hall Monaghan Morris Ltd
Total	**72**	

PROPOSED SCHEME AREAS (SQ FT)

Use	GIA sq ft	NIA sq ft	Source
Residential Area – Block A	34,258	24,251	Allford Hall Monaghan Morris Ltd
Residential Area – Block B	45,947	30,634	Allford Hall Monaghan Morris Ltd
Hotel	89,639	50,221	Allford Hall Monaghan Morris Ltd
Retained Building (Affordable Workspace)	5,962	2,937	Allford Hall Monaghan Morris Ltd
Office[2]	166,180	114,640	Allford Hall Monaghan Morris Ltd
UCL Ear Institute	42,459	24,546	Allford Hall Monaghan Morris Ltd
Total	**384,445**	**247,229**	

PROPOSED SCHEME REVENUE SUMMARY

Use	Assumptions	Source
Private Residential Values	£1,272 psf (blended)	Savills
Affordable Residential Values	London Affordable Rent: £100 psf Intermediate Rent: £240 psf	Gerald Eve
Hotel Value	£475k per key	Savills
Office Rent[2]	£74.50 psf (blended)	Cushman & Wakefield
Office Yield	4.50% - 4.75%	Cushman & Wakefield
Office Rent Free Period	12 – 24 months	Cushman & Wakefield
Affordable Workspace Rent	£30.00 psf	Cushman & Wakefield
Affordable Workspace Yield	5.25%	Cushman & Wakefield
UCL Ear Institute Rent	£68.28 (blended)	Cushman & Wakefield
UCL Ear Institute Yield	4.65% - 5.00%	Cushman & Wakefield

[2] Including former Gym space and excluding affordable workspace

COST INPUTS

Cost	Input
Construction (Including demolition and enabling works)	£179,454,449
Contingency	5%
Professional fees	12%
Letting Agent Fee	10%
Letting Legal Fee	5%
Marketing/Sales Agents/Legal	2.5%
Commercial Disposal	1.5%
Finance	8.5%
Purchasers' Costs	6.8%
UCL Decant/Recant	£2,800,000
Benchmark Land Value	£19,400,000

NOTIONAL PLANNING OBLIGATIONS

Planning Obligation	Input
Borough CIL	£2,722,412
MCIL2	£3,569,046
S106	£2,918,277
Mixed Use Payment in Lieu (PIL)*	£6,001,500

**PIL not included in the scheme appraisal as it cannot viably support this contribution in addition to the other planning obligations.*

PROGRAMME

Period	Start	End	Duration
Pre-Construction	Feb 23	Oct 23	36 weeks
Demolition & Basement Construction	Nov 23	Dec 24	66 weeks
Construct Office & Residential Buildings	Dec 24	Nov 26	100 weeks
Construct Hotel Building	Feb 27	Dec 29	150 weeks

RESULTS – PROPOSED SCHEME

Output	£
Target Rate of Return	15.2% profit on GDV
Scheme Return	2.7% profit on GDV
Surplus/Deficit	-12.5% profit on GDV / -£42.1 million

1. INTRODUCTION

Introduction	1.1.	This section sets out the important factors and requirements of undertaking an FVA and the purpose of the report.
Instructions	1.2.	Gerald Eve LLP **('GE')** has been instructed to undertake a Financial Viability Assessment **('FVA')** on behalf of 330 Gray's Inn Road Ltd **('the Applicant')** for planning purposes, in connection with a planning application at the former Royal National Throat, Nose and Ear Hospital, 330 Gray's Inn Road, London **('the Site')**. GE's instructions are to undertake an objective, impartial viability assessment of the development proposals to enable discussions with the Council and provide justification of the maximum reasonable level of planning contributions that the Council can anticipate.
Relevant Guidance and Policy	1.3.	This FVA has been prepared with regard to the NPPF (2021); National Planning Guidance ("NPG"); the Mayor's Affordable Housing and Viability SPG (August 2017); LBC's Local Plan (2017); LBC's CPG2 Housing (2019); the London Plan (adopted March 2021); the RICS Guidance Note: Financial Viability in Planning 2012 ("the RICS GN"), the RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2021 for England (July 2021), conduct and reporting Practice Statement 2019 ("the RICS PS"); and generally accepted principles of undertaking (site specific) FVAs.
NPG (2019)	1.4.	The purpose of this FVA is to determine the maximum reasonable level of S106 contributions (including affordable housing) that can be provided having regard to viability. To achieve this, the residual land value ('RLV') of the proposed scheme must be determined and compared to the benchmark land value ('BLV'). Alternatively, the profit output of the Scheme can be compared against a target rate of return.
	1.5.	If the Proposed Scheme return exceeds the target rate of return, the surplus will represent potential additional S106 financial contributions that the Proposed Scheme could viably support. If the Proposed Scheme return is at a deficit to the BLV, this would indicate that the proposal cannot viably deliver any further contribution to those allowed for in the FVA.
Structure	1.6.	This report includes the following sections: • Introduction • Requirement for an FVA and Viability Guidance • Site Background and Planning Context • The Proposed Scheme • Gross Development Value • Costs and Programme • Planning Obligations (Notional) • Return to the Developer • Benchmark Land Value • Scheme Appraisal • Sensitivity Analysis • Concluding Statement
Site	1.7.	The Site currently comprises the former Royal National Throat, Nose and Ear Hospital (RNTNE Hospital), offering c. 139,000 sq ft of medical accommodation across 0.53 hectares. The Site is currently vacant with the RNTNE Hospital having relocated to a purpose-built premises in Huntley Street, WC1.
Consented Scheme	1.8.	Planning permission was granted in July 2022 for the following development: *Redevelopment of the former Royal National Throat, Nose and Ear Hospital site, comprising: Retention of 330 Gray's Inn Road and a two storey extension above for use as hotel (5 above ground storeys in total), demolition of all other buildings, the erection of a part 13 part 9 storey building plus upper and lower ground floors (maximum height of 15 storeys) for use as a hotel (including a cafe and restaurant); covered courtyard; external terraces; erection of a 7 storey building plus upper and lower ground floors (maximum height of 9 storeys) for use as office together with terraces; erection of a 10 storey building plus upper and lower ground floors (maximum height of 12 storeys) for use as residential on Wicklow Street and office space at lower ground and basement floors; erection of a 5 storey building plus upper and lower ground floors (maximum height of 7 storeys) for use as residential on Swinton Street and associated residential*

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		amenity space; together with a gymnasium; new basement; rooftop and basement plant; servicing; cycle storage and facilities; refuse storage; landscaping and other ancillary and associated works.
	1.9.	GE prepared an FVA for the Consented Scheme, which was reviewed by BPS on behalf of the Council. It was concluded that the Scheme could not support any additional affordable housing or S106 contributions over and above the level proposed.
Description of Development	1.10.	The Applicant is submitting a new planning application for the following: *"Variation of Condition 2, 18, 31, 41 and 54 of planning permission ref 202/553/P for the 'Redevelopment of the former Royal National Throat, Nose and Ear Hospital site, comprising: Retention of 330 Gray's Inn Road and a two storey extension above for use as hotel (5 above ground storeys in total), demolition of all other buildings, the erection of a part 13 part 9 storey building plus upper and lower ground floors (maximum height of 15 storeys) for use as a hotel (including a cafe and restaurant); covered courtyard; external terraces; erection of a 7 storey building plus upper and lower ground floors (maximum height of 9 storeys) for use as office together with terraces; erection of a 10 storey building plus upper and lower ground floors (maximum height of 12 storeys) for use as residential on Wicklow Street and office space at lower ground and basement floors; erection of a 5 storey building plus upper and lower ground floors (maximum height of 7 storeys) for use as residential on Swinton Street and associated residential amenity space; together with a gymnasium; new basement; rooftop and basement plant; servicing; cycle storage and facilities; refuse storage; landscaping and other ancillary and associated works.' NAMELY to enable amendments to the approved drawings list to enable an uplift in office/labs floorspace, a reduction in affordable workspace, amendments to the landscape design of the residential garden, a revised entrances on Wicklow Street, a revised arrangement to the loading bay on Wicklow Street, reconfiguration at basement level of the office/labs building, and increased cycle parking provision, and additional basement level, reconfiguration of the roof level plant and enclosures, the addition of flues in addition to other associated works."*
Proposed Scheme Changes	1.11.	Proposed scheme changes and their respective areas are listed below: • 114,640 sq ft NIA of office accommodation (part of which is flexible / lab-enabled); • 2,937 sq ft NIA of permanent affordable workspace; • 10,374 sq ft of temporary affordable workspace provided on a meanwhile use basis; • A 182-room hotel totalling 89,639 sq ft GIA; • 72 residential units within two blocks totalling 54,885 sq ft NIA (including 28 affordable housing units); and • 24,546 sq ft NIA of laboratory space.
	1.12.	A key objective is to incorporate the UCL Ear Institute into the proposals during the construction period of the Scheme, which will enable the Site to come forward for development.
	1.13.	In this regard, the Applicant and UCL have agreed that the Ear Institute will temporarily occupy 24,546 sq ft of laboratory space to be constructed over the ground and basement floors of residential Block B, during the construction period, at nil rent, after which it will return to its original premises. In addition, the Applicant has agreed to fit out the UCL accommodation on a turnkey basis as well as paying UCL £1.4 million for both the decant and recant (£2.8 million in total, index linked).
	1.14.	The residential element of the Scheme remains unchanged, providing 72 residential units across two blocks. The affordable housing element has been maintained from the previous design, with Block A providing all affordable units and Block B providing all private tenure units.

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	1.15.	The Scheme proposes a reduction of c. 13,300 sq ft of hotel space from the Consented Scheme. However, the area reduction will primarily impact back of house and support facilities. Therefore, the hotel still proposes 182 rooms across ground and 13 upper floors.
Conflict of Interest Declaration	1.16.	We declare that to the best of our knowledge there is no conflict of interest (paragraph 1.1 of the Conflict-of-Interest Professional Statement of January 2018); and that our fee basis for undertaking this viability assessment is neither performance related nor involves contingent fees.
Area-wide Assessment	1.17.	We confirm that we have not undertaken an area-wide viability assessment concerning existing and future policies against which the Scheme will in due course be considered. We note that the LBC Local Plan evidence base dates from 2015/16. We have had reference to this evidence base during the drafting of this FVA.
Information Reliance	1.18.	We have not undertaken a measurement of the Applicant's planning application drawings and have relied upon the information provided by the Applicant and associated planning documentation. Whilst we have relied on the information that has been provided, we have also had regard to our own market knowledge, research and experience.
Transparency and confidentiality	1.19.	We confirm that this viability assessment has been prepared with full knowledge that it may be potentially made publicly available. Where we are of the view that there is information, which is commercially sensitive, that we have relied upon in arriving at our opinion, we have stated so in our report. We request that permission is sought from the Applicant prior to this being made public to ensure commercially sensitive or personal information does not infringe other statutory regulatory requirements.
Timeframe	1.20.	GE confirms that it has had enough time to complete this instruction.
Professional Judgment	1.21.	As outlined in the RICS GN, in undertaking this exercise, GE is formulating an appropriate judgement based upon information provided by the Applicant as to the viability of the Scheme and the maximum reasonable level of Affordable Housing the Scheme can afford in terms of planning obligations.
Economic Climate and Influencing Factors	1.22.	This report has been prepared as of February 2023 in the context of the prevailing economic climate, reflecting the proposed development in the current market. Should these circumstances change, it may be necessary to revise and update the financial appraisal inputs and outturns prior to the application being determined by the Council.
Supporting Information	1.23.	We note that the Applicant has instructed the following consultants to provide information applied within the FVA: • Gerald Eve – Financial Viability and Planning consultants; • Savills – Private residential sales and hotel value; • Cushman and Wakefield – offices and laboratory values; • Turner and Townsend – construction costs and build programme; and • AHMM – Architects.
Viability Model	1.24.	A financial appraisal has been compiled using an industry standard licensed Argus development appraisal to assess the viability of the Scheme. While this report considers current day costs and values, sensitivities have been made for purposes of the financial modelling and resultant conclusions. These are explained further within the report and results are provided via a present-day appraisal.
Sensitivity	1.25.	A risk analysis has been provided to test the sensitivity and robustness of the scheme return (output) having regard to changes in inputs. This is in accordance with RICS Guidance Viability in Planning (2021) and normal practice when undertaking financial viability assessments in respect of schemes of this nature about scale and programme.

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2. REQUIREMENT FOR THE FVA AND VIABILITY GUIDANCE

Introduction	2.1.	This section addresses the need to undertake an FVA in accordance with the National Planning Policy Framework.
Relevant Guidance and Policy	2.2.	This report has been prepared having regard to the NPPF (2019); National Planning Guidance ('NPG'); LBC's Local Plan (2017); the RICS Guidance Note: Financial Viability in Planning 2012 ('the RICS GN'), the RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019 for England (July 2021), the RICS conduct and reporting Practice Statement 2019 ("the RICS PS"); and generally accepted principles of undertaking (site specific) FVAs.
Viability Guidance	2.3.	Viability in planning has its locus in the National Planning Policy Framework (NPPF) originally published in March 2012 and revised in 2021 which sets out the Government's planning policies for England and how these are expected to be applied. The NPPF recognises the place of viability testing, in both plan-making and decision-making.
NPPF Paragraph 58	2.4.	Paragraph 58 of the National Planning Policy Framework states: *Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable.* *<u>It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.</u>* *The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force.* *All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance [NPG], including standardised inputs, and should be made publicly available.*
Reasons for an FVA	2.5.	NPG (paragraph 007) set out examples of circumstances where a site-specific viability assessment may be necessary. For example, where development is proposed on unallocated sites of a wholly different type to those used in the viability assessment that informed the plan, where further information on infrastructure or site costs is require, where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people), or where a recession or similar significant economic changes have occurred since the plan was brought into force.
FVA Justification	2.6.	An FVA is required to address: a) Whether the Proposed Scheme can financially afford the mixed-use/residential payment in lieu arising under LBC Policy H2; and b) The 7% shortfall in affordable housing in the Proposed Scheme (on a gross floorspace basis) having regard to LBC Policy H4.
	2.7.	Furthermore, the LBC Local Plan includes a 'Financial Viability Study' produced by BNP Paribas Real Estate in 2015 and an Addendum as published in 2016. An FVA is therefore required due to significant economic changes that have occurred since the publication of the Local Plan viability evidence base.
NPPF	2.8.	Further guidance relating to interpreting the NPPF is set out within Planning Practice Guidance and more specifically National Planning Guidance (NPG) regarding Viability (2019). Viability is further referenced in planning obligations (PPG 2016) and indicates that planning viability assessments are recommended to reflect NPG in determining the appropriate planning obligations. Paragraph 10 of the NPG sets out an approach to standardised assumptions which should be tested against a Benchmark Land Value.

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2.9. The NPG indicates that viability assessments are to be undertaken by suitably qualified practitioners. The Royal Institution of Chartered Surveyors (RICS) has published practitioner guidance in 2012 and 2021 regarding viability assessments in planning. This guidance helps provide further structure for practitioners to meet the NPG expectations.

2.10 Furthermore, the RICS also produced a Professional Statement (September 2019) which indicates the mandatory guidance for qualified practitioners when undertaking viability in planning, regardless of whether acting on submission or review.

3. SITE BACKGROUND AND PLANNING CONTEXT

Introduction	3.1.	This section provides background information about the subject site, including geography and use.
Location	3.2.	The Site is within the London Borough of Camden (LBC), located on the east side of Gray's Inn Road. Wicklow Street is to the north and Swinton Street is to the south.
	3.3.	The surrounding area is mixed-use in nature including a variety of commercial uses, hotels, residential properties, and educational facilities.
Conservation Area	3.4.	The Site is located within the King's Cross St Pancras Conservation Area.
Listing Status	3.5.	There are no Statutory Listed Buildings or Structures on the Site, though the King's Cross Conservation Area Statement (2003) identifies 330 Gray's Inn Road, the Nurses' Home and the ground floor of the buildings at the rear to the Royal National Throat Nose and Ear Hospital (Wicklow Street) as 'positive contributors' to the conservation area.

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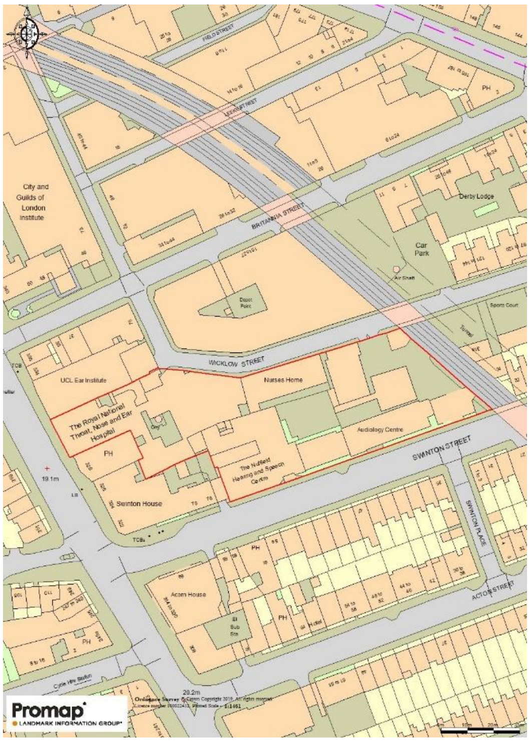
Location map (1:50,000).



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Site plan.

Connectivity	3.6.	The Site benefits from a Public Transport Accessibility Level (PTAL) rating of 6b; London's highest accessibility rating. Kings Cross and St Pancras Mainline and Underground Stations within 0.4 miles northwest of the site. In addition, Euston, Angel and Russell Square stations are within walking distance, providing regular services on the Underground via the Northern and Piccadilly lines.
	3.7.	The Site is located on the A501 London inner ring road, providing direct road access to major arterial routes leading out of London.

Existing Use	3.8.	The Site has existing use as an Outpatient Hospital (Use Class E). The Site was previously occupied by the Royal National Throat, Nose and Ear Hospital (RNTE Hospital) with the existing buildings varying in height and age. The hospital closed in October 2019 when services transferred to the new Royal National ENT and Eastman Dental Hospitals on Huntley Street, London, WC1E 6DG. The existing accommodation extends to c.139,000 sq ft, with various medical buildings dating from the 1870s to the 1980s.
	3.9.	There are several buildings occupying the Site which are associated with the former hospital use. The original RNTNE Hospital fronting Gray's Inn Road dates to c. 1875. This building comprises a basement and three upper storeys. We are not aware of any statutory or locally listed buildings on the Site.
	3.10.	In addition to the RNTNE Hospital, various other buildings occupy the Site, with varying construction dates. These include the RNTNE main building, outpatients building, nurses' accommodation building, workshops, the Nuffield Hearing and Speech Centre, an Audiology Centre, a library and lab accommodation.
	3.11.	Overall, the accommodation comprises 10 blocks with sizes ranging from 336 sq ft (GIA) to 36,436 sq ft (GIA). Further information on the layout of the existing buildings can be found in the Townscape and Heritage Assessment accompanying the planning application.
Planning Policy and Related Matters	3.12.	Local Plan Policy H2 promotes the provision of residential development in mixed-use schemes where non-residential land uses are proposed. For developments in the Central London Area providing over 200 sq m (GIA) of additional floorspace, the Council seeks to provide 50% of the additional floorspace as self-contained housing. The Council requires this provision to be implemented onsite, particularly where proposals involve 1,000 sq m (GIA) of additional floorspace or more. Where the Council is satisfied that providing on-site housing is not practical, or where housing would be more appropriately be provided off-site, the Council will seek provision of housing on an alternative site nearby, or a payment-in-lieu in certain exceptions.
	3.13.	LBC Local Plan Policy H4 includes a strategic target of 50% affordable housing by floor area. Whilst the Proposed Scheme includes 50% affordable housing by habitable room, this equates to approximately 43% on a gross floorspace basis. Further details on planning policy are provided at **Appendix 1**.
Site Specific Planning	3.14.	The Site is also subject to a draft site allocation, in accordance with Policy IDS15. Proposals for the Site will be considered having regard to Policy IDS14, as well as any other relevant policies in the Site Allocations Local Plan. The Site has potential to provide a range of uses given its large size and central location, thereby adding to the surrounding area's vibrancy by supporting the local knowledge economy and associated industries.
	3.15.	Policy IDS15 states that the Site is allocated for a mixed-use development including offices, permanent self-contained homes and other uses related to the knowledge and innovation economy.
Summary	3.16.	The NPPF clearly favours sustainable development. Local planning authorities should take account of this when determining planning applications.
	3.17.	It is important that the approach taken to providing affordable housing and scheme viability does not compromise development deliverability.

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4. PROPOSED SCHEME

Introduction

4.1. This section addresses the proposed Scheme's design with reference to the proposed use, mix of uses and quantum.

The Scheme

4.2. As outlined in the previous section, the Proposed Scheme comprises of the following:

- 72 residential units within two blocks. Block A provides 24,251 sq ft (NIA) over ground to fifth floors. Block B provides 30,634 sq ft (NIA) of residential space over the ground to tenth floor;
- Hotel accommodation totalling 50,221 sq ft (NIA) providing 182 rooms;
- Office/laboratory-enabled accommodation, suitable for 'Knowledge Quarter' occupiers, totalling 114,640 sq ft (NIA);
- Permanent affordable workspace totalling 2,937 sq ft (NIA) located on the first to fourth floors of the (retained) hotel building;
- Temporary affordable workspace provided in the Ward building, on a meanwhile use basis, totalling 10,374 sq ft (NIA);
- UCL laboratory accommodation in the basement of Residential Block B comprising 24,546 sq ft (NIA).

Summary of Proposed Uses

4.3. The Proposed Scheme includes the following uses:

- Office Use (Class E)
- Hotel Use (Class C1)
- Residential (Class C3)
- Restaurant / Café (Class E)

We note that the Restaurant / Café (Class E) is to be located within the Hotel. Furthermore, floors B1 and B2 were designated as gym space in the Consented Scheme under Class E. While this area still falls under Use Class E allowing gym use, we have assumed office use in our updated appraisal.

Accommodation Schedule

4.4. A breakdown of the proposed residential and commercial accommodation is provided in the tables below. These areas have been adopted in our appraisal and coincide with the accommodation breakdown document submitted alongside the planning application. A full accommodation schedule for the Proposed Scheme can be found at **Appendix 2**.

Private Residential

4.5. As per the Consented Scheme, the Proposed Scheme includes 72 residential units, split between a combination of private sale and affordable housing.

The Proposed Scheme provides a 10 storey building plus upper and lower ground floors (maximum height of 12 storeys) for use as residential on Wicklow Street and office space at lower ground and basement floors and erection of a five storey building plus upper and lower ground floors (maximum height of seven storeys) for use as residential on Swinton Street and associated residential amenity space.

The private residential units will occupy the entirety of Block B, comprising 44 units. The residential breakdown is summarised in the table below:

4.6. **Table 1: Proposed Private Residential Accommodation – Block B**

Unit Type	Average Size (sq ft)	% Mix	No. Units
Studio	467	36%	16
1B2P	610	25%	11
2B4P	933	34%	15
3B6P	1,232	5%	2
Total	**811**	**100%**	**44**

Affordable Housing

4.7. The affordable housing component comprises 28 residential units occupying the entirety of Block A. This represents 50% by habitable rooms and 43% of the total residential provision within the Proposed Scheme on a gross floorspace basis. The unit mix for Block A is as follows:

4.8. **Table 2: Proposed Affordable Residential Accommodation – Block A**

Unit Type	Average Size (sq ft)	% Mix	No. Units
1B2P	561	29%	8
2B3P	710	4%	1
2B4P	814	29%	8
2B4P (Duplex)	1,012	4%	1
3B5P	947	7%	2
3B5P (Duplex)	1,191	18%	5
3B6P	1,184	7%	2
3B6P (Duplex)	1,412	4%	1
Total	**979**	**100%**	**28**

Commercial

4.9. The Proposed Scheme includes 192,854 sq ft (NIA) of commercial space (excluding the Affordable Workspace to be provided on a meanwhile use basis). The proposed uses include hotel, affordable workspace, office, and laboratory accommodation.

Hotel

4.10. The proposed hotel building will include a part 13 part 9 storey building with three basement levels. The hotel will provide 182 rooms across the ground and upper floors with average bedroom sizes ranging from c. 19-22 sq m. The hotel is intended to comprise upscale/upper upscale lifestyle accommodation including a café and restaurant.

Notably, the upper floors of the front building forming part of the hotel will be offered as affordable workspace. The design illustrates that the hotel space will be set back from the Affordable Workspace, providing a distinct use separation across the development.

The Proposed Scheme includes a reduction of c. 13,300 sq ft of hotel accommodation from the Consented Scheme. However, the area reduction will primarily impact the back of house and support facilities with no change to the room quantity.

4.11. Table 3 below summarises the proposed floor area of the hotel floor space in the Proposed Scheme.

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Table 3: Hotel Provision in the Proposed Scheme

Use	GIA (sq ft)	NIA (sq ft)
Hotel	89,639	50,221

Source: AHMM

Affordable Workspace

4.12. The Consented Scheme included approximately 5,000 sq ft of affordable workspace on the ground floor of residential Block B. As the Proposed Scheme has been redesigned to accommodate the UCL Ear Institute across the ground and two basement floors of residential Block B, the design has sought an alternative location for the affordable space.

4.13. Under the Proposed Scheme, the affordable workspace will now be in a separate area comprising ground and three upper floors connected to the hotel building fronting Gray's Inn Road, referred to as the 'Retained Building'. The Scheme also proposes additional affordable workspace on a meanwhile use basis during the construction period in the existing Ward Building totalling 10,375 sq ft.

4.14. The table below summarises the proposed floor area of the affordable workspace in the Proposed Scheme.

Table 4: Affordable Workspace

Use	GIA (sq ft)	NIA (sq ft)
Permanent Affordable Workspace (Retained Building)	5,962	2,937
Temporary Affordable Workspace (Meanwhile Use)	13,832	10,375
Total	**19,758**	**13,312**

Source: AHMM

Offices

4.15. As per the Consented Scheme, the Proposed Scheme seeks to deliver a seven-storey building plus upper and lower ground floors (maximum height of nine storeys) for use as office together with terraces. The building is intended to feature a variety of flexible workspaces suitable for 'knowledge quarter' occupiers from a range of sectors.

4.16. The Consented Scheme offered flexible, lab-enabled office space over the second and third floors, with gym space across two basement levels.

The Proposed Scheme includes office space across floors ground to seven. Furthermore, the former gym accommodation from the Consented Scheme is now proposed to provide further flexible lab enabled office space across two basement floors.

4.17. The table below summarises the proposed floor area of the office accommodation in the Proposed Scheme.

Table 5: Office Accommodation

Use	GIA (sq ft)	NIA (sq ft)
Office	166,180	114,640

Source: AHMM

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UCL Laboratory Space

4.18. The Proposed Scheme is designed to accommodate adjoining occupier, UCL, who will be temporarily 'decanted' during the construction period into purpose-built laboratory accommodation over the ground and two basement levels beneath residential Block B, as shown in the table below:

Table 6: UCL Accommodation

Use	GIA (sq ft)	NIA (sq ft)
UCL Ear Institute Laboratory	42,459	24,546

Source: AHMM

5. GROSS DEVELOPMENT VALUE

Introduction

5.1. The following section identifies the Gross Development Value of the Scheme, in accordance with the NPG (2019) paragraphs 10 and 11.

5.2. Gross Development Value is an assessment of the value of proposed development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development a broad assessment of value in line with industry practice may be necessary.

5.3. Market research has been carried out by specialist consultants to assess the revenue assumptions for the following elements of the Proposed Scheme:

- Residential (private and affordable);
- Hotel;
- Offices;
- Laboratory; and
- Affordable workspace.

Private Residential GDV

5.4. As per the previous FVA (2020), the Applicant has instructed Savills to provide a market report setting out the private residential value assumptions, including capital values and anticipated sales rates for the Proposed Scheme. Accordingly, Savills have provided their opinion of pricing for the residential units in Block B, which are proposed as private tenure. Savills's market report is attached in **Appendix 3**.

5.5. Savills have priced the private residential element of the Proposed Scheme at a total GDV of **£38,977,500**, equating to £1,272 per sq ft NIA. Savills consider several comparable schemes in the local area that have recently completed or are currently on the market to reach their pricing conclusions.

5.6. Savills have accounted for the individual floor positions, aspects, and views of each block in their pricing. As the scheme is still at the initial stage of design, they have assumed all floor layouts are optimised and all units have access to private amenity space.

5.7. Savills have also made the following assumptions in arriving at their residential values:

- A long leasehold interest with a minimum of 250 years unexpired.
- A high-quality internal specification and quality of finish in accordance with market expectations.
- Optimised internal layouts in accordance with market expectations.
- Reasonable ground rents and service charges, commensurate with the services provided and the price point.

5.8. A summary of Savills' residential pricing is set out in Table 7 below.

5.9. **Table 7: Summary of Private Residential Sales Pricing**

Unit Type	Av Area Sq./ft.	Unit Mix	No. Units	Av Price	Av £/psf
Studio	467	36%	16	£650,000	£1,392
1B2P	610	25%	11	£764,545	£1,254
2B4P	933	34%	15	£1,114,500	£1,195
3B6P	1232	5%	2	£1,725,000	£1,400
Total/Average	**696**	**100%**	**44**	**£885,852**	**£1,272**

Source: Savills

Private Residential Sales Rate

5.10 It was previously agreed that approximately 50% of the scheme would be sold off-plan, with an average sales rate of 4-5 units per month sold post-completion.

Savills now anticipate approximately 60% of the scheme being sold off plan assuming a sales launch 18 months prior to completion, with an average residential unit sale rate of 3-4 units per month post completion. Savills anticipate an average sales rate of 3-4 units per month given the development's scale and current market conditions. However, they expect peaks and troughs over the sales period, with a significantly higher quantity of sales at launch and over the periods directly before and after the scheme's completion.

We have assumed Savills' latest disposal assumptions in our appraisal.

Affordable Housing GDV

5.11 GE's affordable housing team has reviewed the value assessment of the proposed affordable units, which was agreed with BPS for the Consented Scheme. The Proposed Scheme makes no changes to the affordable housing units in terms of quantum or mix. As per the Consented Scheme, the units on the ground and upper ground floors are to be provided as Social-Affordable, with all remaining units allocated as intermediate.

5.12 As per the Consented Scheme, the Proposed Scheme provides 5 x 2 bed and 10 x 3 bed for London Affordable Rent (LAR) and 8 x 1 bed and 5 x 2 bed for Intermediate Rent. The LAR units are located on the lower-ground to second floors and include a large fully accessible wheelchair unit.

5.13 As the Proposed Scheme makes no changes to the affordable housing units, we have adopted the affordable housing values previously agreed with BPS. The GE affordable housing team has considered if indexing these values is appropriate, however, it is considered that any indexation of values upwards will be offset by increases in costs of management and maintenance. It is therefore considered reasonable to maintain the values previously agreed with BPS.

5.14 The estimated value of the affordable units is as follows:

5.15 **Table 8: Summary of Affordable Housing Values**

Tenure	% units	No. units	Capital Value	£/unit	£/sq ft
London Affordable Rent	54%	15	£1,566,064	£104,404	£100
Intermediate Rent	46%	13	£2,061,523	£158,579	£240
Total	**100%**	**28**	**£3,627,587**		

Source: GE Affordable Housing team

Car Parking

5.16 No value has been attributed to the car parking spaces allocated to the accessible units, as previously.

Ground Rents

5.17 We have excluded ground rent revenue following the government's announcement banning ground rents under the leasehold Reform Act 2022[3], which came into force on 30th June 2022.

5.18 We note that The Minister for Housing, Communities and Local Government provided the following statement on 21st December 2017:

"The Government will introduce legislation so that, in the future, ground rents on newly established leases of houses and flats are set at a peppercorn (zero financial value)".

5.19 If ground rent legislation undergoes material changes following the above announcement, it will be necessary to revisit our appraisal assumptions to including ground rent income if appropriate.

Hotel GDV

5.20 The hotel will provide 182 rooms and will comprise an upscale/upper upscale lifestyle hotel with amenities including a lobby, courtyard, café, and restaurant. The average room sizes will range between c. 19-22 sq m.

The hotel will be operated on a management agreement, as opposed to a lease.

[3] https://www.gov.uk/guidance/leasehold-reform-ground-rent-act-2022

5.21 The revised Scheme does not propose major changes to the hotel element. While the revised Scheme proposes a reduction of c. 13,300 sq ft of hotel space from the previously Consented Scheme, this area reduction will mainly impact the back of house and support facilities. Room numbers and the restaurant will not be adversely affected. Accordingly, our updated appraisal assumes the hotel element shall comprise 89,639 sq ft (GIA) and 50,221 sq ft (NIA), providing 182 rooms over the basement, ground and 13 upper floors.

The hotel element was valued assuming vacant possession. In December 2020, Gerald Eve agreed with BPS and Melvin Gold's financial estimates, with the hotel reaching stabilisation in year 3 with an EBITDA of £4,195,498. An All Risks Yield (ARY) of 4.75% was applied to the EBIDTA and purchaser's costs were deducted at 6.80%, providing a rounded value of £78,580,000 (£431,758 per key).

5.22 The Applicant has instructed Savills to provide a hotel market report to appraise the GDV of the proposed hotel in the context of the current market. Savills' updated opinion of value for the hotel element of the Proposed Scheme is out in their market report at **Appendix 4.** Savills' analysis places the GDV at **£80 million,** equating to just under **£450k per bedroom**, as a trading business at Day 1. The increase in value is primarily driven by an increase in revenue assumptions since the value was previously assessed. This figure has been adopted in our Proposed Scheme appraisal.

5.23 In arriving at their updated opinion of value, Savills identify that:

- The revenue build-up stabilises in Year Three with an NOI of £5.281m. This increase in revenue build up from the previously agreed position of £4.2m and accounts for the improvements in the trading performance in the hotel sector over the interim period.
- Savills have applied a terminal cap rate of 5.50% and a discount rate of 9.00%. The cap rate is softer than the previously agreed position with BPS, where an ARY of 4.75% was agreed, to account for weakening of the hotel investment market.

These assumptions are supported by evidence as set out in Savills' report.

Office GDV

5.24 The Proposed Scheme will include an office building totalling 114,640 ft (NIA)[4]across basement to seventh floors. As aforementioned, this includes the former gym accommodation within the Consented Scheme, which is now proposed to provide further office space across two basement floors.

As per the Consented Scheme, some of the floors in the office building have been designed on a flexible basis, to be 'lab enabled', meaning that they could be used for certain laboratory uses, subject to demand. This accommodation will be provided across two basement levels, the Swinton Ground Floor, and the first to second floors, with the ground floor and floors three to seven to be designed as conventional (non-flexible) offices.

It has been assumed the proposed spec of the lab enabled accommodation is the same as the conventional offices i.e. standard Cat A, as shown in the T&T cost plan; meaning that in order for the lab enabled accommodation to be used for laboratory purposes, it would need to be converted to this use at additional cost.

5.25 The Applicant has commissioned Cushman and Wakefield (C&W) to provide an updated market report for the office component of the Proposed Scheme, which is appended at **Appendix 5**.

5.26 In arriving at an opinion of market rent, C&W have used comparable evidence and their local market knowledge. Based on their analysis, our appraisal assumes a 12-month void period across all floors.

C&W expect floors 1-3 and 6-7 to be let on 10-year leases and the basements, ground, fourth and fifth floors to be let on five-year leases. Keener yields have been assumed for those floors expected to be let on longer leases and vice versa.

Table 9 below sets out a summary of C&W's office rents and yields, excluding the affordable workspace:

[4] Includes former gym space within the Consented Scheme

5.27 **Table 9: Summary of Office Values**

Floor	GIA	NIA	Market Rent (psf)	Market Rent (pa)	Cap Rate
Basement 2	17,601	13,383	£67.50	£903,352	4.75%
Basement 1	7,985	6,198	£67.50	£418,362	4.75%
Swinton Ground Floor	11,599	6,429	£72.50	£466,126	4.75%
Wicklow Ground Floor	29,525	6,138	£72.50	£445,023	4.75%
1st Floor	17,429	13,940	£72.50	£1,010,629	4.50%
2nd Floor	17,060	13,564	£75.00	£1,017,330	4.50%
3rd Floor	16,985	14,120	£75.00	£1,058,972	4.50%
4th Floor	16,609	13,744	£77.50	£1,065,156	4.75%
5th Floor	16,030	13,167	£77.50	£1,020,442	4.75%
6th Floor	9,960	6,978	£80.00	£558,238	4.50%
7th Floor	9,884	6,978	£82.50	£575,694	4.50%
Total/Blended Rate	**170,667**	**114,640**	**£74.50**	**£8,539,324**	

5.28 For comparison purposes, previously the Consented Scheme included 100,505 sq ft (NIA) of office space and the agreed rental value was £6,603,338 pa, reflecting a blended average rent of £65.70 per sq ft.

Revisions to the Proposed Scheme have increased the office NIA to 114,640 sq ft and growth in office rents since 2021 means that our current adopted rent is £8,539,324 pa, reflecting a blended rent of £74.50 per sq ft (a rental increase of 13.4% on a rate per sq ft basis).

UCL Ear Institute

5.29 UCL will occupy the basement accommodation on a rent-free basis (free of charge) during construction whilst they are unable to occupy their own accommodation at the Ear Institute on Gray's Inn Road (estimated to be approximately two years).

5.30 In addition to receiving temporary purpose-built accommodation free of charge, the Applicant will pay UCL a contribution towards decant and recant costs of £2.8 million.

5.31 We have assumed the floors will be maintained as laboratory use following UCL's decant, considering the laboratory fit-out to be provided by the Applicant. Accordingly, we have adopted C&W's lab use values with further assumptions including a 12-month void period, 5-year term, 9 months' rent free on the basement and 12 months' rent free on the ground floor.

Our assumptions of market rent and cap rates are illustrated in the table below:

5.32 **Table 10: Summary of UCL Ear Institute Values**

Floor	GIA	NIA	Market Rent (psf)	Market Rent (pa)	Cap Rate
Basement 1 & 2	34,347	20,695	£67.50	£1,396,980	4.65%
Wicklow GF	7,882	3,850	£72.50	£279,125	5.00%
Total/Blended Rate	**42,229**	**24,545**	**£68.29**	**£1,676,105**	

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Affordable Workspace

5.33 The affordable workspace within the retained building will be offered at a discount from the standard office market rent. In line with advice from C&W, we have adopted a rate of £30.00 per sq ft, which represents a c. 50% discount to the value of the basement office accommodation. We have applied a 12-month void period, nine month rent free period and assumed a three-year term certain.

5.34 **Table 11: Summary of Affordable Workspace Values**

Building	GIA	NIA	Affordable Rent (psf)	Market Rent (pa)	Cap Rate
Retained Building	6,537	2,937	£30.00	£88,110	5.25%

Meanwhile Affordable Workspace

5.35 During the construction period, the Scheme proposes to use part of the existing Ward buildings as affordable workspace. This area totals 10,374 sq ft (NIA) across the second, third and fourth floors. We understand from the Applicant that the meanwhile space will be let at a nil rent and therefore we have not included any value for this floor space.

Total Commercial GDV

5.36 Applying the above assumptions results in a commercial GDV of approximately £206 million, inclusive of the office, affordable workspace, UCL laboratory (excluding the hotel).

Total GDV

5.37 Table 12 below summarises the Proposed Scheme GDV.

5.38 **Table 12: Total GDV**

Type	Total GDV
Private Residential	£38,977,500
Affordable Residential	£3,627,587
Hotel	£80,000,000
Commercial (office, UCL lab and affordable workspace)	£205,912,610
Total	**£328,517,697**

Source: Savills / Cushman & Wakefield / GE

6. COSTS AND PROGRAMME

Introduction

6.1. This section provides further detail on the headline costs and development programme associated with the Proposed Scheme. Costs associated with planning obligations, BLV and development returns are addressed in later sections.

Build Costs

6.2. We have relied upon the construction cost estimate provided by Turner and Townsend (T&T) for the Proposed Scheme. A detailed breakdown of these figures is available on the Summary Page Cost Plan in **Appendix 6**. Summarised costs are outlined in the table below.

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Block Costs

(Residential & Commercial)

6.3. **Table 13: Construction Cost Summary**

Item	Cost
Construction Cost	£147,973,159
Contractors Preliminaries	£22,935,840
OHP	£8,545,450
Total	**£179,454,449**

Source: T&T

6.4. The construction cost for the Scheme on a present-day basis are therefore circa **£179.5m**, reflecting approximately **£456.63** per sq ft (GIA). This is inclusive of preliminaries, overheads and profit.

Contingency

6.5. We note that contingency allowances have not been included in the cost plan. Accordingly, we have applied a 5% contingency to all construction costs to reflect an appropriate allowance associated with the risk of cost changes.

Professional Fees

6.6. In general, professional fee industry assumptions range between 8.0% and 15.0%, depending upon the specificities of the scheme.

6.7. Based on the complexity and timescales of the Proposed Scheme, we have applied a professional fees allowance at **12%** in our appraisal, as previously. We consider that that this is a reasonable rate based on our experience with similar developments of this scale and design.

Marketing, Legal and Disposal Fees

6.8. Our assumptions allow for fees associated with letting of the commercial accommodation and sale of the completed building. These fees have been determined in line with our market knowledge, quantity of units provided by the development and private sales values. The following table sets out these assumptions.

6.9. **Table 14: Marketing, Legal and Disposal Fees**

Item	Fee Rate
Purchaser's Costs	6.80%
Commercial Letting Agent & Legal Fees	15.00%
Commercial Sales Agent & Legal Fees	1.50%
Residential Sales Agent & Legal Fees	1.50%
Residential Marketing	1.0%

Source: GE

Finance Costs

6.10. A finance rate of 8.5% has been applied in the appraisal. The approach and reasoning for this rate is set out in **Appendix 7.**

UCL Payment

6.11. As aforementioned, the Applicant has agreed to pay UCL £2.8 million (in two payments of £1.4 million, index-linked) for both the decant and recant of their accommodation. This figure includes the fitting out of the temporary UCL accommodation, relocation of equipment, and is inclusive of professional fees. We have accounted for these costs in our appraisal accordingly.

Programme

6.12. We have adopted the build programme as provided by T&T. The timescales are summarised in Table 15 below. A detailed build programme is provided in **Appendix 8.**

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6.13. **Table 15: Build Programme**

Type	Start	End	Period (weeks)
Pre-Construction	Feb 23	Oct 23	36 weeks
Demolition & Basement Construction	Nov 23	Dec 24	66 weeks
Construct Office & Residential Buildings	Dec 24	Nov 26	100 weeks
Construct Hotel Building	Feb 27	Dec 29	150 weeks

Source: T&T

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7. PLANNING OBLIGATIONS (NOTIONAL)

Introduction	7.1.	This section sets out the level of planning obligations in respect of the Proposed Scheme. We present this prior to the following sections showing the Proposed Scheme returns for the sake of clarity. The resultant overall level of the total planning obligations is the output that the appraisals seek to test as being financially viable having regard to the target rate of return.
	7.2.	One of the requirements of this FVA and corresponding appraisals is to determine the financial contribution and planning obligations as an aggregated "pot". In other words, to assess what the Proposed Scheme can afford taking into account the financial impact of these items as a whole. This FVA assesses the development in accordance with LBH's target policies on affordable housing. If the plan has a target and a specific scheme does not meet the strategic target, it does not mean that the specific scheme is not "policy compliant".
	7.3.	A scheme is policy compliant if the calculations show the maximum reasonable amount of affordable housing a scheme can deliver whilst also delivering an appropriate return. Any provision below the maximum reasonable amount which is also below the policy target will not be policy compliant.
	7.4.	It is important to note that the planning obligations for the development include CIL, S106 costs and affordable housing. Whilst we consider these together in one "pot", are all by themselves interlinked. They are also intrinsically linked to the scale of the development and dependent on the quantum of residential units that are be delivered. For example, if one of the elements of the planning obligations were to be increased, it may have a detrimental impact on the ability of the Applicant to fully provide another.
	7.5.	It follows therefore that if the quantum of the development were to be reduced or altered, this could have an impact on the ability of the Applicant to fully provide elements of the pot of planning obligations, for example affordable housing.
	7.6.	We provide an explanation and breakdown the pot of financial contributions towards CIL, S106 obligations, and affordable housing below.
Community Infrastructure Levy	7.7.	The Government introduced a Community Infrastructure Levy ("CIL") to be paid by developers. CIL is a charge applied by planning authorities on new development to fund required infrastructure within their area. Statutory provision for CIL was introduced in the Planning Act 2008. The ability to charge CIL came into force on the 6th April 2010 through the Community Infrastructure Levy Regulations 2010.
	7.8.	The CIL charge will be calculated according to the amount of net additional floorspace created by a new development. The precise amount to be paid will be calculated as and when planning permission is granted with the payment occurring when development commences, unless the charging authority adopts a payment policy.
	7.9.	The Mayor's Community Infrastructure Levy ("MCIL") was introduced in 2012 to help finance Crossrail. The size of the contribution is calculated once a planning application is submitted to the local authority. The figure is based on the location, amount of floorspace created and how the development is to be used. We have assumed that the MCIL is paid at implementation.
	7.10.	The Applicant's planning consultants have provided us with the estimated CIL liability for the Proposed Scheme: • Borough CIL: £2,722,412 • MCIL2: £3,569,046 *Source: Gerald Eve Planning Team*
S106	7.11.	The Applicant's consultants have provided an estimate of £2,808,289 for the S106 contributions, including £1,161,660 as a carbon offset payment for the Proposed Scheme. We understand that these estimates are largely based on the contributions agreed for the Consented Scheme. The S106 estimate excludes the

residential/mixed use PIL, which has been calculated as £6,001,500. This contribution has not been allowed for in our appraisal on viability grounds.

Summary

7.12. The table below summarises the total estimated pot of planning obligations that the Scheme has been tested having regard to.

7.13. **Table 16: Planning Obligations Summary (Notional)**

Planning Obligations	Contribution
CIL (total)	£6,291,458
S106	£2,918,277[5]
Total	**£9,209,735**

Source: Gerald Eve Planning Team

7.14. The above notional allowances have been made in our Proposed Scheme appraisal.

[5] Excludes residential/mixed use PIL.

8. RETURN TO THE DEVELOPER

Introduction	8.1.	In undertaking viability assessments for development purposes, a significant factor is the level of return a development may reasonably require from undertaking the development, and in turn the basis in which the scheme could be funded and financed. This will depend on several factors including the size of the development, the perceived risks involved, the degree of competition between funding and finance institutions for the Scheme, the state of the market in terms of demand, the lot size of the completed development and the anticipated timescales for development and receiving a return.
Return	8.2.	Development profit is usually necessary when attaining investment to implement and deliver a given project. The profit level reflects the developer's reward for their time, expertise and the risk involved in undertaking the development.
	8.3.	The NPG (paragraph 018 (Ref 10-018-20120724) indicates that for the purpose of planning, assuming a 15-20% of Gross Development Value (GDV) may be considered a suitable return to developers when establishing the viability of plan polices. However, this is not prescriptive guidance for Scheme-specific applications, and individual development returns must account for type, scale, and risk profile of the planned development. Furthermore, it is recognised that lower returns are considered more appropriate for affordable housing, where the risk associated with receiving income is lower.
	8.4.	In terms of Scheme viability, project proposals are typically accompanied by a cashflow model in the form of a residual appraisal or Discounted Cash Flow (DCF) appraisal illustrating both the expenditure and receipts while considering the time frame in which these will occur. In development, the appraisals will inform investors with a projected viability, Internal Rate of Return (IRR) or Net Present Value (NPV). The rate of return (the target profit or Discount Rate) that the investor will apply to their investment in the project, thereby informing the Scheme's viability, will heavily depend on the extent to which the landowner agrees with appraisal's assumptions.
	8.5.	However, it is more common for standard development opportunities to be considered on a return on gross revenue (GDV) basis, as indicated in both the NPG and the GLA Affordable Housing and Viability SPG (2017). GE notes the GLA SPG indicates that both targets can be considered and/or cross referenced. NPG (2018) indicates that potential risk to development is accounted for in the assumed return for developers. Furthermore, the policy suggests that it is the developer's role to mitigate these risks, not plan makers or decision makers.
	8.6.	While determining an appropriate target rate of return depends on several factors, it is predicated on the risk associated with developing the proposed Site. The more risk involved, the higher the return required by the developer.
	8.7.	The target level of profit we have adopted considers the following Site-specific factors and the Proposed Scheme design: • The Site comprises a brownfield site a central, mixed-use area; • The Scheme comprises a significant development project that incorporates a mix of uses with different risk characteristics; • The Scheme will be delivered over a total timeframe of c. 6 years; • Local market conditions and competing schemes within the vicinity; • The normal risks associated with developing a major redevelopment scheme in central London; • The risk inherent in financial modelling; where actual results may vary significantly to those assumed. • Continued cost inflation and rising finance rates based on current market data; • National Planning Guidance on viability.
	8.8.	Another significant factor in undertaking viability assessments is the level of return which a developer may reasonably require, and in turn on what basis a scheme could be funded and financed. This will depend on factors including the size of the development, the perceived risks involved, the degree of competition

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between funding and finance institutions for a scheme, the market's demand for the development's lot size and the anticipated timescales for development and for receiving a return.

8.9. We have considered the target rate of return for the dominant uses within the Proposed Scheme and blended these to derive an overall benchmark return proxy as outlined in Table 17 below.

8.10. **Table 17: Applied Target Rate of Return**

Use	GDV (£m)	Profit on GDV (%)
Private Residential	£38,977,500	17.5%
Affordable Residential	£3,627,587	6.0%
Hotel	£80,000,000	15.0%
Commercial	£205,912,610	15.0%
Blended Return Rate		**15.2%**

Source: GE

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9. BENCHMARK LAND VALUE

Introduction	9.1.	To define the viability of a proposed scheme, a benchmark land value is generally established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. This value is compared to the RLV of the Scheme, thus informing whether deviation from planning policy requirements is justifiable.
NPG	9.2.	The basis for establishing the Benchmark Land Value (BLV) is set out in the NPG (September 2019), with particular reference to paragraphs 13 to 17. The NPG expects viability to be determined with regard to a BLV reflecting the aggregate of the site's existing use value ('EUV') (component 1) and a premium for incentivising the landowner to release the land for development (component 2), or an alternative use value ('AUV'), having regard to planning policy. Therefore, in accordance with NPG, this section looks to establish the BLV for the application Site.
	9.3.	This section sets out the underlying basis of the adopted BLV. It has been prepared with regard to the NPG; the NPPF; the Housing SPG the AH&V SPG; the London Plan 2021; the LBC Local Plan; and generally accepted principles of undertaking (site specific) FVAs following key principles in the RICS GN and the mandatory requirements of the RICS Professional Statement.
Approach to BLV	9.4.	GE and BPS previously agreed a BLV for the Site of **£19.4m.** This figure was derived on an alternative use value (AUV) basis assuming refurbishment of the existing buildings. Given the extensive work carried out on this element we have maintained this input in our appraisal.
Alternative Use Value	9.5.	For viability assessments, alternative use value (AUV) refers to the value of land for uses other than its existing use or the existing use after refurbishment/redevelopment. The AUV of the land is inclusive of the landowner premium and may the BLV. When applying alternative uses in establishing BLV, such AUVs should fully comply with up-to-date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Accordingly, the AUV adopted complies with these requirements.
BLV Summary	9.6.	To determine the BLV, we have considered the methodology and approach set out in this section. We have also had regard to NPPF, NPG, Affordable Housing and Viability SPG, the RICS GN (2021) and the mandatory requirements of the RICS Practice Statement: reporting and conduct. We summarise our establishment of BLV below.
	9.7.	We have arrived at an opinion of the BLV in which a reasonable landowner would be willing to sell for. Our analysis included the following: - Applying a reasonable valuation judgement. - Being informed by the relevant available facts. - Having regard to the obligations and considerations related to the Application Site. - Having a realistic understanding of the local area and the operation of the market. - Reflecting all policy requirements; and - Ensuring a reasonable return to the landowner. We have assumed the Site is free of any encumbrances or restrictions on title which would adversely affect the value.
BLV	9.8.	In accordance with NPG, we consider that an appropriate Benchmark Land Value for the Site is in the order of: **£19,400,000** **(Nineteen Million Four Hundred Thousand Pounds)**

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10. SCHEME APPRAISAL

Introduction

10.1. This section sets out the viability outcome of applying the assumptions presented in earlier sections.

10.2. GE has applied the inputs as set out in the previous sections of this report to determine the financial appraisal output. A copy of the Proposed Scheme appraisal is included at **Appendix 9.**

10.3. **Table 18: Appraisal Summary – Proposed Scheme**

Appraisal Input/Output	
Private Residential GDV	£38,977,500
Affordable Residential GDV	£3,627,587
Hotel GDV	£80,000,000
Commercial GDV (Office, affordable workspace and UCL lab)	£205,912,610
Total GDV	**£328,517,698**
Build Cost excl. contingency	£179,454,449
Benchmark Land Value	£19,400,000
Total Costs	
Target rate of return	15.20% profit on GDV
Target profit amount	£50,800,000
Scheme actual return	2.7% profit on GDV
Scheme profit amount	£8,735,533
Surplus/deficit	**-£42,064,467 (-12.5% profit on GDV)**

Source: GE

Initial Viability Conclusion

10.4. The output of our viability assessment indicates that the Proposed Scheme, including 50% affordable housing (by habitable room), generates a return below the required target rate of return. Therefore, further contributions cannot viably be justified in this instance.

Sensitivity Testing

10.5. In the next section GE has undertaken several sensitivity tests to assess this overall conclusion and the robustness of the applied assumptions.

11. SENSITIVITY ANALYSIS

RICS

11.1. The RICS requires that all FVAs and subsequent reviews provide a sensitivity analysis of the results in conjunction with an explanation and interpretation of the respective calculations on viability, while considering risk and appropriate returns(s). The provision of sensitivity analyses allows the applicant, decision- and plan-makers to consider how changes in financial appraisal inputs affect viability while also understanding the extent of these results when arriving at an appropriate conclusion on the viability of the application scheme (or of an area-wide assessment).

This analysis also provides an opportunity to 'stand back' and apply a viability judgement to the outcome of a report.

Sensitivity Analysis

11.2. A sensitivity analysis is a simple and widespread approach to test viability and the robustness of a Scheme. Uncertainties can be identified in respect of the inputs and their effects can be analysed in terms of development returns and subsequently the level of planning payment. While benchmarks can be used as performance measures, a prudent developer will also consider the sensitivities of the development and assess the project's risks.

GE Sensitivity Testing

11.3. GE has undertaken sensitivity testing on the following scheme variables:

- Construction cost and private residential sales values; and
- Interest rates.

Sensitivity 1 – Value/ Cost Variances

11.4. GE has adopted a variation of ±10% to the office rental values and ±5% in respect of construction costs. The impact on the scheme return has been tested and is presented in the following table.

11.5. **Table 19: Present Day Scheme Sensitivity Analysis – Office Rents and Construction Costs – Profit on GDV**

		Office Rents £/sq ft				
		-15%	**-7.5%**	**0%**	**+7.5%**	**+15%**
Construction Costs	**-5%**	-3.7%	2.0%	7.1%	11.7%	15.7%
	-2.5%	-6.2%	-0.3%	4.9%	9.6%	13.8%
	0%	-8.8%	-2.7%	**2.7%**	7.5%	11.8%
	+2.5%	-11.3%	-5.1%	0.4%	5.4%	9.8%
	+5%	-13.8%	-7.5%	-1.8%	3.2%	7.8%

Source: GE

11.6. This sensitivity analysis demonstrates that if build costs reduce by -2.5% and office rents increase by 15%, the Scheme is close to becoming viable, showing a return of 13.8% on GDV. A combination of -5% build cost savings and 15% office rental growth would result in the Scheme exceeding the target rate of return, with an output of 15.7% profit on GDV. This indicates that the Scheme is very sensitive to office rental growth. It is not inconceivable that the office market could improve, with rents increasing by 15% prior to the completion of the development, in combination with some cost savings, which would result in a viable Scheme.

Sensitivity 2 – Interest Rates

11.7. Due to recent significant increases in interest rates and anticipated further increases, we have run a sensitivity to demonstrate the potential effect this could have on the Scheme's viability position. The base position reflects an interest rate of 8.50%, with the sensitivity then modelling an incremental increase of 0.25% up to an aggregate interest rate of 9.50%.

11.8. **Table 20: Interest Rate Increase – Sensitivity Analysis**

	Interest Rates (+0.25%)				
	8.50%	**8.75%**	**9.00%**	**9.25%**	**9.50%**
Profit on GDV	2.7%	2.1%	1.4%	0.7%	0.1%

Source: GE

11.9. The above sensitivity illustrates that if finance rates increase there would be a further significant impact upon the viability of the Proposed Scheme, with an increase of 1% reducing the Scheme return by approximately 26%.

12. CONCLUDING STATEMENT

Instruction	12.1.	GE has been instructed by the Applicant to undertake an FVA in accordance with the RICS Financial Viability in Planning mandatory guidance (2019), to verify whether the Scheme includes the maximum reasonable level of planning contributions, including affordable housing, to assist in determination of the planning application against adopted planning policies and guidance.
	12.2.	Planning permission was granted in July 2022 for a scheme comprising 100,537 sq ft NIA of flexible lab-enabled office accommodation, a 182-room hotel, 72 residential units within two blocks (54,853 sq ft NIA) and a gym (12,370 sq ft NIA).
	12.3.	The Applicant is now proposing to submit a new (S73) planning application for a revised Scheme, as follows: • 114,640 sq ft NIA of office accommodation (part of which is flexible / lab-enabled); • 2,937 sq ft NIA of permanent affordable workspace; • 10,374 sq ft of temporary affordable workspace (provided on a meanwhile basis); • A 182-room hotel totalling 89,639 sq ft GIA; • 72 residential units within two blocks totalling 54,885 sq ft NIA (including 28 affordable housing units reflecting 43% on a gross floorspace basis); and • 24,546 sq ft NIA of laboratory space.
	12.4.	The revisions to the Scheme include providing temporary laboratory accommodation for the UCL Ear Institute within the proposals.
Appropriate Evidence	12.5.	Sales and market data have been used to establish the overall value of the Proposed Scheme and a cost plan / estimate has been prepared in order to quantify the build costs associated with the development.
	12.6.	The FVA has been undertaken on a present-day basis. Inputs include current office, hotel and residential sales values (if the scheme was delivered in its entirety today), and costs within the appraisal. Sensitivity analysis has tested variances around these key input variables.
BLV	12.7.	In accordance with NPG (2019) and with regard to the previously agreed position with BPS, we have adopted a BLV of £19.4m for the purposes of assessing viability.
Target Return	12.8.	We have calculated that the blended minimum target rate of return is 15.2% profit on GDV on a present-day basis.
Scheme Return	12.9.	Based on our analysis, GE considers that the Proposed Scheme return (profit), allowing for 43% affordable housing by GIA (50% by habitable room), is £8.7 million, equating to 2.7**% profit on GDV**. This results in a deficit of **-£42.1 million**, equating to -12.5% profit on GDV.
Maximum Reasonable Affordable Housing	12.10.	GE confirms that the Proposed Scheme has been viability tested in accordance with national and London Plan policy. GE concludes that the Proposed Scheme is not viable based upon the analysis undertaken. It is further concluded that the proposed planning contributions package of S106 and CIL, totalling £9,209,735, is the maximum that the Scheme can afford. The Scheme cannot afford a residential/mixed-use PIL on viability grounds and in order for it to be able to do so, the level of affordable housing or other planning contributions would need to be reduced. It follows therefore that, given the outturn from the appraisals, any increase in planning obligations within the Proposed Scheme would further reduce the likelihood of the target rate of return being reached, thus making the proposals even less viable.
Deliverability	12.11.	The outcome of this assessment indicates the maximum level of planning contributions has been justified for the Proposed Scheme. Having regard to viability and through sensitivity testing, it has been demonstrated that the Proposed Scheme is potentially capable of being viable and is therefore deliverable.

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12.12. GE has provided a rationale and justification for the following:

- The maximum reasonable level of affordable housing, based on viability;
- The level of CIL contributions (Mayoral and Borough);
- The level of S106 contributions; and
- The deliverability of the Scheme.