ULL Property

Hornsey Town Hall, The Broadway, Crouch End, London N8 9JJ

Crouch End (FEC) Limited

Economic Viability Appraisal Report

July 2017

Private and Confidential

Commercially Sensitive

Contents

1 U.L.L. Property

U.L.L. Property ('ULL') is a property services company specialising in development consultancy, affordable housing and economic viability. The company aims to find viable solutions to facilitate development, while at the same time supporting the reasonable mitigation of development impact. In so doing, we operate at the centre of development economics; assisting developers and Local Planning Authorities reach effective solutions, against a challenging financial background.

U.L.L. currently advises house builders and developers on property assets valued in excess of £4billion.

This report has been prepared by Robert Grimshaw – a Director of U.L.L. Property, who has extensive experience of both client side and consultancy roles in the residential and mixed use development sector in London and the Southeast gained during a career of 24 years.

2 Report Context and Policy Background

Crouch End (FEC) Limited ("The Applicant") has submitted a planning application to the London Borough of Haringey ("The Council") in respect of the site, currently occupied by a range of public buildings that are owned by the Council and are summarised below:

- The Grade II Listed Hornsey Town Hall and adjoining Public Hall;
- Broadway Annexe;
- Weston Park Annexe (also known as the Clinic);
- Mews Studio;
- Public Square and Car Park (including Hornsey Library Car Park).

The Applicant has entered into a legal agreement with the Council to redevelop the site for residential and non residential purposes. A key priority of the project is the restoration of the Grade II Listed Town Hall and retention of economically sustainable community uses within that building. The costs associated with the restoration work are significant and the applicant proposes residential and hotel development as facilitating uses.

The application seeks full planning permission for:

"Demolition of the Weston Clinic building, courtyard infill extension, Library garage, Library Annex and energy centre. Refurbishment and change of use of the Hornsey Town Hall from b1 use class and sui-generis to a mixed use scheme comprising a hotel (use class c1), food and beverage uses (use classes a3 and a4), community uses use class d1, d2 and sui-generis) and co-working use (use class b1). Removal of east wing extension and erection of east wing roof extensions. The erection of a 7 storey building and part 4, part, 5, part 6, part 7 storey building to the rear and associated car parking at basement level. Change of use of the ground floor of Broadway Annex to food and beverage use (use class a3 and a4) and change of use of the first and second floors to residential use. The erection of an extension to the rear of the Broadway Annex and erection of a residential mews block to the rear of the Broadway Annex. Comprising 146 residential units in total. Alterations and landscaping improvements to the town hall square and open spaces."

To inform the planning application process, U.L.L. Property is instructed to assess, and report on, the practicality and economic viability of providing affordable housing and Section 106 financial contributions as part of the development proposal. Our assessment is carried out in the context of planning policy, and as such we have reviewed the key policy documents that provide guidance for developers working within the Council's administrative area.

Current planning policy regarding affordable housing, financial contributions and viability

In this section we have reviewed the policies and guidance relevant to planning obligations under the Section 106 regime. Haringey's development plan is currently made up of the London Plan, Haringey's Strategic Policies DPD and the saved Unitary Development Plan (UDP) Policies. We note that the Planning Inspectorate has completed the Examination in

Public of the Council's emerging Local Plan documents and these are treated as material considerations.

Other material considerations when assessing the economic viability of a planning application are considered to be:

• National Planning Policy Framework (2012);
• National Planning Policy Guidance;

Whilst we have had regard for the Mayor of London's publication – Homes for Londoners – Affordable Housing & Viability SPG (November 2016), this is in draft form this has limited weight as the document is not yet adopted.

National Planning Policy Framework (NPPF) and National Planning Practice Guidance (NPPG)

The NPPF seeks to ensure development is both sustainable and deliverable. Paragraph 173 of the NPPF states:

"To ensure viability, the costs of any requirements likely to be applied to development such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable".

NPPG states at 'Viability' paragraph 026 that local authorities should, when considering planning applications on brownfield sites, *"take a flexible approach in seeking levels of planning obligations and other contributions to ensure that the combined total impact does not make a site unviable".*

Paragraph 019 goes on to say: *"This is particularly relevant for affordable housing contributions which are often the largest single item sought on housing developments. These contributions should not be sought without regard to individual scheme viability."*

In the appraisal provided at Appendix 1 we have applied a market level return to the developer, as further explained at Section 4 below. The return to the landowner is explained at Section 6, in our assessment of Benchmark Land Value.

The London Plan

Policy 3.12 of the London Regional) Plan states:

A The maximum amount for affordable housing should be sought when negotiating on individual private residential and mixed use schemes, having regard to:

- current and future requirements for affordable housing at local and regional levels
- affordable housing targets adopted in line with Policy 3.11
- the need to encourage rather than restrain residential development

- the need to promote mixed and balanced communities
- the size and type of affordable housing needed in particular locations
- the specific circumstances of individual sites

B Negotiations on sites should take account of their individual circumstances including development viability, the availability of public subsidy, the implications of phased development including provisions for re appraising the viability of schemes prior to implementation ('contingent obligations'), and other scheme requirements

<u>Local Plan: Strategic Policies (adopted 18th March 2013)</u>

Policy SP2: Housing, highlights the Council's aim to maximise the delivery of new homes in the borough and in particular to maximise the amount of affordable housing that is provided as part of development proposals. The policy seeks to secure high quality affordable housing by the following means:

Policy SP2 (5) Subject to viability, sites capable of delivering ten or more units, will be required to meet a borough wide affordable housing target of 50%, based on habitable rooms;

Policy SP2 (6) Delivering an affordable housing tenure split of 70% Affordable Rent (including social rent) and 30% Intermediate Housing

We note that the Council propose to alter Policy SP2 (5) to reduce the borough wide affordable housing target to 40% based on habitable rooms. Furthermore, it is proposed to alter the target tenure split at Policy SP2 (6) to 60% of homes for affordable rent (including social rent) and 40% intermediate housing.

<u>Development Management DPD (proposed alterations)</u>

Policy DM13: Affordable Housing, confirms the Council's borough wide targets for affordable housing provision and the balance between affordable rent and intermediate housing tenures. We note that the Council will also have regard to the following matters when considering whether the maximum reasonable amount of affordable housing has been proposed for a specific site:

- The individual circumstances of the site;
- The availability of public subsidy;
- Development viability; and
- Other planning benefits that may be achieved.

Policy DM13 (D) confirms: *"in negotiating the level of affordable housing provision viability assessments must be based on a standard residual valuation approach, with the benchmark existing use land value taken as the existing/alternative use value".*

Within the context of this specific case, the Council's policies in relation to development of heritage assets are also relevant to the assessment of financial viability of the proposal.

Policy DM9: Management of the Historic Environment confirms the Council's approach and whilst this policy area is dealt with by other specialist reports that accompany the planning application, we consider that the following points are relevant to the financial viability assessment of the proposed development:

DM9 (A) – *"Development that sustains and enhances the significance of a heritage asset and its setting will be supported"*

DM9 (C) – *"When considering the impact of proposals on the historic environment, the Council will have regard to:*

(c) The preservation or reinstatement of original or historic form, fabric, function or character of the asset and its setting;

(e) The desirability of securing a viable use for a heritage asset consistent with its conservation."

Policy DM9 (J) confirms that the Council *"…will approve proposals for enabling development where it is demonstrated that:*

(a) It is the only viable means of securing the long term future of the asset affected; and

(b) It is the optimum viable use, supported by an appropriate options appraisal."

In conclusion, the forgoing policies demonstrate that the Council has policy targets for affordable housing provision; and that that these targets are not intended to restrain development, based on the outcome of economic viability testing. Furthermore, in respect of the Grade II Listed Building and wider setting of the development site, Council policies acknowledge that enabling development will be acceptable, subject to the provision of justification of the proposal on viability grounds.

We note that previous planning applications have established the basis for the use of enabling development to subsidise the restoration of the Grade II Listed building and it's continued use for community purposes.

In compliance with policy, the level of affordable housing contribution can be reduced or waived to ensure that development remains viable, within the context of the Council's priority for community use to continue on this site and the restoration costs for the Grade II Listed building.

Determining viability and the purpose of this report

The main purpose of this report is to provide an independent assessment of the viability of proposed development, and in so doing to assess the level of obligations which can be provided to the local planning authority, while sustaining an appropriate land value to the landowner and profit to the developer.

This is in line with RICS Guidance Note 94/2012, which states:

"Financial viability for planning purposes is defined as follows: An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the owner and a market risk adjusted return to the developer in delivering that project."

Assessing the viability of a proposed development involves comparing the residual land value of the site, on the basis of the proposed scheme, with an appropriate benchmark.

The Homes and Communities Agency (HCA) good practice guidance manual 'Investment and Planning Obligations: Responding to the Downturn' states that

"a viable development will support a residual land value at a level sufficiently above the site's Existing Use Value (EUV) or Alternative Use Value (AUV), to support a land acquisition price acceptable to the landowner".

As such, where a development proposal generates a residual value that is greater than the appropriate benchmark value, by a sufficient margin, it is deemed financially viable and therefore likely to proceed. Conversely, if the residual value is lower than the benchmark, it is deemed financially unviable and therefore unlikely to proceed. This is based on the assumption that a developer will always seek to bring forward the highest value scheme.

In assessing the Residual Land Value of the proposed scheme, full account is taken of the following inputs:

A: Costs	**B: Revenue**
Build costs	Private residential sales
Planning and development fees	Commercial sales or rents
Planning contributions	Ground rents
Affordable housing	Affordable housing
Marketing	Car parking
Land purchase costs	
Development finance	
Land holding finance	
Profit	

B - A = Residual Land Value.

It need not be the land value that is the target residual. A fixed land price can be input as a cost, and a residual developer profit assessed. Alternatively the residual target can be the planning contributions.

An explanation for all the appraisal inputs is provided at Section 4 (Cost Assumptions) and Section 5 (Income Analysis).

It is then required to arrive at an appropriate Benchmark against which to compare the Residual Land Value of the proposed scheme, to determine whether the proposal is viable. In the case of the subject site this is assessed further at Section 6.

The purpose of our analysis has been to understand the development economics of the subject development site, and to show the results of our analysis. This incorporates appraisal of all costs and values, finance inputs and Section 106 contributions.

Information relied upon

We have been provided with, and relied upon:

• The planning application drawings and accommodation schedules prepared by Make Architecture;

• The Order of Cost Estimate prepared by Fulkers;

• Information received from the Applicant in relation to their development agreement with the Council;

Limitations

This report does not constitute a valuation and should not be relied upon for valuation purposes.

It is provided for the sole use of the party to whom it is addressed. It is confidential to the addressee and their professional advisors. U.L.L. Property accepts no responsibility whatsoever to any person other than the client themselves.

Neither the whole nor any part of the report nor any reference thereto may be included in any published document, circular, or statement, or published in any way, without the prior written approval of U.L.L. Property.

3 Project Details

The subject site is located on the eastern side of The Broadway in Crouch End, North London. The site is well located in terms of public transport links and local facilities.

The site has an area of 1.44 hectares (3.56 acres) and is occupied by a variety of existing buildings as follows:

- Hornsey Town Hall (including Assembly Hall) – a Grade II Listed building with an approximate GIA of 7,985sqm (85,953sqft). Valuation Office Agency records indicate that this building has an approximate NIA of 5,194sqm (55,910sqft). The Town Hall buildings were previously in B1 (Office) and Sui Generis uses and we understand that they have recently been run as an arts centre.

- Broadway Annexe – 2 storey building with an approximate GIA of 1,484sqm (15,974sqft), previously in B1 (office) use;

- Weston Park Annexe (also known as the Clinic) – currently in D1 use, with an approximate GIA of 611sqm (6,577sqft);

- Mews Studio – currently in B1 (Office) use, with an approximate GIA of 146sqm (1,572sqft);

The property benefits from a previous planning permission and listed building consent (ref. HGY/2013/1383). We understand that the Council consider that this permission has been lawfully implemented. The previous planning permission was for the following development:

Previous Planning Permission Accommodation Schedule

Building	Use	GIA (sqm)	GIA (sqft)	NSA (sqm)	NSA (sqft)	Residential Units
Town Hall	D1/D2/Theatre & Performance Venue	4,289	46,168			N/A
Town Hall	B1 (Office)	248	2,670			N/A
East Wing	Residential (Assumed Net:Gross 80%)	1360	14,639	1,088	11,712	13
Link Block	Residential (Assumed Net:Gross 80%)	515	5,544	412	4,435	6
Broadway Annexe	Residential (Assumed Net:Gross 70%)	734	7,904	514	5,533	8
Mews	Affordable Housing	557	5,996	557	5,996	4
New Block A	Residential (Assumed Net:Gross 60%)	7907	85,109	4744	51,066	66
New Block B	Residential (Assumed Net:Gross 60%)	3150	33,907	1890	20,344	26
Car Parking	64 spaces allocated to residential					
Totals		**18,760**	**201,937**	**9,205**	**99,085**	**123**

(Note – Residential GIA's estimated)

The current planning application proposes a greater number of residential dwellings and incorporates a 67 bedroom hotel within the Town Hall, in addition to community uses theatre & performance venue), co working office space and Food & Beverage outlets.

Current Planning Application Accommodation Schedule

Building	Use	GIA (sqm)	GIA (sqft)	NSA (sqm)	NSA (sqft)	Residential Units
Town Hall	Community Use	3,162	34,036			N/A
Town Hall	Co-Working Office Space	443	4,769			N/A
Town Hall	Hotel (67 bedrooms)	2689	28,945			N/A
Town Hall	Shared back of house	243	2,616			
Town Hall	Food & Beverage	437	4,704			N/A
Broadway Annexe	Food & Beverage	265	2,853			N/A
Broadway Annexe	Residential	808	8,697	589	6,340	11
Broadway Annexe Lofts	Residential	457	4,919	326	3,509	6
Mews	Residential	688	7,406	593	6,383	9
New Block A	Residential	8795	94,668	6340	68,244	79
New Block B	Residential	4420	47,577	3096	33,325	41
Car Parking – 40 spaces allocated to residential use						
Totals		**22,407**	**241,188**	**10,944**	**117,801**	**146**

Our financial appraisal relating to the current planning application includes estimates of current costs and revenue and is based upon the following development programme:

Project Stage	Start Date	End Date
Purchase (1 month)	July 2017	July 2017
Pre-construction (6 months)	August 2017	January 2018
Construction (24 months)	February 2018	January 2020
Sales of residential units (9 months)	February 2020	October 2020
Investment sale of commercial and ground rents	October 2020	October 2020

4 Cost Assumptions

Our financial appraisal incorporating the costs and values of the project, is provided at Appendix 1. We have used Argus Developer software, recognised by most local planning authorities and used across the property industry. The appraisal has been set up as a Residual Land Value appraisal, with fixed assumptions for costs, revenues and developer profit.

An Order of Cost Estimate, prepared by Fulkers, is provided at Appendix 2 and reflects costs as at Q2 2017. Costs are expressed as rates per square foot calculated on Gross Internal Area ("GIA"), within the Argus Developer appraisal. Unless otherwise stated, costs are based on current estimates and no allowance has been included for inflation beyond Q2 2017.

The Order of Cost Estimate is subject to a number of assumptions and general exclusions, which should be noted when reviewing the financial viability of this project. Unless otherwise stated, U.L.L. Property have not included additional cost allowances to cover items excluded from Fulkers' estimate and we reserve the right to re visit our financial appraisal in the event that matters subsequently impact on the cost of this development.

Construction costs

Total estimated construction costs identified within the Cost Assessment are £66,778,000 equating to £276.87 per sq ft £2,980.30 per sqm) on the total building GIA of 241,188 sqft.

There are significant elements of the estimated construction cost that should be highlighted when considering the financial viability of this project (all excluding Main contract Prelims & OH&P):

- Excluding allowances for fit out works to the Hotel, Community Use (Shell & Core), Food & Beverage facilities (Shell & Core) and Co working Space (Shell & Core), total base construction costs associated with the refurbishment of the Town Hall are £5,605,915, including the following notable items:
    - o Repairs to the listed fabric £2,768,615;
    - o Works associated with the roof £1,098,600;
    - o Repairs to the external envelope £1,248,000;
- Other significant general cost items are as follows:
    - o Demolition and Site Clearance Works £2,747,084;
    - o Basement and Substructure Works £1,981,037.

Base construction costs are estimated at £54,807,286 (£227/sqft). Main Contractor prelims are included at a rate of 13% and Overheads and Profit is included at a rate of 5%. The Cost Assessment includes an allowance of £1,945,001 (3%) for Design Development and Construction Risk.

Our appraisal includes the following allowances that have been excluded from the Cost Assessment, but that (in our experience and on the advice of other project consultants) would be applicable to the application site:

• Professional Fees – at a rate of 10% of construction costs and equating to £6,677,800. This cost element has been cash flowed on a weighted basis for 30 months, commencing at Pre construction stage;

• Mayoral & Borough CIL – Mayoral CIL has been estimated at £660,991 and Local CIL estimated at £2,306,125 (including indexation). We have assumed payment of the CIL in full prior to commencement of construction work.

• Rights of Light – we are instructed to include an allowance for compensation to adjoining owners in the sum of £300,000.

Acquisition costs

The costs associated with acquisition are based on the Residual Land Value calculated by the appraisal. Stamp Duty Land Tax (5.62%, calculated on the Residualised Price plus VAT); Agents fees (1%) and legal fees (0.50%) have been included in our appraisal.

Finance costs

We have applied an interest rate of 6.75% to include total funding costs, to reflect the market rate for funding of development schemes of this nature. Developments comprising single access core apartment buildings tie up substantial capital for a considerable period before any return is realised, and for this reason total funding costs are generally more expensive than for housing projects, which can be more readily phased. Our assumed development programme is set out at section 3 of this report.

Marketing costs and disposal fees

Item	Value	Elements
Marketing cost	1.00% of gross revenue	Residential Sales, Commercial Investment Sales; Ground Rents & Car Park revenue
Sales Agent Fee	1.00% of gross revenue	Residential Sales, Commercial Investment Sales; Ground Rents & Car Park revenue
Sales Legal Fee	£750 per unit	Residential Units
Sales Legal Fee	0.50% of GDV	Commercial Investment Sales
Sales Legal Fee	0.50% of GDV	Ground Rent Investment Sales
Purchaser's Costs	6.45% of gross capitalised rental income	Ground Rent & Commercial Investment Sales
Letting Agent Fee	15% of Year 1 Rent	Commercial Element
Letting Legal Fee	5% of Year 1 Rent	Commercial Element

Developer Profit

The appraisal has been set up to show profit as a cost to the project. We have assumed the following rates of developer return for the various elements proposed by the development:

- Residential Apartments 20% of GDV;
- Residential Car Parking – 20% of GDV;
- Residential Ground Rent Investment – 20% of GDV;
- Commercial Investment Sale – 15.% of GDV;

This equates to a blended rate of 19.05% of GDV, which in our opinion this reflects the minimum reasonable level of return that developers and their funders will require in the current market for a complex project of this nature that involves the refurbishment and conversion of a Grade II Listed building and provision of an Arts Centre that is subject to a community access agreement (and therefore not capable of being let on commercial terms). These elements carry significant commercial risk for the developer and their funder and should be recognised with a reasonable level of return.

5 Income Analysis

The revenue for the development is derived from the sale of residential units, ground rents and commercial investment elements. The revenues are inserted in the Argus Developer financial appraisal at Appendix 1. We provide commentary on each element in this section. All income assumptions are based on current comparable transactions and estimates, with no allowance for inflation beyond Q2 2017.

Private Residential Sales

HM Land Registry data for Haringey indicates average sold prices for flats and maisonettes of £475,649 as at May 2017. Whilst the annual change in flats and maisonettes in Haringey is 5.36% as at May 2017, we also note that the index has fallen from 125.79 as at February 2017 to 121.29 in May 2017, which would indicate that there is some uncertainty in the local housing market and assumptions relating to the pricing of new build schemes should reflect a degree of caution.

In considering appropriate pricing for private apartments within the proposed development, we have referred to information available on the Rightmove and Zoopla websites and have held informal discussions with agents and developers to ascertain current asking prices and any discounts and incentives that are being offered on comparable development sites.

The following schedule summarises current asking prices for new build developments that are located within close proximity to the subject site:

Development	Floor	Beds	NSA (sqft)	Asking Price	Price / sqft
Smithfield Square, Hornsey N8	5th	1	555	£430,000	£775
Smithfield Square, Hornsey N8	6th	1	585	£430,000	£735
Smithfield Square, Hornsey N8	4th	1	585	£475,750	£813
Smithfield Square, Hornsey N8	3rd	1	541	£429,000	£793
Smithfield Square, Hornsey N8	6th	1	585	£475,000	£812
Smithfield Square, Hornsey N8	6th	1	599	£449,995	£751
Smithfield Square, Hornsey N8	3rd	1	541	£430,000	£795
Smithfield Square, Hornsey N8	7th	1	555	£450,000	£811
Smithfield Square, Hornsey N8	5th	1	585	£429,000	£733
Campsbourne Rd Apartments, Hornsey N8 (plot 32)		1	593	£425,000	£717
77 Muswell Hill, London N10 (plot 03)	LGF	1	928	£685,000	£738
Smithfield Square, Hornsey N8	7th	2	838	£585,000	£698
Smithfield Square, Hornsey N8	2nd	2	900	£645,000	£717
Smithfield Square, Hornsey N8	Grd	2	826	£675,000	£817
Smithfield Square, Hornsey N8	6th	2	790	£635,000	£804
Smithfield Square, Hornsey N8	5th	2	778	£644,950	£829

Campsbourne Rd Apartments, Hornsey N8 (plot 20)		2	797	£580,000	£728
Campsbourne Rd Apartments, Hornsey N8 (plot 31)		2	669	£520,000	£777
77 Muswell Hill, London N10 (plot 04)	LGF	2	869	£650,000	£748
77 Muswell Hill, London N10 (plot 08)	Grd	2	1035	£725,000	£700
77 Muswell Hill, London N10 (plot 11)	Grd	2	1144	£870,000	£760
77 Muswell Hill, London N10 (plot 19)	1st	2	1242	£999,000	£804
77 Muswell Hill, London N10 (plot 29)	2nd	2	1545	£1,795,000	£1,162
Pinnacle (The Hill), 56 Muswell Hill N10 (plot 05)	2nd	2	771	£699,950	£908
Pinnacle (The Hill), 56 Muswell Hill N10 (plot 06)	2nd	2	762	£699,950	£919
Pinnacle (The Hill), 56 Muswell Hill N10 (plot 18)	Grd	2	778	£750,000	£932
Campsbourne Rd Apartments, Hornsey N8 (plot 42)	3rd	3	1069	£700,000	£655
Pinnacle (The Hill), 56 Muswell Hill N10 (plot 15)	Grd	3	1570	£1,299,950	£828

The average asking price for new apartments within these developments equates to £662,769 per plot, or £806 per sqft. For financial appraisal purposes, we have assumed a blended rate of £800 per sqft on NSA) to reflect the combination of new build and conversion blocks within the proposed development and this has been input into our Argus Developer appraisal.

Accordingly, the total GDV relating to private residential apartments is £94,240,800.

<u>Residential Car parking</u>

The applicant proposes that 40 car parking spaces will be provided within the development and we have assumed that these will be sold separately to buyers of residential apartments. Given that the parking ratio equates to 0.27 spaces per residential apartment, we consider that the car parking spaces will be sold at a premium of £20,000 each. This equates to a total GDV relating to car parking of £800,000, which has been included within our financial appraisal.

<u>Ground rents</u>

It is assumed that annual ground rents of £400 per residential apartment will be applicable and that the applicant will sell the benefit of that income on completion of the development to a specialist investor. The gross rent of £58,400 per annum included within our financial appraisal, has been capitalised at a yield of 5.0%, giving a gross investment value of £1,168,000.

<u>Commercial Investment – Community Space</u>

The applicant proposes to retain, refurbish and improve much of the existing community space within the Town Hall building for continuing use as an Arts and performance facility. We understand that the applicant has entered into a community access agreement with the Council in respect of this space and this will significantly impact on the commercial investment value of the premises. The community space proposed, has a GIA of 3162sqm (34,036sqft) and is arranged over lower ground to second floor levels of the Town Hall.

We understand that the applicant has entered into negotiations with a potential operator and that the space will be let on subsidised terms, yet to be finally agreed.

Comparable transactional evidence for this type of use are difficult to identify. We are aware of the following commercial deals for nightclub and performance venues:

- Koko, Camden – 40,301sqft nightclub and licensed bar, let at a current rent equating to £14.39/sqft in February 2004 for a term of 25 years (11 years & 7 months unexpired term);
- Ministry of Sound – 20,117sqft nightclub, let in September 2014 at a rent of £13.92/sqft;
- Clapham Grand – 22,477sqft nightclub, let in September 2013 at a rent of £17.80/sqft;
- Heaven – 21,399sqft nightclub, let in March 2013 at a rent of £19.51/sqft.

We would consider the appropriate market rent for a commercially operated performance venue and arts centre to be approximately £16/sqft. However, due to the requirement for subsidised community access, we do not consider that a rent at this level would be appropriate and have therefore consider the following transactional evidence:

- In March 2016 the 999 year peppercorn long leasehold to a Community Centre, on Ring Way in Bounds Green was sold. The property comprises 2,660 sq ft of ground and first floor Community Centre space, let to Haringey Council at a rent of £14,487 reflecting £5.45 per sq ft on a lease expiring in August 2034. The lease provides for 5 yearly fixed rental uplifts to RPI or market rent, whichever is greater. The unit sold for £330,000 reflecting £124 capital value per sq ft.

We consider that the rent level agreed for this property is an appropriate guide to the applicable rent for the community/arts space at Hornsey Town Hall and have therefore applied a rent of £5.50 per sqft to the GIA and allowed for a 3 month rent free period.

If the community space were let to Haringey Council or the Council were acting as guarantor to the proposed operator, then a yield of 5.00% or better might apply to this use. However, as we understand that the space is to be let on subsidised terms to a small, community based organisation, we consider that a yield of 8.00% would better reflect the investment value of the premises. Accordingly, we have assumed a gross capital value of £2,295,384 for financial viability appraisal purposes, equating to £67.44/sqft.

Based on our assumption that the commercial rent would be circa £11.50/sqft higher than a community organisation might be able to pay for this space, the level of developer subsidy equates to a sum of approximately £391,425 per annum. If we were to capitalise that annual subsidy at a yield of 8.00% (as we have assumed for the community use), then the developer subsidy would equate to “value foregone” of approximately £4.9m.

Commercial Investment – Hotel

A total of 67 hotel bedrooms are proposed within the Grade II Listed Town Hall building. The total GIA of this commercial element is 2689 sqm (28,944sqft).

We understand that the hotel will be operated as a four star offering by Dorsett Hospitality International and having discussed the trading potential of the asset with this operator, we have made the following assumptions to inform our financial appraisal:

- Average Daily Rate (ADR) £85.00 per room;
- Average Occupancy – 80.00%;
- Average annual operating costs – 45% of gross income.

Applying these factors to the proposal generates a net annual income of £914,617, which we have capitalised at a yield of 6.00% to produce a gross capital sum of £15,243,617, equating to £227,517 per key.

We have taken account of the following recent comparable transactions when assessing the value of the proposed hotel:

The freehold interest in the Hampton by Hilton Hotel, Royal Docks in London Docklands, a 209 bedroom newly built hotel was sold in March 2017 for the sum of £33,500,000, equating to £160,287 per key.

The freehold interest in the Premier Inn, Beresford Street in Woolwich, a 130 bedroom hotel constructed in 2015, was sold in March 2016 for the sum of £21,200,000, equating to £163,076 per key.

The freehold interest in the 188 bedroom Holiday Inn, Westfield Stratford City was sold in December 2015 for the sum of £38,400,000, equating to £204,000 per key.

In assessing the value of the proposed hotel, we have also considered the following factors that might impact on the investment potential of the asset and the yield used in our financial appraisal reflects these constraints:

- The nature of development, within a Grade II Listed building that will limit the potential for expansion of the hotel;
- Access to the Town Hall building is shared with the Community Art Centre) use;
- Food and beverage facilities are shared with the Community Art Centre) use.

Commercial Investment – Co Working Space

The proposed development includes co working space, which is located on ground, first and second floor levels of the Town Hall building. This use has a GIA of 443sqm (4,768sqft) and a NIA of approximately 362sqm (3,897sqft). The majority of the space is provided at ground floor level and we consider that the smaller spaces on first and second floor levels are rather compromised by their location and quality of accommodation that might be available – the second floor space is particularly compromised. We understand that the co working space will be constructed to shell and core specification.

In our experience, office space of this nature, within a building shared with other uses and no dedicated entrance, will be of limited interest to investors and this is reflected in the yield that we have applied to the estimated gross annual income generated by the asset.

In assessing the value of the co working space, we have considered the following recent transactions:

Office - ERV

In February 2017 at 86 Weston Park, Crouch End Adoption Plus took 797 sq ft of ground floor office space on a 10 year term at £25,000, reflecting £31.37 per sq ft.

In July 2016 at Lysander Mews in Archway Tracsis Traffic Data Ltd took 1,854 sq ft of office space on a 5 year lease at £54,000 per annum, equating to £29.13 per sq ft. There is a tenant's break option in year three. A two month rent free period was agreed.

In June 2016 at 1-2 Drayton Park, Holloway Collis Bird & Withey Ltd took 904 sq ft of ground floor office accommodation on a 10 year lease at £28,000 per annum, equating to £30.97 per sq ft.

In June 2016 at Lysander Mews in Archway Nafsiyat Intercultural Therapy Centre took 1,436 sq ft of ground floor office space in unit 4 on a new 5 year lease at £44,000 per annum, equating to £30.64 per sq ft. A 3 months' rent free period was agreed.

In June 2016 at 602 Green Lanes, in Haringey, an unknown tenant took 650 sq ft of office space on a three year lease at £16,000 per annum, reflecting £24.62 per sq ft.

We consider that an appropriate ERV for the proposed co working space is £30.00 per sqft (on NIA) and that an incoming tenant would require a 3 month rent free period to reflect the need to fit out the premises.

Office - Investment

In March 2017 the freehold interest in 1-2 Drayton Park, Holloway was sold for the sum of £400,000. The property comprises 904 sq ft sq ft of office space situated across ground and two upper floors, let to Collis Bird and Withey at a rent of £28,000 reflecting £30.97 per sq ft on a lease expiring in June 2026. The selling price reflected a net initial yield of 6.55% assuming purchasers costs of 6.80%.

We consider that a yield of 6.50% is appropriate for the subject property and having applied this to the co working space the gross development value of this element of the Town Hall is £1,770,520.

<u>Commercial Investment – Food & Beverage</u>

The food and beverage element of the proposal has a total GIA of 702sqm (7,556sqft) and is located within the Town Hall (4,703sqft) and Broadway Annexe (2,853sqft). Whilst the F&B use within the Town Hall will be shared by the Hotel and Community Uses, we have assumed that for the purposes of viability assessment, all spaces will be available to tenant operators and therefore capable of generating rental income.

In assessing the value of the F&B element of the development, we have had regard to the following recent transactions:

- In May 2017 at 7 Crouch Hill, Crouch End an unknown tenant took 1024 sq ft of ground floor retail space on a 15 year term at £12,000, reflecting £17.14 per sq ft.
- In September 2016 at 555 Holloway Road in Holloway, T3 Ping Pong took 900 sq ft of ground floor retail space on a 10 year term at £20,000, reflecting £22.22 per sq ft.
- In March 2016 at 4 Topsfield Parade, Crouch Hill Porky's BBQ took 2,170 sq ft of ground floor retail space on a 15 year term at £55,000, reflecting £25.35 per sq ft.

We consider that an appropriate ERV for the F&B use is £25.00 per sqft (on GIA) and that a yield of 6.00% reflects the particular constraints on the potential investment due to the nature of development (as described above). We consider that a 6 month rent free period is appropriate, to allow for tenant fit out of the property.

The GDV of the food & beverage element of the proposal is therefore considered to be £3,057,932.

The total assessed Gross Development Value for the project is £118,576,252.

6 Benchmark Land Value

As explained at Section 2 above, viability is usually tested by comparing the residual land value of the proposed scheme with a benchmark land value; the benchmark can be the land value in its existing use with incentive uplift and return to the landowner, or alternative use, or current market value in line with RICS Guidance. Clearly land will be transacted for the highest offer in the market, and this will relate to the highest value use likely to come forward in planning terms.

NPPG is clear that a market approach should be taken to land value, stating at 'Viability' paragraph 023: -

In all cases, land or site value should:

• reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;

• provide a competitive return to willing developers and land owners including equity resulting from those wanting to build their own homes); and

• be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.

It is our opinion, based on the overall policy position, that benchmark land value should be assessed in accordance with RICS Guidance and NPPG, using comparable site values while accounting for affordable housing policy. However, in responding to current general industry practice and the Council's guidance on the completion of viability assessments, we have considered the existing uses in operation on the application site and the level of return that the applicant (and landowner) would require in order to release the premises for mixed use redevelopment.

The property benefits from a previous planning permission and listed building consent (ref. HGY/2013/1383). We understand that the Council consider that this permission has been lawfully implemented. Our approach to establishing the Benchmark Land Value has been to prepare an Argus Developer financial appraisal for the previous planning permission in order to calculate the Residual Land Value that it would generate if the permitted development were constructed and sold in current market conditions.

Our approach is summarised below: -

a) Establish the ERV and investment value of the non residential elements and ground rent income of the previous planning permission, based on the assumptions that we have used to inform our financial appraisal of the current proposal (as set out in section 5 of this report);

b) Establish the current market value of the 119 private residential dwellings and 64 car parking spaces allocated for residential use, based on the assumptions that we have used to inform our financial appraisal of the current proposal;

c) Establish the current market value of the 4 affordable homes that were permitted as part of the previous planning permission;

d) Apply appropriate development costs to the previous planning permission, based on the assumptions stated within section 4 of this report;

e) Identify the likely construction cost of the development permitted by the previous planning permission, based on the Order of Cost Estimate prepared by Fulkers, taking into account of the different uses proposed for the Town Hall building and applying an appropriate discount to Fulkers estimate;

f) As the resultant residual land value reflects an Alternative Use Value, we have not applied a landowner premium as we might do if we were considering the existing use value of the premises – for the purposes of establishing a viability benchmark, it is the level of developer return that is relevant and we have used the same approach to this as set out in section 4 of our report.

The previous planning permission was for the following development: -

Previous Planning Permission Accommodation Schedule

Building	Use	GIA (sqm)	GIA (sqft)	NSA (sqm)	NSA (sqft)	Residential Units
Town Hall	D1/D2/Theatre & Performance Venue	4,289	46,168			N/A
Town Hall	B1 (Office)	248	2,670			N/A
East Wing	Residential (Assumed Net:Gross 80%)	1360	14,639	1,088	11,712	13
Link Block	Residential (Assumed Net:Gross 80%)	515	5,544	412	4,435	6
Broadway Annexe	Residential (Assumed Net:Gross 70%)	734	7,904	514	5,533	8
Mews	Affordable Housing	557	5,996	557	5,996	4
New Block A	Residential (Assumed Net:Gross 60%)	7907	85,109	4744	51,066	66
New Block B	Residential (Assumed Net:Gross 60%)	3150	33,907	1890	20,344	26
Car Parking	64 spaces allocated to residential					
Totals		**18,760**	**201,937**	**9,205**	**99,085**	**123**

(Note – Residential GIA's estimated)

Argus Developer Appraisal Assumptions

Development Revenue

- Community Use/Arts Centre – ERV of £5.50/sqft (on GIA), capitalised at a yield of 8.00%, 3 months rent free period;
- B1 (Office) Use – ERV of £30/sqft (on NIA), capitalised at a yield of 6.50%, 3 months rent free period.
- Private Residential – MV of £800/sqft
- Residential Ground Rents £400 pa per unit (119 units), capitalised at a yield of 5.00%;

- Affordable Housing – assumed to be provided as Affordable Rent tenure at LSH rents of £388.65 per week for the 4 bedroom units. Deductions of £20 per week service charge, annual RP management & maintenance, voids/bad debts & sinking fund provisions of £1,988 per annum. Net rental income of £17,182 pa capitalised at a yield of 5.50% and deduction of RP "on costs" of 6% to produce a net value of £1,176,177 (£196 per sqft), assuming no grant funding;
- Total GDV £82,206,800

<u>Development Costs</u>

- All assumptions as per the RLV appraisal for the current proposal, with the exception of: -

o A reduced CIL allowance of £2,100,000;

o Profit on Affordable Housing calculated at 6.00% of GDV – blended rate is therefore 19.54%;

o Reduced Construction Costs of £240/sqft (£48,464,800) to reflect the lower level of fit out required to the Town Hall as hotel use not included within the previous planning permission.

Our Argus Developer appraisal relating to the previous planning permission is provided at Appendix 3. This shows a Residual Land Value (RLV) of £2,726,697, which we consider to be an appropriate viability benchmark for comparison with the RLV generated by the current development proposal.

8 Summary of the Appraisal

For ease of reference we provide here a summary of the Argus appraisal relating to this project, demonstrating the viability position: -

Hornsey Town Hall, Crouch End	
Summary Appraisal	
Costs	
	£
Construction costs	66,778,000
Construction Risk Contingency	3,338,900
Rights of Light Compensation	300,000
Professional fees	6,677,800
Marketing, letting, disposal & legals	4,258,151
Mayoral & Borough CIL	2,967,116
Acquisition Costs	196,710
Total finance costs	8,696,162
Profit	22,600,634
Total costs	115,813,473
Revenue	
Private Residential Sales	94,240,800
Residential Ground Rents	1,168,000
Private Car Parking	800,000
Hotel Investment Sale	15,243,617
Other Non residential Investment Sale	7,123,835
Total sales	118,576,252
Residual Land Value	2,762,779
Benchmark Land Value	2,726,697
RLV – EUV (net residual)	**36,082**

The above summary demonstrates that the proposal is viable, but cannot sustain on site affordable housing contributions.

9 Summary of Key Points

National, regional and local policy explains the importance of economic viability in seeking planning contributions, and the guidance provided by the RICS and GLA describe the methodology for determining viability, which we have followed in compiling our assessment. A thorough analysis of the development economics of the proposed scheme has been undertaken in compiling this assessment, together with the application of up to date market assumptions.

We have assessed the viability benchmark on the basis of Alternative Use Value, as the previous planning permission (ref. HGY/2013/1383), is considered by the Council, to be lawfully implemented. Based on a residual land appraisal that has been prepared in respect of this previous planning permission, our opinion is that an appropriate Benchmark Land Value is £2,726,697.

The applicant has entered into a community access agreement in respect of the Town Hall and will be investing sums towards subsidising the continuing use of that building as a community based Arts Centre. Based on our assumption that the commercial rent would be circa £11.50/sqft higher than a community organisation might be able to pay for this space, that level of developer subsidy equates to a sum of approximately £391,425 per annum. If we were to capitalise that annual subsidy at a yield of 8.00% (as we have assumed for the community use), then the developer subsidy would equate to “value foregone” of approximately £4.9m.

The restoration costs of this Grade II Listed building is estimated to be £6.07m (including main contractor prelims and OH&P, excluding fit out costs associated with proposed uses) and in addition to this, the applicant will be required to contribute a total of £2,967,116 in CIL contributions. Whilst the estimated GDV of the proposed development is in the order of £118.576m, development risk and associated costs are significant and this is reflected in the residual land value generated by our financial appraisal of £2,762,779.

Our financial viability assessment indicates that based on current estimated costs and revenues, there would be a marginal surplus position between the proposed viability benchmark and residual land value generated by the Argus Developer appraisal for the current planning application. This indicates that the proposal is financially viable but cannot deliver on site affordable housing in addition to CIL contributions, restoration of the Grade II Listed Town Hall and the significant community benefits that the application proposes.

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10 Appendices

Appendix 1 – Argus Developer Appraisal Current Proposal)

Appendix 2 – Order of Cost Estimate Fulkers)

Appendix 3 – Argus Developer Appraisal EUV Calculation)