BNP PARIBAS REAL ESTATE

Response to DS2 submission "Critique of OPDC Response to Inspector's Questions in relation to Valuation Feasibility Study of Cargiant Site"

1 Introduction

1.1 This note provides a response to the DS2 *"Critique of OPDC Response to Inspector's Questions in relation to Valuation Feasibility Study of Cargiant Site"* submitted to the OPDC Local Plan Examination on 28 June 2019. Having considered the comments made by DS2 we then set out our opinion of the viability and developability of the Cargiant Site Allocation as included in the OPDC Submission Local Plan.

2 Site and development tested

2.1 As identified in our report dated 31 May 2019, the National Planning Practice Guidance ("NPPG 2014") sets out at para 006 that:

> *"Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable; site typologies may be used to determine viability at policy level. Assessment of samples of sites may be helpful to support evidence and more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies."*

2.2 DS2 indicate that the site extends to 18.6 Ha (45.9 acres) with capacity for 6,200 homes and 2,920 jobs and includes both the Cargiant Site Allocation (No 2), Tringle Business Centre Site Allocation (No. 3) and Cumberland Business Park Site Allocation (No. 28). The latter two sites propose the delivery of significantly less housing units and we consider that they are adequately covered by the testing undertaken in the Whole Plan Viability Study. As identified above the NPPG 2014 does not suggest that OPDC needs to test all sites coming forward in its area, only key sites upon which the delivery of the plan relies.

2.3 OPDC Local Plan identifies the Cargiant Site Allocation 2 as being suitable to deliver 5,300 homes and 48,800 sq m of commercial floorspace. This Site Allocation is expected to deliver a significant quantum of the OPDC's housing supply in years 6-21 of the Local Plan. Given representations made by Cargiant in January 2019 and following the discussion at the Local Plan Hearing on 3 April 2019, the Inspector requested further viability evidence to support the soundness of the policy allocating this quantum of development in the Local Plan.

2.4 The NPPF (2012) and NPPG are clear that in formulating their planning policies, a local planning authority needs to *"assess the likely cumulative impacts on development in their area"* and that *"In order to be appropriate, the cumulative impact of these standards and policies should not put implementation of the plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only appropriate available evidence".* Application of plan policies needs to be sufficiently flexible to deal with market cycles so that the scale of housing and other development envisaged by the local plan can be delivered. This clearly speaks to the NPPF's requirement in para 154 that *"Local Plans should be aspirational but realistic. They should address the spatial implications of economic, social and environmental change. Local Plans should set out the opportunities for development and clear policies on what will or will not be permitted and where".* The OPDC's Local Plan contains such flexibility, see for example Policies H2 and DI1.

2.5 The OPDC Local Plan identifies that the housing units identified in the Car Giant Site Allocation 2 are expected to come forward in years 6-21 of the plan, not in the first 5 years of the plan. The NPPF provides clear guidance at para 47 on the requirements on local planning authorities for demonstrating housing supply to meet their identified needs. For sites or broad locations identified for growth, for *"years 6-10* [of the plan period] *and, where possible, for years 11-15"* the supply needs to be *"specific and developable".* Footnote 12 in the NPPF provides the definition of developable, for which OPDC and ourselves have provided evidence to the Inspector to demonstrate that the reliance on the Cargiant Site Allocation to meet the OPDC's housing requirements in the Local Plan is reasonable, and consequently the Local Plan meets the NPPF's para 182 tests of soundness.

2.6 We note DS2's comments on the GL Hearn report however, we reiterate our earlier comments that the OPDC and we strongly consider that limited weight should be given to this assessment with respect to demonstrating the viability of Site Allocation 2 for the following reasons:

- The assessment was not produced for the purposes of testing the emerging Local Plan policies in relation to Site Allocation 2.
- The development assessed was an earlier iteration of the scheme promoted by Cargiant to inform pre-application discussions between the OPDC and Cargiant on the economics of the specific proposal being put forward at that point.
- The scheme includes significant amounts of development and uses not specified or required by Site Allocation 2 and the scheme was in fact subsequently reworked to address the significant quantum and number of uses that impacted negatively on the viability of the scheme.
- OPDC have identified that the infrastructure burden included in assessment is higher than would be required by the scheme. In this regard, our appraisal allows for contributions from CIL only.

2.7 The Cargiant scheme tested by GL Hearn was a higher density development, however, as identified in our earlier comment, the scheme also included a significant amount of uses that impacted on the viability such as community and leisure uses. The more viable uses on the site therefore ended up cross subsidising the delivery of these less viable uses. We do not consider that this is an appropriate reflection as to higher density on Site Allocation 2 being less viable, as asserted by DS2. We would highlight that increased density has been seen to deliver improved viability demonstrated by means of additional affordable housing on other schemes in London, such as the Homebase site in the London Borough of Wandsworth.

3 Benchmark Land Value

Existing/Alternative Use Benchmark

3.1 We note DS2's comments in relation to the premium we have applied to the existing use value, however we reiterate that the range of uplift from over and above an existing use value is regularly adopted on viability assessments to reflect the "competitive return" to a reasonable landowner identified by the NPPF. The GLA's SPG identifies this as being between 10% to 30%, but in our experience can also be as low as a 0% premium, depending on site-specific circumstances. The premium is the amount over and above the current value of the asset that the landowner will require to be incentivised to release their site for development. If the site:

- is currently well tenanted i.e. with a good covenant strength;
- benefits from long leases;
- has good demand for the units were they to become vacant; and
- is in good condition

It is likely to require a premium at the higher end of the range to incentivise the landowner to offer the site for development. We also acknowledge that owner occupied sites will also require reasonable incentives for a landowner to relocate their operations. There is a requirement for professional judgement on these issues as to the level of uplift to be applied.

3.2 We would highlight that access to the Cargiant site is compromised. Our viability appraisal report on the Cargiant Site Allocation dated 31 May 2019 identified at para 3.58 that,

> *"For industrial land, access is a key determinant of value, both in respect of geographical location and local accessibility. We note that the Cargiant land accessed from Hythe Road has poor and height restricted access from Scrubs Lane and further, the land on Salter Street is identified by the OPDC to be even more limited in accessibility. Given this, the OPDC consider*

that the value of the Site's use for industrial purposes would not be as high as those with multiple access points and without restrictions on vehicular access."

3.3 This point is also confirmed in the SWOT analysis at page 30 of the CBRE Valuation Report dated 24 June 2019. This states that *"Access compromises* [sic] *(railway infrastructure and local road network).*

3.4 We further note that CBRE report also identify in their SWOT analysis that the *"building stock across the properties [is] at best secondary, a lot of accommodation has been altered specifically to suite [sic] owner occupation by Car Giant"*.

3.5 These factors clearly impact on the desirability/"letability" of the premises and the value of the investment, which directly relates to the considerations we set out above, upon which we assess the level of premium uplift to the existing use value. We have adopted a figure of 20%, which we consider to be at the upper end of the range, based on the analysis of the above criteria. In our experience, we consider this to be a reasonable assessment for the uplift to the existing use value to arrive at a reasonable benchmark land value assessment for the site.

3.6 We note that both DS2 and CBRE have made numerous comments and comparisons to Park Royal. However, given the above commentary on the site i.e. having significantly compromised access and the existing uses being "at best secondary" or altered to suit the owner occupier, its existing use value will be significantly lower than that of good quality units in Park Royal, which benefits from excellent access. This is the reasoning underpinning our opinion that the appropriate benchmark land values for the site in our assessment were benchmarks 2 and 3, based on secondary industrial land values of low to medium values.

3.7 We would comment that the benchmark land values adopted in the OPDC's viability evidence are not too low for the area, as DS2 assert. The values were appropriate at the point at which they were first assessed and adopted in the viability work. We have acknowledged that the values of industrial land have increased since this point, including on secondary stock. Accordingly we have increased the benchmark land values adopted to allow for an uplift in line with the evidence of capital growth which was discussed at the Local Plan hearing on 3 April 2019 and covered in our Note to the Inspector in relation to Industrial Values provided on 31 May 2019.

3.8 We note that CBRE have been appointed to value the Cargiant site under the special assumption that, *"the properties continue in their existing uses and assuming any alternative use is excluded"*. However, this is not the approach that they have adopted in arriving at their total site value, with a hybrid of existing use value and alternative use value being applied.

3.9 The properties identified as being held as investments are valued in their existing uses. We note that CBRE have valued all the sites in Cargiant's ownership, however they have identified which Site Allocation each site lies within. We set out a summary of these properties and CBRE's valuation of them in Table 3.9.1 below.

Table 3.9.1 Investment properties valued by CBRE

Investment Properties	ODPC Site Allocation No.	Market Value (Subject to Special Assumption)
Gateway Trading Estate, Hythe Road	2	£23,075,000
Mitre House, Scrubs Lane	2	£ 3,170,000
Cumberland House, Scrubs Lane	2	£ 9,125,000
24 Scrubs Lane, Scrubs Lane[1]	2 (incorrectly identified as 28)	£ 8,360,000

[1] CBRE identify at page 31 of their report that "the majority of this property is owner occupied by Car Giant, however, it sits as a property in isolation from the bulk of the owner occupied properties and our value assessment treats this as a potential investment asset".

Investment Properties	ODPC Site Allocation No.	Market Value (Subject to Special Assumption)
Triangle Industrial Estate, Enterprise Way/Fortune Way	3	£20,925,000
26 Scrubs Lane, Scrubs Lane	28 (incorrectly identified as 2)	£390,000
Pembroke Buildings, Scrubs Lane	28	£1,830,000
Unit 8, Rutland Studios, Scrubs Lane	28	£245,000
Westmoreland House, Scrubs Lane	28	£3,100,000
Total		***£70,220,000***
Total Site Allocation 2		**£43,730,000**

3.10 Given that we are only assessing Site Allocation 2, we calculate the appropriate existing use value attributable to the investment properties in Site Allocation 2 as being £43.73 million. We have then allowed for an uplift to 2021 values. We note the DS2 and CBRE agree with Savills that the more cautious growth rate of 3.4% per annum on industrial land is more realistic. This would result in a cumulative growth figure of 6.92% up to 2021. This results in a value of £46.75 million to which we have applied a 20% premium, based on our previous analysis of the attractiveness of the investments in this location. This results in a benchmark of £56.105 million for the investment properties in Site Allocation 2.

3.11 The value of the remaining Cargiant operational land is assessed differently. CBRE state on page 32 that *"for the owner occupied properties, while there are a range of serviceable and diverse industrial accommodation, we have viewed them as a comprehensive industrial/warehousing redevelopment opportunity aligned to some of the sites in the benchmark land transactions"*. This analysis is in fact an alternative use value of the site, which would require planning consent. We would question why CBRE has taken this approach instead of valuing the existing units. It raises concerns that the existing use value of the premises would be lower than the £190 million redevelopment option presented by CBRE.

3.12 We note that the NPPG identifies that site value *should "reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy".* Given the site's allocation for redevelopment for residential led mixed use in the London Plan and the emerging OPDC Local Plan, it is very unlikely that the industrial/warehousing development envisaged by CBRE would secure planning consent.

3.13 Notwithstanding the above comments, we would highlight that the adoption of a premium on an alternative use value is incorrect as this is double counting. For benchmark land values, either an existing use value plus a premium or an alternative use is adopted. No premium is applied to an alternative use value, as it is implicit in the higher alternative use value. This principle has recently been confirmed in the updated NPPG 2018 and maintained in the 2019 update. The starting point for CBRE's assessment of this part of the site is £190 million with no premium added.

3.14 We note that CBRE have not provided a copy of their appraisal, however they have set out a summary of their key inputs in the table at the top of page 33 of their report. We have reviewed these inputs and would make the following observations:

Build costs

3.14.1 The costs of demolition at £53,000 per acre appear to be too low. We note that we have adopted £120 per sq m for demolition in our assessment of the redevelopment of the site allocation, based on advice from the OPDC's cost consultants, WT Partnerships ('WTP'). An increase in the demolition costs would reduce the residual value of the development.

3.14.2 The build costs adopted range between £45 per sq ft (£484 per sq m) to £70 per sq ft (£753 per sq m). WTP have reviewed these costs and have provided us with the following

commentary. In the first instance current BCIS build costs for industrial space rebased to Hammersmith and Fulham range dependant on the type and size of development from an average of £888 per sq m up to £2,168 per sq m (excluding B1 uses) (see attachment at **Appendix 1**).

3.14.3 With respect to the multi floor scheme costed at £45 per sq ft, WTP have advised that at Thameside West there is a light industrial scheme on 2/3 floors split into multiple occupiers which they understand of circa 8,500 sq m in size that cost circa £1,490 per sq m. This is three times more expensive or over £1,000 per sq m more to build than the £484 per sq m allowed by CBRE.

3.14.4 WTP notes that in the submitted Masterplan Feasibility Review, C5 and Gleeds state that the shell and core Energy Centre costs £1,087/m2 to build, which is very similar to an industrial unit. At this cost it is still double that of the multi floor unit cost and £334 per sq m (44%) higher than CBRE's adopted build cost allowances.

3.14.5 WTP have advised that they did work on a 12,000 sq m warehouse building in Stevenage, Hertfordshire recently for £600 per sq m, so large warehouses can be very cost effective. However, CBRE have modelled a range of multi-let units, ranging from small to medium, and multi-level accommodation, which will clearly incur higher build costs than large warehouses.

3.14.6 WTP have advised that CBRE's cost of £753 per sq m in OPDC's area for the single unit warehouses is not unreasonable, however the cost would increase up to circa £1,500/m2 for multi occupancy, multilevel light industrial units. Given this position we consider the build costs adopted by CBRE to be understated, which would reduce the residual land value.

External works

3.14.7 We note that CBRE have not identified any cost allowance for external works on the small and multi-let units, which would be required to construct access within the site, lighting, parking, provision of services etc. This would result in an additional allowance of 10% of base build costs to the scheme, which would reduce the residual land value. We note that CBRE have included a 20% allowance for "infrastructure" for the multi-level building.

Contingency

3.14.8 The contingency allowance included is 5% and 10% with 10% being placed on the multi-level development only. In line with our comments on contingencies in section 5 we consider that a contingency allowance of 5% is reasonable. This would reduce the costs to development and increase the residual site value.

Finance

3.14.9 Finance is allowed for at 5.5%, which we consider to be too low. We have allowed for 6.5% in the assessment of the development of site allocation 2. Increasing the finance rate would increase the cost of development thereby reducing the residual value of the development.

Profit

3.14.10 Profit is included at 15% on costs, which is lower than the rate of profit typically applied to such schemes by the market. We consider that a more reasonable profit level would be 20% on costs. This would increase the costs to the development and therefore reduce the residual value.

Mayoral CIL

3.14.11 CBRE's report is silent on Mayoral CIL. Given that there will be a significant increase in floorspace, the development they have modelled will attract a CIL liability. It is not apparent that CBRE's appraisals take this into account.

Phasing/absorption

3.14.12 CBRE have appraised the development as 3 phases, but their report silent on the timing of delivery of each phase. We therefore cannot assess how reasonable CBRE's programme assumptions might be and how realistic the assumed rate of absorption.

3.15 Taking the above into consideration we consider that the CBRE assessment of the value of the owner occupied part of Site Allocation 2 is significantly overstated and we have undertaken our own residual land value assessment to determine the value of this land.

3.16 This residual appraisal adopts the assumptions outlined in Table 3.16.1.

Table 3.16.1: Alternative industrial development – appraisal inputs

Appraisal assumption	Amount	Comment
Phases	Phases, each comprising an equal split of land area between small multi-let units, medium multi-let units and multi-level accommodation	
Site coverage	40%	
Development programme	Phase 1: 6-month pre-construction followed by 6 months construction and investment sale completed 5 months from Practical Completion. Phases 2 to 4: 6 months construction following Practical Completion of the previous construction phase. Investment sale 5 months from Practical Completion of each phase	
Rents (£s per sq ft)	Small multi-let: £24 Medium multi-let: £18 Multi-level: £16	
Void/rent free	6 months	
Investment yield	4.5%	
Purchaser's costs	6.8% (5% SDLT, 1% agents fees and 0.8% legal fees)	
Construction (per square metre)	Small multi-let: £888 Medium multi-let: £888 Multi-level: £1,490	
Contingency	5% of construction costs	
External works	10% of construction costs	
Mayoral CIL	£80 per square metre applied to 50% of the floorspace	Remaining 50% is assumed to be offset by existing floorspace
Professional fees	10% of construction	
Letting agents and letting legals	10% and 5% of first year's rent respectively	
Disposal fee	1% of capital value	
Marketing	£2 per square foot of floorspace	
Finance	6.5%	
Profit	20% of cost	

3.17 Our appraisal (attached as **Appendix 2**) generates a residual land value ('RLV') of £101.7 million.

3.18 Taking into account the 6.92% growth in values to 2021, this takes the value of the operational land to £108.73 million.

3.19 In light of the above, we have analysed the benchmark land value for the Cargiant Site Allocation 2 in 2021 to be as follows:

- the BNPPRE AUV assessment (with no premium but including growth at 6.92% to 2021) - £108.73 million;
- the EUV of the investment properties (grown to 2021 values at 6.92% plus a 20% premium - £56.105 million

3.20 This results in a benchmark land value of £164.835 million. We summarise our adopted Benchmark Land Values against this figure in Table 3.20 below.

Table 3.20 Comparison of benchmark land values ('BLV')

Benchmark	BLV 2021 (inclusive of 20% premium) Per Ha (£ million) adopted in study (per acre)	BLV 2021 (inclusive of 20% premium) Per acre (£ million) adopted in study	Cargiant site BLV as at 2021 inclusive of 20% premium as appropriate) (£ million)
Benchmark 1	£7.69	£3.112	£132.500
BNPPRE Cargiant Site benchmark	**£9.572**	**£3.874**	**£164.835**
Benchmark 2	£12.347	£5.000	£212.603
Benchmark 3	£13.241	£5.358	£227.996

3.21 This demonstrates that the Cargiant Site Allocation 2 specific benchmark land value actually lies between our 2021 benchmark land values 1 and 2, and that our previous assumptions measuring the Site against benchmark land values 2 and 3 were a conservative assumption.

3.22 We therefore remain of the opinion that the benchmark land values adopted in the Local Plan testing remain valid assumptions. We have therefore set out the results of our appraisals against all of these benchmarks in Section 8 of this report.

Alternative benchmarks

3.23 We note that in their response DS2 set out two alternative viability benchmark figures, based on relocation costs for Cargiant or should this not be possible the CPO/extinguishment value of Cargiant and their premises (including of both the investment and owner occupied premises).

3.24 OPDC have instructed Deloitte to review and provide advice in relation to the figures submitted by DS2. Their full advice is set out in the "*Assessment of Relocation and Extinguishment Costs Letter*", which has been submitted to the Examination. We set out a summary of their advice below.

Relocation

3.24.1 Deloitte note that DS2 has assessed the "high level costs of relocation" to be £422,148,827. They set out on page 4 their understanding to be that DS2's *"assessment is intended to be an estimate of the compensation that would be payable in the event that the Cargiant land is acquired, and the business required to move. Although it is not stated as such, we assume this to be the case based on DS2's repeated comment that the site can only become available through the exercise of CPO powers."*

3.24.2 They set out their concerns that the approach that DS2 has taken *"departs from the fundamental principle that other than in exceptional cases (relating to particular uses for which there is no general market or demand, which is not the case here), the assessment of compensation for land taken is based on the market value of the land that is being acquired.*

DS2 appear to have started from the proposition that compensation should be based on the potential cost of acquiring a replacement site that is larger than the site used by the business at a price in excess of market value. Further additions are then made for the cost of demolishing some of the existing buildings and constructing new buildings. From this total amount, credit is then given for the value of the land that has been acquired. It is noted at paragraph 6.34 that "….there are multiple cost headings that have been omitted….". They conclude that, *"on this basis, it is our view that the DS2 assessment cannot be considered to be a reliable or useful indication of the likely costs of relocation in the event of compulsory purchase.*

3.24.3 They identify the starting point to be an assessment of *"the value of the land to be acquired. This is assessed on the basis of the price that a willing-seller would achieve for its land if sold in the open market. This is equivalent to market value. For the Cargiant business, this has been assessed by CBRE at £190.403m, as noted above. This figure is said to be c. £5.95m per acre (Valuation Report, page 33)."* We have raised our concerns in relation to the validity of this figure above and have provided our own assessment of value. Notwithstanding this, we would highlight that for the purpose of their assessment, Deloitte has taken the CBRE valuation figure at face value.

3.24.4 Deloitte identify the next step to be the consideration as to where the business is to relocate and how the relocation is to be carried out. They identify that based on their understanding of the Cargiant operation, they *"estimate that costs and losses in the order of £40m might be incurred in moving the business to an alternative site".* They then suggest that *"a further £40m (which is approximately 17.5% of the combined figure) should be added",* which should *"cover any potential variance in relocation costs and any unforeseen additional costs".*

3.24.5 Deloitte identify their relocation estimate to be £270.403 million (including a contingency allowance of £40 million) and further advise that in arriving at a total figure where the investment assets are to be acquired, this would be on the basis of market value. The investment assets that make up Site Allocation 2 are identified as having a total value of £43.73 million. Given this the total relocation costs associated with Site Allocation 2 are estimated to be between £314.133 million and £274.133 million dependant on the requirement for the contingency allowance.

Extinguishment

3.24.6 Deloitte observe that, *"the DS2 document appears to summarise Cargiant's assessment of the compensation that it considers would be due to it in the event of compulsory acquisition."* They identify that the *"assessment proceeds on the basis that it would not be possible for the business to relocate, and that extinguishment would therefore be the basis for the assessment of compensation".*

3.24.7 Deloitte note that DS2's *"conclusion at paragraph 6.41 is that the estimated compensation payable to Cargiant on extinguishment would be c. £650m".* They understand this to represent, *"DS2's estimate of the overall compensation that would be due to Cargiant for acquisition of its land and extinguishment of the business."* They go on to identify that they *"consider that the methodology that DS2 has employed is fundamentally flawed and accordingly produces a resulting estimate of compensation that is significantly inflated"* and set out their reasoning for this.

3.24.8 Deloitte conclude that, *"based on the information provided and applying the recognised methodology, a proper estimate of the compensation due for the extinguishment of the business is not more than c. £426m, and potentially less. This compares with DS2's assessment of "at least £650m"".* We note that in their assessment Deloitte have identified an upper middle and lower range of values for the estimated total extinguishment value. The range identified is £426.174 million to £350.993 million.

3.24.9 As with the relocation assessment, Deloitte identify that this assessment excludes the value of the investment assets, which should be assessed on the basis of market value. As identified above, the CBRE report sets out the value of the investment assets on Site Allocation 2 to be £43.73 million. The total costs for extinguishment and acquiring the investment assets would equate to a range of £469.904 million to £394.723 million.

3.25 In light of the circumstances of this site, we have undertaken an assessment of the viability of the development proposals for the Cargiant Site Allocation 2 in the submission Local Plan against the benchmark land values as well as the benchmarks of relocation and extinguishment. We set out the results of our appraisals at Section 8.2 below.

4 Build costs and inflation

4.1 We note that Core 5 ('C5') have provided DS2 with supplementary build cost advice. We have sought advice on this from cost consultants WTP, who provided advice to OPDC for the build costs to be incorporated into the viability testing undertaken on the Local Plan.

4.2 We note that C5 have identified significantly lower residential costs than those adopted in our appraisal as advised by WTP (taking into account the additional extra over policy costs allowed for). WTP have advised that base build cost rate is dependent upon the density which drives the massing and height (600 DPH). They note that lower build costs may be achievable dependant on the height and built form of the developments coming forward on the site.

4.3 With respect to the retail/leisure costs advised by C5 at £2,418 per sq m, we note that this is based on the assumptions of the leisure and retail uses in the Masterplan Feasibility Review cost assessment produced by Gleeds in 2015, which assessed the costs of Cargiant site scheme being considered at pre-app at that time. We reiterate our comments identified in section 2 that the Site Allocation does not place any restrictions or requirements on the site further than the broad allocation for 5,300 residential units and 48,800 sq m of commercial space. We note that the retail and leisure uses in the Masterplan Feasibility Review included such uses as a cinema and a swimming pool, which add significant costs to this category of development.

4.4 WTP have considered C5's costs and have provided the following commentary and advice. The WTP costs are based on numerous benchmarks and is shell and core with no fitting out. They have considered suitable benchmarks for such uses and have identified that the retail uses on Royal Albert Dock was £1,750 per sq m and market testing indicates £1,800 per sq m. With respect to leisure uses, WTP considered that on an average basis these appear to be high in their experience and for such uses they consider a cost of £2,500 per sq m including an allowance for fit out would be more reasonable. Considering a blended average for retail and leisure uses on the site WTP have advised that a rate of £2,050 per sq m would be more reasonable.

4.5 C5 have advised that a build cast of £3,563 per sq m should be allowed for the B1 office development floorspace. WTP have advised that in their professional opinion this cost is significantly higher than they would anticipate for an office building to CAT A in this area. The initial office rates adopted were based on schemes delivered in Croydon and Royal Albert Docks. WTP have advised that costs in line with that identified by C5 are akin to tall developments in the constraints of City of London. For example they have recently tendered for a 24 story building in the City of London with the cost equating to £3,220 per sq m. On this basis and in their experience they would expect the development of commercial offices to be much lower in the Old Oak Common area. They note that market testing of the latest Phase of the Royal Albert Docks has indicated build costs for office space of over 10 floors of £2,600 per sq m.

4.6 WTP have considered C5's allowance of £220 per sq m for demolition costs. They have advised that they consider this allowance to be significantly higher than they would expect it to be based on their experience of demolition costs on similar sites. For example, they have recently received a quote for demolition on a site in HA3 circa 7 miles away from the subject site which equated to £121 per sq m. They have therefore advised that they consider the current allowance of £120 per sq m to be of the right order.

4.7 WTP disagrees with C5's position that a 10% contingency allowance is required on the scheme. A 5% is a reasonable contingency allowance for viability testing such schemes with increased contingencies typically allowed for sites where here this is significant additional risk such as the presence of listed buildings.

4.8 In addition WTP have noted that the C5 report states "*The cost assumes that the works will be procured on the basis of a single stage competitive tender and a design and build form of contract"*. The have advised that such costs in assessing the viability of schemes for planning purposes, in their opinion, should be procurement neutral as the permission is on the land and not for the developer or applicant and because the applicant choses a particular procurement methodology this should not provide an advantage or disadvantage as to basis of the appraisal. In this case C5 are going down a design and build route so preliminaries and overheads and profit should reflect the risk being passed to the Contractor. Other forms of procurement would in WTP's opinion have the potential to reduce costs. Further, they have identified a comment made in a report by Gardiner and Theobald produced in May 2019 that identifies that *"finally, it should be noted that the developer may still elect to procure the works via an open market competitive tender instead of internal construction management. Should this be the case, the overall cost plan will increase"*. Clearly the reverse of this statement shows the opportunity for potential savings by going down a different procurement route on this project. WTP and ourselves therefore consider that it is unreasonable for a large contingency for risk be added when they are passing on some of the risk by the procurement methodology chosen and may choose a cheaper procurement methodology and potentially reduce cost in the future.

4.9 Given the above, we have undertaken an analysis of three build cost positions in Table 4.9.1 overleaf:

- BNPPRE 31 May 2019 build costs analysis;
- Analysis of C5 build cost position 28 June 2019; and
- BNPPRE updated build cost position 5 July 2019.

4.10 This analysis shows that difference between our initial costs and C5 amount to circa £61.423 million (4.5% difference). When considering the scheme based on the on C5's residential build costs and WTP's advice on more reasonable updated commercial costs this results in a total cost £6.537 higher than the costs adopted in our initial appraisal (0.5% difference).

4.11 We set out the results of our appraisals testing these updated costs at section 8.2 and **Appendix 3**.

BNP PARIBAS REAL ESTATE

Table 4.9.1 Analysis of build costs (assuming 25% AH)

	WT Partnership		Core 5		Reassessed Scheme	
	Residential: private	Residential: affordable	Residential: private	Residential: affordable	Residential: private	Residential: affordable
NIA	£231,963	£13,026	£231,963	£13,026	£231,963	£13,026
GIA	£309,284	£17,368	£309,284	£17,368	£309,284	£17,368
Base Build Cost Rate (£ per sq m)	£3,229	£3,014	£3,089	£2,852	£3,089	£2,852
External costs (£ per sq m)	£242	£226	£232	£214	£232	£214
SUDs and attenuation (£ per sq m)	£13	£12				
Carbon (£ per sq m)	£81	£75				
Accessibility (assessed in £ per sq m)	£5	£5				
Total Build Cost rate £ per sq m	***£3,571***	***£3,333***	***£3,321***	***£3,066***	***£3,321***	***£3,066***
Contingency allowance	£179	£167	£332	£307	£332	£307
Total Build Cost including contingency	**£3,749**	**£3,500**	**£3,653**	**£3,373**	**£3,653**	**£3,373**
Build costs	£1,159,522,151	£60,779,326	£1,129,832,827	£58,582,854	£1,129,832,827	£58,582,854
TOTAL RESIDENTIAL BUILD COSTS	**£1,220,301,477**		**£1,188,415,680**		**£1,188,415,680**	
	Retail / Leisure	B1 use	Retail / Leisure	B1 use	Retail / Leisure	B1 use
NIA	£24,900	£23,900	£24,900	£23,900	£24,900	£23,900
GIA	£33,200	£31,867	£33,200	£31,867	£33,200	£31,867
Base Build Cost Rate (£ per sq m)	£1,400	£2,200	£2,418	£3,563	£2,050	£2,600
External costs (£ per sq m)	£140	£220	£181	£267	£205	£260
BREEAM (£ per sq m)	£14	£22				
Total Build Cost rate £ per sq m	***£1,554***	***£2,442***	***£2,599***	***£3,830***	***£2,255***	***£2,860***
Contingency allowance	£78	£122	£260	£383	£113	£143
Total Build Cost including contingency	**£1,632**	**£2,564**	**£2,859**	**£4,213**	**£2,368**	**£3,003**
Build costs	£54,172,440	£81,709,320	£94,928,262	£134,262,154	£78,609,300	£95,695,600
TOTAL COMMERCIAL BUILD COSTS	**£135,881,760**		**£229,190,416**		**£174,304,900**	
TOTAL SCHEME BUILD COSTS	**£1,356,183,237**		**£1,417,606,096**		**£1,362,720,580**	

5 Sales values, growth and rates

5.1 BNPPRE and the OPDC have considered the comments made in relation to sales values, rates and growth and we provide our comments in relation to these below.

5.2 A key issue that BNPPRE and the OPDC would bring to the Inspector's attention is that a number of the opinions given in the advice letter by Knight Frank to DS2 contradicted their published research both in terms of house price growth (see Table 3.10.1 of our 31 May 2019 Viability Report), regeneration impacts on residential values and specifically values and growth within Old Oak as a regeneration hotspot (see **Appendix 4** for a copy of Knight Frank's published report entitled "*London Development Hotspots Residential development Opportunity areas 2018")*

5.3 We note that Knight Frank and DS2 have identified that the blended average sates values of £750 per sq ft adopted in our appraisals as being an appropriate average, current day starting point and further that an average of market forecasts is a reasonable approach to determining short term value growth. However, Knight Frank dispute the regeneration factor of 6.7% applied in our appraisals between 2022 and 2027 as well as the long term growth figure of 3% per annum derived from the Oxford Economics growth forecasts for UK household disposable income at 3.2% per annum.

5.4 Knight Frank note that our projected growth in values in Old Oak from £750 per sq ft in 2018 to £1,364 per sq ft by 2027 is "unrealistic given the scale of the scheme" without qualification of how "scale" affects values. This is despite their own research (a) supporting scale as a driver of value and (b) specifically supporting similarly strong growth of 10% pa in Old Oak Common.

5.5 We note that this growth of 82% takes place in a similar period to the 113% growth achieved at Royal Arsenal identified by Knight Frank in their letter of advice to DS2. We do not consider that this contradicts our work, rather it highlights how the market outperforms the initial assumptions made in at the early planning stages of such large developments.

5.6 We would highlight however that Knight Frank's 2018 "Hotspots Report" identified Old Oak Common as a "future residential development hotspot" with sales values of £750 per sq ft in 2018 and forecast sales values for 2021 of £1,000 per sq ft subject to critical mass being achieved in the timeframe. This is substantially higher than the average rate of growth suggested by Knight Frank based on a regeneration premium of 2% over the base forecast growth. By way of example, sales value growth as published in Knight Frank's Hotspots Report 2018 from £750 per sq ft to £1,000 per sq ft reflects cumulative growth of 33.33%. The growth advocated by Knight Frank in their letter to DS2 at the average growth of the published forecast figures and 2% premium would only equate to 19.61% growth. Moreover, applied in the manner in which we have adopted sales value growth in our appraisal (i.e. with a regeneration premium only being adopted from 2022 to 2027) this reduces the growth applied to the values to 2021 to 10.72%. Knight Frank's published forecast residential sales value growth over the same period is higher at 11.42% (see Table 3.10.1 of our 31 May 2019 Viability Report). This is a key concern as it demonstrates the highly conservative if not understated nature of Knight Frank's advice on the sale values and regeneration growth achievable on the Site Allocation.

5.7 We note that Knight Frank does not dispute the fact that major regeneration schemes can drive enhanced value growth. They have, however reduced our allowance of 6.7%, for such growth, stating that this should be at 2% with a maximum of 3%. We note that DS2 have adopted the lower of these two figures. Notwithstanding the fact that this does not align with Knight Frank's published advice on sales values growth in the subject area of Old Oak Common, this is also based on one example provided and has not carefully considered the range of schemes identified in the CBRE assessment that we relied upon.

5.8 We consider the schemes set out in the CBRE research entitled '*The regeneration effect*', published in 2016 to provide excellent insight into the impact of different levels of regeneration and place-making as well as the critical importance and "game changing" nature of the delivery of new transport infrastructure. As set out in our 31 May 2019 Report, CBRE reported that on average the area surrounding the regeneration zones researched experienced annual property price growth of between

2.1% and 8.5% with an average of 4.7% per annum above and beyond wider house price growth. On this basis a 2%-3% regeneration factor is not incorrect in itself. However, careful consideration needs to be paid to the nature of the regeneration that is going to take place.

5.9 This is clearly borne out in the results of the research set out in the CBRE report[2], where the presence (or absence) of major new transport capacity underlying the scheme clearly differentiates those with a regeneration growth factor of over/under 5% as demonstrated below:

- 8.5% Stratford - Jubilee Line and HS1;
- 6.7% North Greenwich - Jubilee Line;
- 5.7% Southbank - Jubilee Line;
- 3.8% Woodberry Park - No new transport infrastructure;
- 3.4% Paddington Basin - No new transport infrastructure;
- 2.9% N1 Islington - No new transport infrastructure; and
- 2.1% Riverside Quarter - No new transport infrastructure.

5.10 Knight Frank make clear that the proposed HS2 and Crossrail investment in Old Oak are fundamental to pricing. This is agreed by OPDC and ourselves, and we highlight that ensuring the delivery of maximum regeneration benefit at Old Oak to capitalise on national scale transport investment is central to OPDC's objectives.

5.11 Despite the rumour and speculation referred to by Knight Frank, we note that as at today;- Elizabeth Line rolling stock sits on the completed depot at Old Oak ready to be put into service and that HS2 continue construction and detailed planning (Schedule 17) discussions on the new station. We note that there is no evidence to suggest that Hythe Road Station is now precluded from proposals for Old Oak North as planning policy supports its delivery. We also note that work is in hand with the West London Orbital, along with HS2 safeguarding capacity to add a Chiltern Line service meaning there is potential upside in terms of the delivery of additional transport capacity at Old Oak North.

5.12 Given the transformational scale of transport investment in Old Oak and the low base from which any further place-making, enhanced public realm and social infrastructure would have an impact, we are of the firm view that a regeneration growth rate of 6.7% is prudent. We note that this level of growth accords with Knight Franks' opinion of sales value growth in their Hotspot's Report 2018.

5.13 We note that Knight Frank have raised a concern in relation to "double counting" any new build premium with regeneration growth. We consider that place-making, public realm improvements and significant transport infrastructure along with "critical mass" delivering a perception of change will impact on both new build and second hand stock pricing. OPDC and ourselves are confident that any new build premium is simply not the same as the impact on house prices as a consequence of transformative national infrastructure investment and the regeneration of a new city quarter. The latter results in a halo/ripple effect on the values in surrounding areas.

5.14 To this end we would highlight that in their "Hotspots Report" 2018, Knight Frank identify that achieving critical mass to be a key assumption in a number of their hotspots, *"as this delivers the perception of change, which in turn drives value".* They go on to highlight that *"there is undisputed broad demand for new homes in these areas, however, there remain tangible threats to delivery in the form of uncertain macroeconomic conditions, Government cooling measures and restrictive planning policy direction. The key to successful delivery will lie in creative and thoughtful solutions to these threats, to meet the demands of both policy makers and developers alike".* As identified by OPDC there is not only significant political will for the OPDC area to achieve the growth aspirations set out by the London Plan

[2] CBRE, "The Regeneration Effect" (published in 2016) https://www.cbreresidential.com/uk/en-GB/research/the-regeneration-effect

and submission OPDC Local Plan, but significant public sector work being undertaken to secure the successful delivery of this growth, including securing funding for infrastructure etc.

5.15 Knight Frank's Hotspots Report 2018 also set out comments in relation to place-making, which are particularly pertinent to the OPDC area. They identify that *"investment in improvements to public spaces and upgrading existing town centres is helping to drive demand across the capital, as well as opening up previously under-used land for both residential and commercial development use. As the need for new housing continues to rise, the creation of new neighbourhoods will become increasingly important".*

5.16 Knight Frank also state that, *"Regeneration can lead to a wholesale change of identity for an area"* They acknowledge that *"The Mayor of London is working alongside local authorities and developers to bring physical improvements to London"* and to this end *"many large-scale schemes planned or currently under development in London will also see the provision of new shops, restaurants and cafés alongside residential property".* They state that they are of the opinion that *"where this is happening, we see potential for outperformance relative to the wider market".*

5.17 The published Knight Frank report also recognises that, *"the financial demands of undertaking large urban renewal projects are material and it is essential that it is recognised by all parties that pump priming prices is a necessity, not only to ensure financial viability but also to encourage developers, through profit, to commit to these projects. Given the current conditions, particular attention and emphasis is needed to ensure the built environment is of the highest quality. In particular we believe many schemes need to over stretch the upfront cashflow to deliver exemplar product set into a high quality realm. Where successful, the rewards will follow. However, it is important that these are not seen just as super profit, instead they should be considered in the context of each scheme's long-term heritage and environmental contribution*".

5.18 With respect to the long term growth figure, we note that Knight Frank agrees with OPDC and ourselves that for the timescales within the Local Plan adopting smoothed underlying house growth price is acceptable and a universally adopted methodology. However they disputes the 3% figure adopted in our appraisals, stating that, *"3% growth of capital values from the year 2024 does, however, seem optimistic. Given the length of the period and the resulting uncertainty, we suggest that a growth rate of 2%, in line with the Bank of England's target inflation rate, would be a better base assumption".*

5.19 We note that the Knight Frank forecast demonstrates an underlying average growth of 3.125% pa from 2020 to 2023. Knight Frank have set out that uncertainty in the market related to the UK's departure from the EU has depressed recent performance and near-term growth, but that strong underlying fundamentals will raise growth to c.5% in the forecast period. In our experience the long term 3% annual growth figure is a conservative reflection of average annual growth, which is supported by being in line with the household disposable income. The scheme will be delivered over a period of 21 years from the current day and as a consequence will come forward during the improvement in the market forecast by Knight Frank as of 2023. We reiterate our comments in our 31 May 2019 report that 3% growth is a cautious approach when considered against historic house price trends.

5.20 Given the above we maintain our view that 3% is the appropriate long term growth figure to adopt in this assessment.

5.21 We note Knight Frank and DS2's comments in relation to sales rates. Our initial calculations of timescales, upon which we set up our appraisals, were predicated on the basis of a policy compliant 35% affordable housing scheme, allowing for with 35% off plan sales and delivering circa 6 units per month (6.22 units) from two sales outlets. DS2 identify that they *"do not disagree with an off-plan assumption of between 35% to 60% or sales of 6 units per month from a given outlet", "when considered in islolation".*

5.22 We would make the following observations in relation to sales rates.

5.23 The Cargiant Site Allocation 2 is of a significant size (17.22Ha), such that delivering development at two different parts of the site would be considered to be different locations that would not be competing with

each other, particularly given the diversity of the development plots that would make up the site e.g. some will be close to the park, station or canal, whilst others will be adjacent to railway and hence will likely target different markets and have different price points etc. Moreover a scheme of this scale could justifiably support multiple sales outlets given the scale, geographic diversity and range of product types that will make up Old Oak.

5.24 It is entirely possible that more off-plan sales could be delivered at the site, with up to 100% off plan sales having been seen on many schemes in London over the last few years. Despite sales rates having slowed in the London market recently, the site will be delivered over the next 21 years and in this regard the market is likely to improve over the life the development, which is supported by Knight Frank's residential growth forecast for 2023.

5.25 Although not modelled in our appraisal for the Site Allocation, we consider that it may also support Built to Rent ('BTR') homes, which is an asset type that is attracting substantial investment capital, many such schemes are already coming forward in the Old Oak area. These schemes are occupied more rapidly as well as being sold off in one transaction to a PRS operator. We note that Knight Frank raise the possibility of sales of BTR schemes (and student/retirement living) commenting that *"While these sales will help to boost the sales velocity, sales to the PRS* [Private Rented Sector]*, retirement and student providers will not help to fuel future growth."* They consider that any early site sale to a PRS operator (or student/retirement) will accelerate absorption, but in crystallising value early will not allow the landowner/developer to benefit from future growth. We are aware that the development land market has several mature overage mechanisms to allow vendors to benefit from any future growth. Moreover we note that in the sale of land for BTR, any future rental growth potential will drive yield compression to support land values and in our experience we have seen significant yield compression on such schemes.

5.26 We have considered Knight Frank's comparables and provide the following comments.

5.27 Royal Wharf is a development of 3,385 units across 16.2 hectares. We understand this to be entirely controlled by Ballymore and a result likely has one sales outlet. We also note the scheme includes a significant number of houses which invariably do not come to market in substantial blocks as flats do. The scheme does not include any major new transport infrastructure and represents incremental development radiating from the DLR at Excel Centre. Consequently values and absorption rates are supported by incremental value growth as affordability pressure pushes outwards and displaces industrial uses, not a regenerative step-change.

5.28 Knight Frank note Berkeley's widely acknowledge "slow" sales strategy supported by their low internal cost of capital at Royal Arsenal. As with Royal Wharf, the scheme does not include major new transport infrastructure yet delivered (Crossrail due 2020) values and absorption rates have historically been by incremental value growth as above, in this case displacing former MOD uses.

5.29 With regard to the Television Centre and Kings Cross, both are complex, multi-phased mixed use developments, in which the residential uses form a small component alongside commercial development. These are therefore not considered to be as relevant to this scheme as other examples

5.30 In light of the above, we consider that the sales rates we have modelled are not unreasonable.

Sensitivity test based on published Knight Frank data

5.31 In light of the above we have undertaken a further sensitivity test to establish the impact of Knight Frank's published opinions in relation to sales value growth on the viability of Site Allocation 2. We have reflected the following changes to our updated base appraisal:

- adopted residential sales values of £1,000 per sq ft in 2021 as forecast for the Old Oak Common area by Knight Frank;
- adopting Knight Frank's regeneration premium of 3% (identified in their letter dated June 2019 to DS2) over and above the base growth figures between 2022 and 2027;

- applying Knight Frank's residential forecast figures published in November 2018 and republished in March 2019 (as set out at Table 3.10.1 of our 31 May 2019 Viability Report) for sales value growth in years 2022 and 2023 of 2% and 5% respectively; and
- maintaining our 3% per annum base sales value growth rate from 2024 onwards.

5.32 The growth rates applied in our sensitivity test appraisals are summarised in Table 5.32.1.

Table 5.32.1: Growth applied to sales values (% per annum)

Year	Normal market growth per annum	Regeneration factor (per annum)
2021	£1,000 per sq ft	-
2022	2.00%	3.00%
2023	5.00%	3%
2024	3.00%	3.00%
2025	3.00%	3.00%
2026	3.00%	3.00%
2027	3.00%	3.00%
2028 to 2039	3.00% per annum	-

5.33 The results of our testing identify that reflecting the published growth in sales values forecast by Knight Frank for the Old Oak Common area improve the viability of developing Site Allocation 2. We provide a summary and analysis of the results of our appraisals at Section 8 and set out the full results of our appraisals at **Appendix 5**.

6 Affordable housing grant

6.1 We note the comments raised by DS2 with respect to the uncertainty of the availability of grant for affordable housing and set out the following observations in response.

6.2 Firstly we acknowledge that at present all the information available relates to the availability of grant funding on starts up to 2021 and consequently there is no certainty that the current amounts of grant will be in place post 2021. However we draw the Inspector's attention to the Localism Act 2011 which devolved the housing and regeneration functions of the former Homes and Communities Agency (now Homes England) in Greater London to the Greater London Authority ('GLA'), including responsibility for housing investment programmes. The GLA is empowered in the Greater London Authority Act 1999 *inter alia*, to make grants available for the development and provision of affordable housing. The delivery of affordable housing is a key priority of the GLA captured through the draft London Plan and consequently is unlikely to end in 2021 given the pressing need for affordable homes. Affordable housing delivery is also seen as a priority in the government's housing white paper.

6.3 The GLA's current Affordable Homes Programme negotiated with the government (£4.8 billion 2016 to 2021) is for affordable housing starts to 2021. Given the high national and regional need for new affordable homes, the expectation is that it is highly likely that further funding will be in place beyond 2022. To this end we note that working alongside the G15 and other senior representatives from the affordable housing sector, the GLA has assessed the amount of Government grant funding required to meet the new London Plan's strategic target of 50% affordable housing and deliver 32,500 new affordable homes a year between 2022 and 2032. This is estimated to be £4.9 billion per year[3].

6.4 DS2 assert that the assumed level of grant funding implies that all the affordable housing on the Site will be brought forward by an RP. They suggest that this has implications for layout, with all the affordable housing delivered as discrete phases. DS2 suggest that this might frustrate policy objectives for mixed and balanced communities. We comment on these assertions below.

6.5 The GLA enters into a Framework Delivery Agreement (FDA) with RP investment partners (IPs) for each housing investment programme, pursuant to which the GLA agrees to provide grant funding to the IPs for the purpose of delivery by an agreed date of a pre-agreed number of affordable dwellings. It is not unreasonable to assume that given the number of homes that will be delivered on the Cargiant site allocation that an RP will be procured to deliver the affordable homes, even in a master-developer scenario and where individual parcels of land are developed over time.

6.6 Further, we note that should an RP partner have entered into a FDA and be committed to deliver at least 50% affordable housing across their whole portfolio then in the current programme RPs can receive grant for every affordable home in their pipeline programme.

6.7 In the context of the Mayor's commitment to affordable housing, including the priority given to this in the draft London Plan, it is highly likely that the future programmes would include similar provisions for investment partner RPs[4].

6.8 DS2 have commented that we have not taken into account phases which will be delivered by a traditional developer who will sell the affordable homes to an RP in the traditional manner, in which circumstances grant might be available under the "Developer route'. We note that if this were to be the case, then under the current programme grant amounting to £28,000 per unit would be available for each additional affordable home over and above the minimum viable.

6.9 However, we would also argue that RPs increasingly develop, market and sell private homes as a traditional private developer would on schemes, rather than simply acquire affordable homes through a S106. This is how their business plans increasingly work and help to fund the delivery of affordable

[3] https://www.london.gov.uk/what-we-do/housing-and-land/increasing-housing-supply/2022-2032-affordable-housing-funding-requirement-london

[4] https://www.london.gov.uk/what-we-do/housing-and-land/increasing-housing-supply/affordable-housing-capital-funding-guide

homes. Development in Old Oak will be attractive for RPs given the scale of homes and placemaking envisaged. In these circumstances even acting as the developer under the current programme, RPs would be able to benefit from the enhanced funding for the affordable housing delivered.

6.10 Notwithstanding the above comments, we would highlight that the OPDC's Policy H2 explicitly allows for the consideration of viability in the determination of the quantum of affordable housing to be delivered in a scheme. In the event that lower amounts of grant (or indeed no grant) were available at the point of determination of any reserved matters phase, OPDC as planning authority would consider this in the assessment of the scheme's viability. The OPDC would apply their policy requirement for affordable housing flexibly in line with their policy, thereby ensuring deliverability.

6.11 To this end, we have assessed the impact of no grant finding being available on the viability of the Site allocation. We have run a sensitivity test of our updated appraisal identified in section 5 with no grant contributions. See **Appendix 6** and Section 8.4 for the results of this testing, which demonstrate that the development of Site Allocation 2 would remain viable if no grant funding were forthcoming.

7 Community Infrastructure Levy ('CIL') and infrastructure contributions

7.1 Our appraisals allow for infrastructure contributions calculated through the mechanism of CIL. We note however that OPDC has not yet adopted a CIL charging schedule and that these rates are taken from the Preliminary Draft Charging Schedule published in August 2016. The CIL costs have been modelled as up front costs, which is a significantly onerous assumption with respect to the phased manner in which CIL is usually paid on large development sites. This means that these contributions could therefore be used towards primary enabling infrastructure as well as other non-primary infrastructure.

7.2 We set out in Table 7.2.1 below the CIL contributions included in our assessment for the different levels of affordable housing tested.

Table 7.2.1 CIL contributions adopted in study

Level of Affordable Housing	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
OPDC CIL	£89.65m	£85.49m	£81.32m	£77.16m	£73m	£68.83m	£64.67m	£60.5m	£56.34m	£52.18m	£48.02m
Mayoral CIL	£32.45m	£31.03m	£29.6m	£28.17m	£26.74m	£25.32m	£23.89m	£22.46m	£21.03m	£19.61m	£18.18m

7.3 We note that any surplus generated by the development above the benchmark land value could be applied towards the funding of infrastructure costs. For example, we set out in Table 7.3.1 the contributions towards infrastructure that would be viable as reflected by our appraisals.

Table 7.3.1 Analysis of viable infrastructure contributions

Scenario tested	RLV from relevant appraisal (£ millions)	OPDC CIL contribution (£ millions)	Further infrastructure contribution available – measured against BNPPRE Site Allocation 2 benchmark (£ millions)	Total potential contribution towards infrastructure (measured against BNPPRE Site Allocation 2 benchmark (£ millions)	Further infrastructure contribution available – measured against Deloitte's Relocation costs benchmark (£ millions)	Total potential contribution towards infrastructure measured against Deloitte's Relocation costs benchmark (£ millions)
Updated base appraisal at 35% AH	£191.04	£60.5	£26.205	**£86.71**	N/V	**N/V**
Updated base appraisal at 25% AH	£274.58	£68.83	£109.747	**£178.58**	£0.45	**£69.28**
Knight Frank Sensitivity Appraisal 40% AH	£177.01	£56.34	£12.17	**£68.51**	N/V	**N/V**

Scenario tested	RLV from relevant appraisal (£ millions)	OPDC CIL contribution (£ millions)	Further infrastructure contribution available – measured against BNPPRE Site Allocation 2 benchmark (£ millions)	Total potential contribution towards infrastructure (measured against BNPPRE Site Allocation 2 benchmark (£ millions)	Further infrastructure contribution available – measured against Deloitte's Relocation costs benchmark (£ millions)	Total potential contribution towards infrastructure measured against Deloitte's Relocation costs benchmark (£ millions)
Knight Frank Sensitivity Appraisal 30% AH	£275.779	£64.67	£110.944	**£175.614**	£1.646	**£66.316**

7.4 There would of course be additional contributions towards either affordable housing or infrastructure available when measured against the Relocation Cost advised by Deloitte. This figure was calculated based on the CBRE valuation of the operational land at £190m, which we have identified as being overstated and have assessed this to be £108.73 million.

7.5 The Community Infrastructure Levy (Amendment) (England) (No. 2) Regulations 2019 ("Amendment Regulations") will come into force on 1 September 2019. A key change is that, regulation 11 of the Amendment Regulations removes the current regulation 123, which restricts the number of planning obligations which can be used to fund infrastructure projects or types of infrastructure. In addition, regulation 9 of the Amendment Regulations inserts regulation 121A and a new schedule, Schedule 2, which requires local authorities to publish an annual infrastructure funding statement setting out how much CIL is collected, how much is spent and identifying the infrastructure projects or types of infrastructure which the charging authority intends will be, or may be, wholly or partly funded by CIL. Similar provision is made in relation to planning obligations (i.e. agreements under section 106 of the Town and Country Planning Act 1990 (c. 8)). Given this, there will be greater flexibility in how planning obligations and CIL are used to deliver infrastructure.

8 Results of appraisals

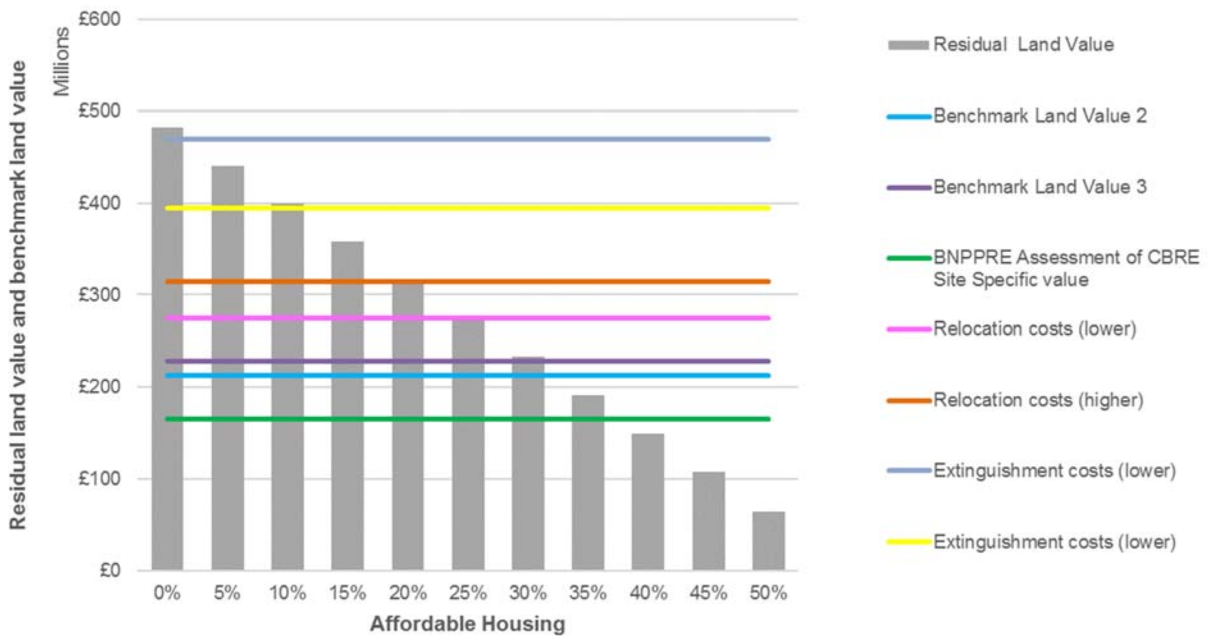
8.1 As identified in the previous sections we have undertaken a number of additional appraisals and sensitivity tests, for which we set out our results below.

Updated base appraisal

8.2 The results of our appraisals testing the Cargiant Site Allocation 2 development allowing for the updated build costs, as identified in Section 3 above are summarised in Figure 8.2.1 below. Despite the costs increasing marginally on an overall basis, when tested in an appraisal cashflow the time cost of financing lower residential costs over the life of the project has improved the viability of the scheme.

8.3 The results of our appraisals demonstrate that the site can viably be developed with between 35% to 40% affordable housing when measured against the Site Allocation 2 Specific benchmark land value. When measured against the higher alternative benchmarks of Relocation and Extinguishment, as advised by Deloitte, our appraisals identify viability. Against the Deloitte range of Relocation Costs the scheme can viable come forward with between 20% and 25%. When measured against the Extinguishment costs range advised by Deloitte the scheme can viably be developed at between 0% and 10% affordable housing. We note however that, the Extinguishment cost has adopted CBRE's value of the operational land at £190 million, which we consider to be significantly overvalued as set out in our assessment in section 3 above. On this basis we consider that a higher quantum of affordable housing could viably be delivered. We would also flag that OPDC would take a holistic approach to development viability in that residual land value can be balanced between the delivery of needs including affordable housing delivery and contributions towards the delivery of infrastructure.

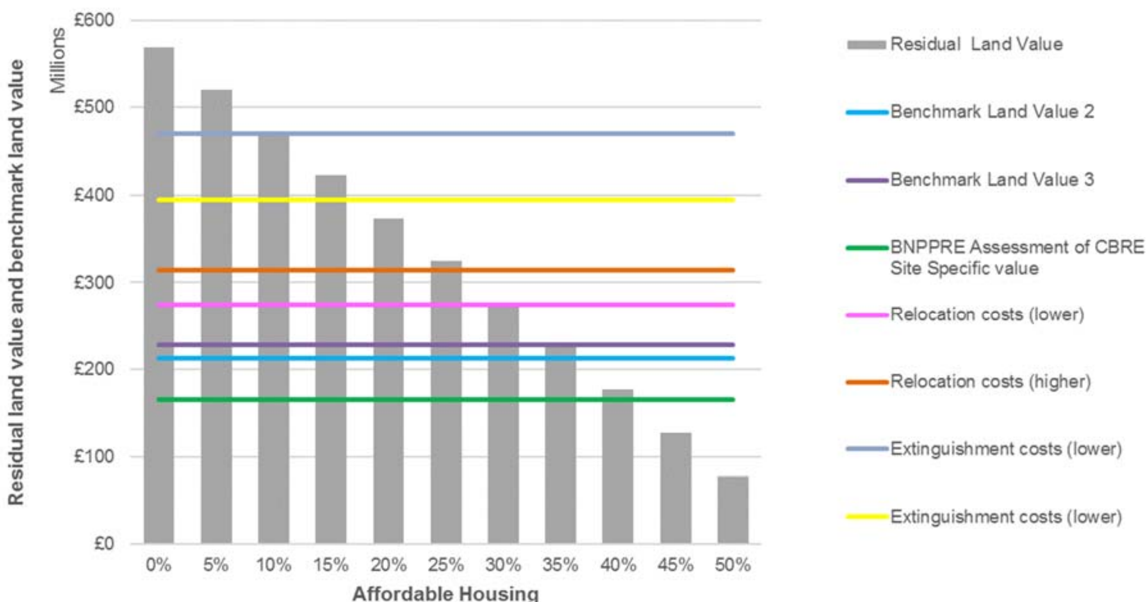
Figure 8.2.1 Base Appraisal with updated build costs



Sensitivity test of Knight Frank assumptions

8.4 We have undertaken a sensitivity test to demonstrate the impact of adopting Knight Frank's assumptions as set out in paragraph 5.31 to 5.32 above. The results of our testing are summarised in Figure 8.3.1 below and identify that the site can viably be developed with between 40% and 45% affordable housing when measured against the Site Allocation 2 Specific benchmark land value. When measured against the higher alternative benchmarks of Relocation and Extinguishment advised by Deloitte, our appraisals identify viability at between 25% and 35% and 5% to 20% affordable housing respectively.

Figure 8.3.1 Sensitivity test adopting Knight Frank assumptions

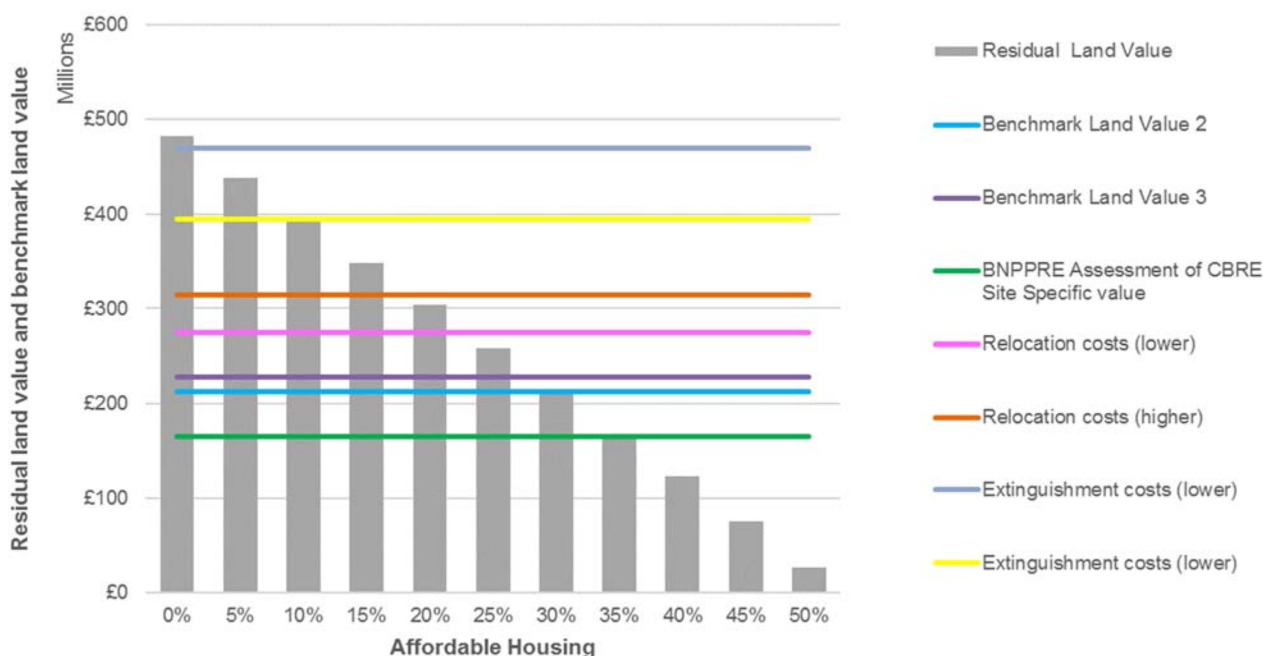


Sensitivity test of updated base scenario assuming no grant funding

8.5 Given the comments made in relation to the availability of grant funding we have undertaken a sensitivity test to establish the impact of no grant being secured on the redevelopment of the Site Allocation. The results of this testing identify that the removal of grant funding would result in a reduction of up to circa 5% affordable housing when compared to the base appraisal, which includes grant funding.

8.6 Our appraisals demonstrate that on a no grant basis the Cargiant Site Allocation 2 development can viably be developed with 35% affordable housing when measured against the Site Allocation 2 Specific benchmark land value. When measured against the higher alternative benchmarks of Relocation and Extinguishment, our appraisals identify viability in the ranges between 15% and 25% and 0% to 10% affordable housing respectively.

Figure 8.4.1 Sensitivity test of updated base appraisal without grant



9 Conclusion

9.1 In light of the above comments we conclude that our initial assessment in our 31 May 2019 Viability Report presented a conservative position with respect to the viability of the Cargiant Site Allocation 2. We remain of the opinion that Site Allocation 2 is developable (as defined in the NPPF) under a range of benchmark values (assuming a willing landowner). It is also developable should the Cargiant land be required to be acquired compulsorily, either on a relocation or extinguishment basis. Moreover we would highlight that in bringing the site forward a developer would always seek to improve value and reduce costs and in ours and the OPDC's experience their assumptions would be significantly more aggressive than those adopted in this study. Any increase in the residual land value could be used to deliver increased contributions towards infrastructure and/or affordable housing.

BNP Paribas Real Estate
5 July 2019

Appendix 1: BCIS Industrial build costs for industrial development

BCIS® RICS®

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 22-Jun-2019 00:40

› Rebased to London Borough of Hammersmith and Fulham (126; sample 31)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
282. Factories							
Generally (20)	1,347	309	752	1,106	1,600	5,071	118
Up to 500m2 GFA (20)	1,713	1,094	1,262	1,454	2,076	2,988	14
500 to 2000m2 GFA (20)	1,422	309	848	1,238	1,600	5,071	51
Over 2000m2 GFA (20)	1,178	454	653	933	1,526	2,977	53
282.1 Advance factories							
Generally (15)	1,089	563	759	1,082	1,361	1,932	38
Up to 500m2 GFA (15)	1,331	1,094	1,134	1,287	1,477	1,746	9
500 to 2000m2 GFA (15)	1,071	563	726	1,037	1,387	1,932	20
Over 2000m2 GFA (15)	888	625	662	914	1,039	1,317	9
282.12 Advance factories/offices - mixed facilities (class B1)							
Generally (15)	1,724	805	1,241	1,776	1,981	2,977	14
Up to 500m2 GFA (20)	2,647	2,186	-	2,767	-	2,988	3
500 to 2000m2 GFA (15)	1,694	1,238	1,631	1,713	1,885	2,002	5
Over 2000m2 GFA (15)	1,530	805	962	1,248	1,879	2,977	7
282.2 Purpose built factories							
Generally (25)	1,475	309	763	1,273	1,987	5,071	75
Up to 500m2 GFA (25)	1,817	894	1,299	1,889	2,342	2,635	6
500 to 2000m2 GFA (25)	1,608	309	821	1,108	1,995	5,071	27
Over 2000m2 GFA (25)	1,342	415	737	1,180	1,822	2,725	42
282.22 Purpose built factories/Offices - mixed facilities (15)	1,265	564	1,085	1,161	1,449	2,238	18
284. Warehouses/stores							
Generally (15)	1,209	435	730	1,031	1,413	5,495	52
Up to 500m2 GFA (15)	2,168	790	1,172	1,513	2,573	5,495	8
500 to 2000m2 GFA (15)	1,158	574	863	1,090	1,396	2,021	17
Over 2000m2 GFA (15)	956	435	710	797	1,165	1,847	27
284.1 Advance warehouses/stores (15)	917	514	716	740	1,125	1,566	13
284.2 Purpose built warehouses/stores							

© RICS 2019

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
Generally (15)	1,295	435	790	1,011	1,483	5,495	37
Up to 500m2 GFA (15)	2,505	790	1,457	1,957	3,146	5,495	6
500 to 2000m2 GFA (15)	1,129	574	822	977	1,348	2,021	14
Over 2000m2 GFA (15)	1,003	435	712	926	1,189	1,847	17
284.5 Cold stores/refrigerated stores (25)	1,642	1,127	1,217	1,424	2,219	2,222	5
320. Offices							
Generally (15)	2,368	1,039	1,727	2,193	2,783	7,296	126
Air-conditioned							
Generally (15)	2,589	1,496	1,975	2,394	2,876	7,296	37
1-2 storey (15)	2,310	1,496	1,886	2,198	2,475	4,288	12
3-5 storey (15)	2,632	1,603	1,874	2,341	2,880	7,296	16
6+ storey (15)	2,814	2,177	2,499	2,677	2,889	4,095	8
Not air-conditioned							
Generally (15)	2,307	1,211	1,668	2,208	2,694	4,231	61
1-2 storey (15)	2,240	1,318	1,586	2,154	2,654	3,915	34
3-5 storey (15)	2,334	1,211	1,756	2,164	2,764	4,231	24
6+ storey (20)	2,945	2,288	-	3,029	-	3,432	4

© RICS 2019

Appendix 2: BNPPRE AUV benchmark appraisal of Cargiant operational land

APPRAISAL SUMMARY

LICENSED COPY

Car Giant site allocation - industrial AUV
July 2019

Summary Appraisal for Merged Phases 1 2 3 4

Currency in £

REVENUE

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Small multi-let units	1	41,412	24.00	993,888	993,888	993,888
Medium multi-let units	1	42,040	18.00	756,720	756,720	756,720
Multi-level accommodation	1	126,119	16.00	2,017,904	2,017,904	2,017,904
Small multi-let units	1	41,412	24.00	993,888	993,888	993,888
Medium multi-let units	1	42,040	18.00	756,720	756,720	756,720
Multi-level accommodation	1	126,119	16.00	2,017,904	2,017,904	2,017,904
Small multi-let units	1	41,412	24.00	993,888	993,888	993,888
Medium multi-let units	1	42,040	18.00	756,720	756,720	756,720
Multi-level accommodation	1	126,119	16.00	2,017,904	2,017,904	2,017,904
Small multi-let units	1	41,412	24.00	993,888	993,888	993,888
Medium multi-let units	1	42,040	18.00	756,720	756,720	756,720
Multi-level accommodation	1	126,119	16.00	2,017,904	2,017,904	2,017,904
Totals	**12**	**838,284**			**15,074,048**	**15,074,048**

Investment Valuation					
Small multi-let units					
Market Rent	993,888	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	21,605,623
Medium multi-let units					
Market Rent	756,720	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	16,449,949
Multi-level accommodation					
Market Rent	2,017,904	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	43,866,183
Small multi-let units					
Market Rent	993,888	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	21,605,623
Medium multi-let units					
Market Rent	756,720	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	16,449,949
Multi-level accommodation					
Market Rent	2,017,904	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	43,866,183
Small multi-let units					
Market Rent	993,888	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	21,605,623
Medium multi-let units					
Market Rent	756,720	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	16,449,949
Multi-level accommodation					
Market Rent	2,017,904	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	43,866,183
Small multi-let units					
Market Rent	993,888	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	21,605,623
Medium multi-let units					
Market Rent	756,720	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	16,449,949
Multi-level accommodation					
Market Rent	2,017,904	YP @	4.5000%	22.2222	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	4.5000%	0.9782	43,866,183
					327,687,017

GROSS DEVELOPMENT VALUE			**327,687,017**
Purchaser's Costs	6.80%	(20,863,967)	
			(20,863,967)
NET DEVELOPMENT VALUE			**306,823,050**
NET REALISATION			**306,823,050**

OUTLAY

APPRAISAL SUMMARY — LICENSED COPY

Car Giant site allocation - industrial AUV July 2019

	ft²	Rate ft²	Cost	
ACQUISITION COSTS				
Residualised Price			101,697,205	
Stamp Duty		5.00%	5,084,860	
Agent Fee		1.00%	1,016,972	
Legal Fee		0.80%	813,578	
				108,612,615
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
Small multi-let units	46,014 ft²	82.49 pf²	3,795,695	
Medium multi-let units	46,711 ft²	82.49 pf²	3,853,190	
Multi-level accommodation	140,133 ft²	138.42 pf²	19,397,210	
Small multi-let units	46,014 ft²	82.49 pf²	3,795,695	
Medium multi-let units	46,711 ft²	82.49 pf²	3,853,190	
Multi-level accommodation	140,133 ft²	138.42 pf²	19,397,210	
Small multi-let units	46,014 ft²	82.49 pf²	3,795,695	
Medium multi-let units	46,711 ft²	82.49 pf²	3,853,190	
Multi-level accommodation	140,133 ft²	138.42 pf²	19,397,210	
Small multi-let units	46,014 ft²	82.49 pf²	3,795,695	
Medium multi-let units	46,711 ft²	82.49 pf²	3,853,190	
Multi-level accommodation	140,133 ft²	138.42 pf²	19,397,210	
Totals	**931,432 ft²**		**108,184,380**	**108,184,380**
Contingency		5.00%	5,409,219	
				5,409,219
Other Construction				
External works		10.00%	379,569	
External works		10.00%	379,569	
External works		10.00%	379,569	
External works		10.00%	379,569	
				1,518,278
Municipal Costs				
Mayoral CIL			865,068	
Mayoral CIL			865,068	
Mayoral CIL			865,068	
Mayoral CIL			865,068	
				3,460,272
PROFESSIONAL FEES				
Professional fees		10.00%	10,970,266	
				10,970,266
MARKETING & LETTING				
Marketing	838,284 ft²	4.00 pf²	3,353,136	
Letting Agent Fee		10.00%	1,507,405	
Letting Legal Fee		5.00%	753,702	
				5,614,243
DISPOSAL FEES				
Sales Agent Fee		1.00%	3,068,230	
				3,068,230
FINANCE				
Debit Rate 6.500% Credit Rate 0.000% (Nominal)				
Total Finance Cost				8,848,309
TOTAL COSTS				**255,685,813**
PROFIT				
				51,137,237

Performance Measures

Profit on Cost%	20.00%
Profit on GDV%	15.61%
Profit on NDV%	16.67%
Development Yield% (on Rent)	5.90%
Equivalent Yield% (Nominal)	4.50%
Equivalent Yield% (True)	4.63%
IRR	32.55%
Rent Cover	3 yrs 5 mths
Profit Erosion (finance rate 6.500%)	2 yrs 10 mths

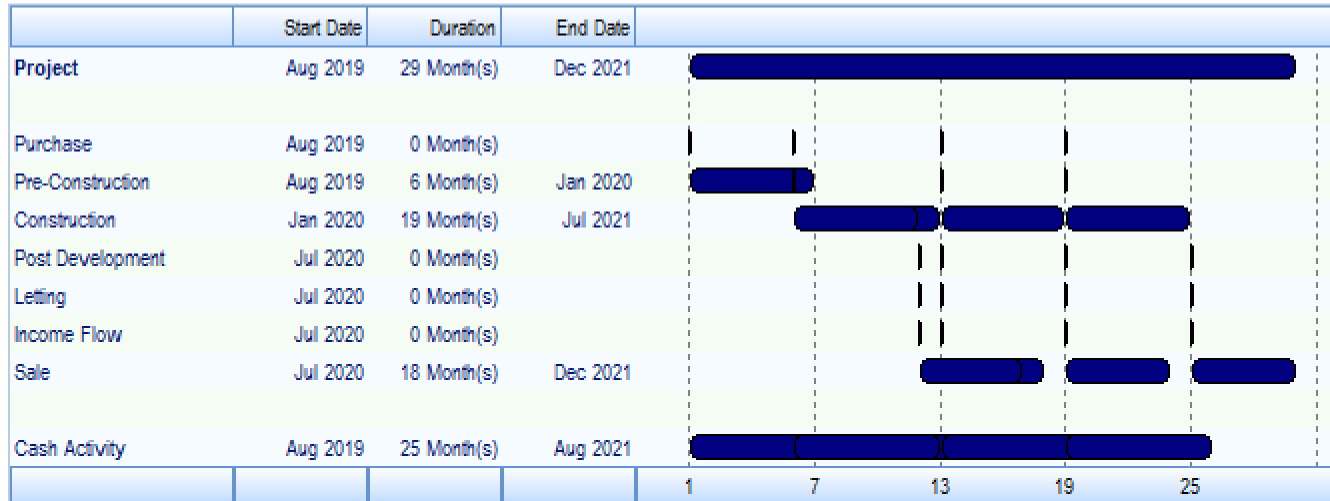
TIMESCALE AND PHASING GRAPH REPORT

LICENSED COPY

Car Giant site allocation - industrial AUV July 2019

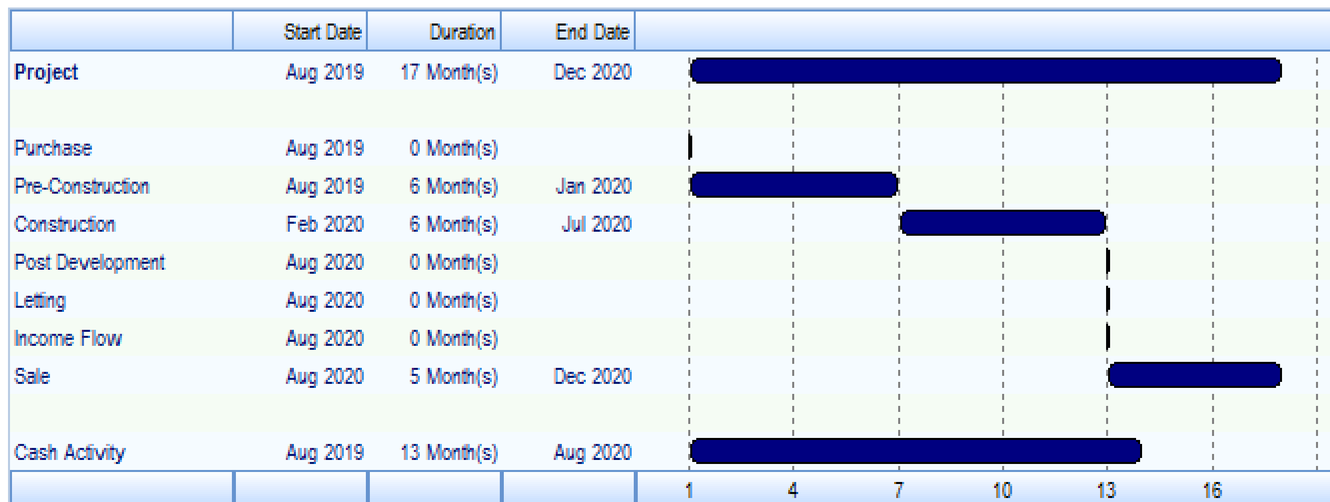
Project Timescale Summary	
Project Start Date	Aug 2019
Project End Date	Dec 2021
Project Duration (Inc Exit Period)	29 months

All Phases



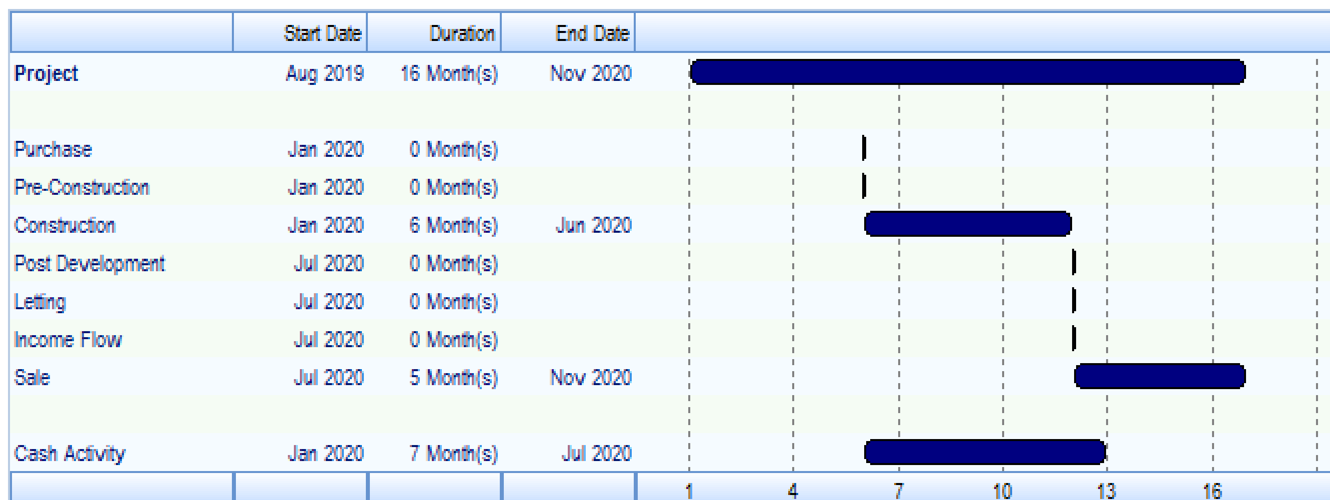
	Start Date	Duration	End Date
Project	Aug 2019	29 Month(s)	Dec 2021
Purchase	Aug 2019	0 Month(s)	
Pre-Construction	Aug 2019	6 Month(s)	Jan 2020
Construction	Jan 2020	19 Month(s)	Jul 2021
Post Development	Jul 2020	0 Month(s)	
Letting	Jul 2020	0 Month(s)	
Income Flow	Jul 2020	0 Month(s)	
Sale	Jul 2020	18 Month(s)	Dec 2021
Cash Activity	Aug 2019	25 Month(s)	Aug 2021

Phase Phase 1



	Start Date	Duration	End Date
Project	Aug 2019	17 Month(s)	Dec 2020
Purchase	Aug 2019	0 Month(s)	
Pre-Construction	Aug 2019	6 Month(s)	Jan 2020
Construction	Feb 2020	6 Month(s)	Jul 2020
Post Development	Aug 2020	0 Month(s)	
Letting	Aug 2020	0 Month(s)	
Income Flow	Aug 2020	0 Month(s)	
Sale	Aug 2020	5 Month(s)	Dec 2020
Cash Activity	Aug 2019	13 Month(s)	Aug 2020

Phase Phase 2



	Start Date	Duration	End Date
Project	Aug 2019	16 Month(s)	Nov 2020
Purchase	Jan 2020	0 Month(s)	
Pre-Construction	Jan 2020	0 Month(s)	
Construction	Jan 2020	6 Month(s)	Jun 2020
Post Development	Jul 2020	0 Month(s)	
Letting	Jul 2020	0 Month(s)	
Income Flow	Jul 2020	0 Month(s)	
Sale	Jul 2020	5 Month(s)	Nov 2020
Cash Activity	Jan 2020	7 Month(s)	Jul 2020

TIMESCALE AND PHASING GRAPH REPORT

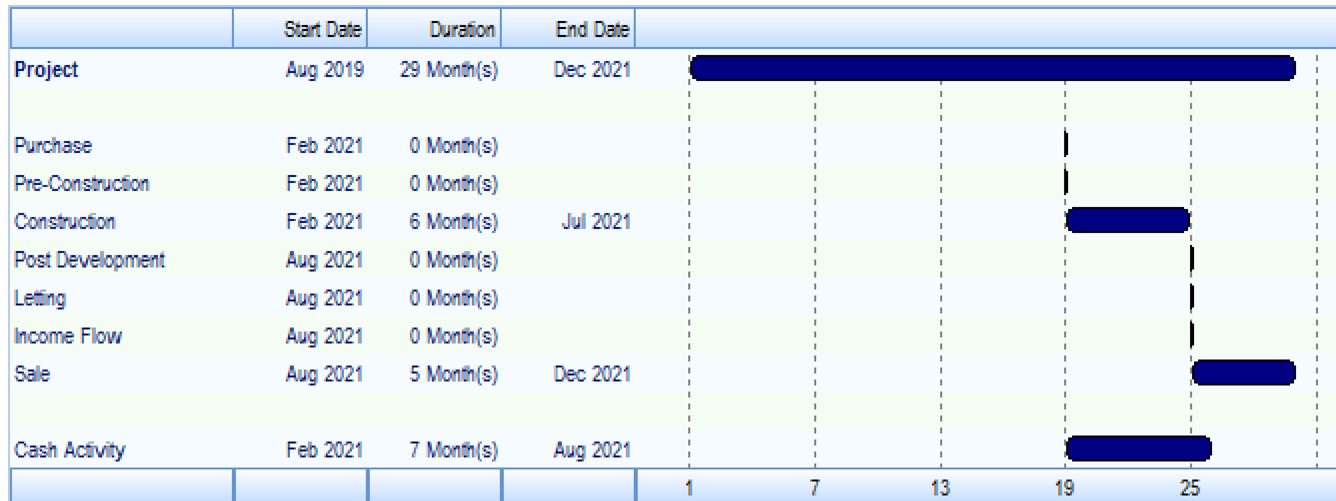
LICENSED COPY

Car Giant site allocation - industrial AUV July 2019

Phase Phase 3

	Start Date	Duration	End Date
Project	Aug 2019	23 Month(s)	Jun 2021
Purchase	Aug 2020	0 Month(s)	
Pre-Construction	Aug 2020	0 Month(s)	
Construction	Aug 2020	6 Month(s)	Jan 2021
Post Development	Feb 2021	0 Month(s)	
Letting	Feb 2021	0 Month(s)	
Income Flow	Feb 2021	0 Month(s)	
Sale	Feb 2021	5 Month(s)	Jun 2021
Cash Activity	Aug 2020	7 Month(s)	Feb 2021

Phase Phase 4



	Start Date	Duration	End Date
Project	Aug 2019	29 Month(s)	Dec 2021
Purchase	Feb 2021	0 Month(s)	
Pre-Construction	Feb 2021	0 Month(s)	
Construction	Feb 2021	6 Month(s)	Jul 2021
Post Development	Aug 2021	0 Month(s)	
Letting	Aug 2021	0 Month(s)	
Income Flow	Aug 2021	0 Month(s)	
Sale	Aug 2021	5 Month(s)	Dec 2021
Cash Activity	Feb 2021	7 Month(s)	Aug 2021

Appendix 3: Updated Cargiant Appraisal Results

OLD OAK AND PARK ROYAL DEVELOPMENT CORPORATION
Local Plan Strategic Site Viability Testing 2019

Cargiant Strategic Site

No Units	5,300
Site Area	17.22 Ha

Description of changes to appraisal inputs	Reduced Resi Build cost: £3,089 per sq m Private and £2,847 per sq m Affordable Increased Commercial values: Retail/Leisure £2,050 per sq m and Office £2,600 per sq m
2019 Sales Value	£750. per sq ft
Sales Value Growth to 2023	10.75%
Sales Value Growth from 2024	3.00%
Regeneration/Maturtity Factor pa (2022 to 2027)	6.70%
Build cost inflation to 2022	5.48%
Build cost inflation pa from 2023	3.50%
Affordable Housing Tenure	SR @ LAR, SO and LLR
Affordable Housing Grant per LAR Unit	£66,000
Affordable Housing Grant per SO/LLR Unit	£28,000

Residual land values:

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£530,125,689	£482,888,626	£482,888,626	£482,888,626	£482,888,626
30% SR @LAR : 70% SO	5%	£486,535,955	£441,320,810	£441,320,810	£441,320,810	£441,320,810
30% SR @LAR : 70% SO	10%	£442,906,808	£399,741,771	£399,741,771	£399,741,771	£399,741,771
30% SR @LAR : 70% SO	15%	£399,254,656	£358,074,451	£358,074,451	£358,074,451	£358,074,451
30% SR @LAR : 70% SO	20%	£355,570,175	£316,341,097	£316,341,097	£316,341,097	£316,341,097
30% SR @LAR : 70% SO	25%	£311,813,045	£274,582,230	£274,582,230	£274,582,230	£274,582,230
30% SR @LAR : 70% SO	30%	£267,976,980	£232,836,198	£232,836,198	£232,836,198	£232,836,198
30% SR @LAR : 70% SO	35%	£223,997,894	£191,039,642	£191,039,642	£191,039,642	£191,039,642
30% SR @LAR : 70% SO	40%	£179,807,754	£149,081,872	£149,081,872	£149,081,872	£149,081,872
30% SR @LAR : 70% SO	45%	£135,564,801	£106,814,413	£106,814,413	£106,814,413	£106,814,413
30% SR @LAR : 70% SO	50%	£91,257,230	£63,788,533	£63,788,533	£63,788,533	£63,788,533

Residual Land values compared to benchmark land values
Benchmark land value 1 - Open Storage

£7,694,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£397,642,908	£350,405,845	£350,405,845	£350,405,845	£350,405,845
30% SR @LAR : 70% SO	5%	£354,053,174	£308,838,029	£308,838,029	£308,838,029	£308,838,029
30% SR @LAR : 70% SO	10%	£310,424,027	£267,258,990	£267,258,990	£267,258,990	£267,258,990
30% SR @LAR : 70% SO	15%	£266,771,875	£225,591,670	£225,591,670	£225,591,670	£225,591,670
30% SR @LAR : 70% SO	20%	£223,087,394	£183,858,316	£183,858,316	£183,858,316	£183,858,316
30% SR @LAR : 70% SO	25%	£179,330,264	£142,099,449	£142,099,449	£142,099,449	£142,099,449
30% SR @LAR : 70% SO	30%	£135,494,199	£100,353,417	£100,353,417	£100,353,417	£100,353,417
30% SR @LAR : 70% SO	35%	£91,515,113	£58,556,861	£58,556,861	£58,556,861	£58,556,861
30% SR @LAR : 70% SO	40%	£47,324,973	£16,599,091	£16,599,091	£16,599,091	£16,599,091
30% SR @LAR : 70% SO	45%	£3,082,020	-£25,668,368	-£25,668,368	-£25,668,368	-£25,668,368
30% SR @LAR : 70% SO	50%	-£41,225,551	-£68,694,248	-£68,694,248	-£68,694,248	-£68,694,248

Residual Land values compared to benchmark land values
Benchmark land value 2- Secondary industrial (low)

£12,347,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£317,523,025	£270,285,962	£270,285,962	£270,285,962	£270,285,962
30% SR @LAR : 70% SO	5%	£273,933,291	£228,718,146	£228,718,146	£228,718,146	£228,718,146
30% SR @LAR : 70% SO	10%	£230,304,144	£187,139,107	£187,139,107	£187,139,107	£187,139,107
30% SR @LAR : 70% SO	15%	£186,651,992	£145,471,787	£145,471,787	£145,471,787	£145,471,787
30% SR @LAR : 70% SO	20%	£142,967,511	£103,738,433	£103,738,433	£103,738,433	£103,738,433
30% SR @LAR : 70% SO	25%	£99,210,381	£61,979,565	£61,979,565	£61,979,565	£61,979,565
30% SR @LAR : 70% SO	30%	£55,374,316	£20,233,534	£20,233,534	£20,233,534	£20,233,534
30% SR @LAR : 70% SO	35%	£11,395,230	-£21,563,022	-£21,563,022	-£21,563,022	-£21,563,022
30% SR @LAR : 70% SO	40%	-£32,794,910	-£63,520,792	-£63,520,792	-£63,520,792	-£63,520,792
30% SR @LAR : 70% SO	45%	-£77,037,863	-£105,788,251	-£105,788,251	-£105,788,251	-£105,788,251
30% SR @LAR : 70% SO	50%	-£121,345,434	-£148,814,131	-£148,814,131	-£148,814,131	-£148,814,131

Residual Land values compared to benchmark land values
Benchmark land value 3 - Secondary industrial (medium)

£13,241,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£302,129,263	£254,892,200	£254,892,200	£254,892,200	£254,892,200
30% SR @LAR : 70% SO	5%	£258,539,529	£213,324,384	£213,324,384	£213,324,384	£213,324,384
30% SR @LAR : 70% SO	10%	£214,910,382	£171,745,344	£171,745,344	£171,745,344	£171,745,344
30% SR @LAR : 70% SO	15%	£171,258,230	£130,078,025	£130,078,025	£130,078,025	£130,078,025
30% SR @LAR : 70% SO	20%	£127,573,749	£88,344,671	£88,344,671	£88,344,671	£88,344,671
30% SR @LAR : 70% SO	25%	£83,816,619	£46,585,803	£46,585,803	£46,585,803	£46,585,803
30% SR @LAR : 70% SO	30%	£39,980,554	£4,839,771	£4,839,771	£4,839,771	£4,839,771
30% SR @LAR : 70% SO	35%	-£3,998,532	-£36,956,784	-£36,956,784	-£36,956,784	-£36,956,784
30% SR @LAR : 70% SO	40%	-£48,188,672	-£78,914,554	-£78,914,554	-£78,914,554	-£78,914,554
30% SR @LAR : 70% SO	45%	-£92,431,625	-£121,182,013	-£121,182,013	-£121,182,013	-£121,182,013
30% SR @LAR : 70% SO	50%	-£136,739,196	-£164,207,893	-£164,207,893	-£164,207,893	-£164,207,893

Residual Land values compared to benchmark land values
Benchmark land value 4 - Secondary office and industrial (high)

£17,357,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£231,255,969	£184,018,906	£184,018,906	£184,018,906	£184,018,906
30% SR @LAR : 70% SO	5%	£187,666,234	£142,451,089	£142,451,089	£142,451,089	£142,451,089
30% SR @LAR : 70% SO	10%	£144,037,088	£100,872,050	£100,872,050	£100,872,050	£100,872,050
30% SR @LAR : 70% SO	15%	£100,384,936	£59,204,730	£59,204,730	£59,204,730	£59,204,730
30% SR @LAR : 70% SO	20%	£56,700,455	£17,471,376	£17,471,376	£17,471,376	£17,471,376
30% SR @LAR : 70% SO	25%	£12,943,324	-£24,287,491	-£24,287,491	-£24,287,491	-£24,287,491
30% SR @LAR : 70% SO	30%	-£30,892,741	-£66,033,523	-£66,033,523	-£66,033,523	-£66,033,523
30% SR @LAR : 70% SO	35%	-£74,871,827	-£107,830,078	-£107,830,078	-£107,830,078	-£107,830,078
30% SR @LAR : 70% SO	40%	-£119,061,967	-£149,787,848	-£149,787,848	-£149,787,848	-£149,787,848
30% SR @LAR : 70% SO	45%	-£163,304,919	-£192,055,307	-£192,055,307	-£192,055,307	-£192,055,307
30% SR @LAR : 70% SO	50%	-£207,612,490	-£235,081,187	-£235,081,187	-£235,081,187	-£235,081,187

Appendix 4: Knight Frank report entitled *"London Development Hotspots Residential development Opportunity areas 2018"* published in 2018

RESIDENTIAL RESEARCH

LONDON DEVELOPMENT HOTSPOTS

RESIDENTIAL DEVELOPMENT OPPORTUNITY AREAS **2018**

AREAS TO WATCH | PRICE FORECASTS | MARKET UPDATE

AREAS TO WATCH

Knight Frank's Hotspots report identifies areas across London where there is the potential for residential development values to outperform the wider market.

This is the third Hotspots report, and while some previously identified locations still make the list, other, new, localities have been identified for 2018. The methodology for identifying these areas, which is set out in detail on page 8, includes examining upcoming transport infrastructure upgrades, large-scale regeneration or place-making and identifying areas in which there is a price differential compared to neighbourhoods close by.

It is worth noting that the prices we are examining in the hotspots are quite distinct from our wider market forecasts, which include all types of housing. Instead, we are looking at localised areas, comparing an assumed present-day value for new-build property to the prices that may be reached by the end of 2021. We have assumed that best-in-class developments will be delivered in each location.

The development landscape in London has changed in the two years since Knight Frank's previous report. These changes have been triggered by political, economic and policy events – not least the vote to leave the EU and additional stamp duty. Planing policies in the capital have also evolved following the election of a new Mayor in 2016.

Average prices across the London market fell on an annual basis in London for the first time in eight years in 2017, according to Nationwide. However, this headline figure masks a multi-speed market with some boroughs still seeing price growth.

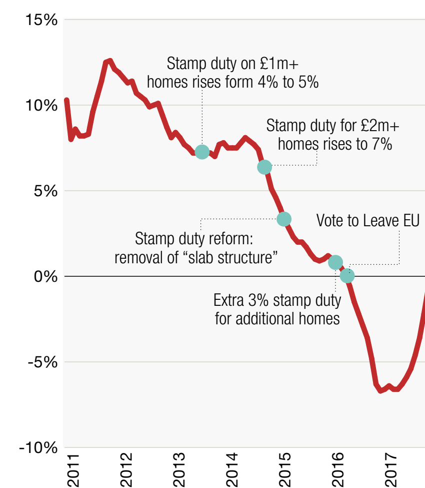
As seen in previous reports, transport infrastructure upgrades, regeneration and realm change are all factors which can feed into new-build and second-hand market pricing.

The new development hotspots identified feature a wider geographical spread than previous reports. In terms of values, the majority are localities where new-build developments are priced at sub-£800psf and most are also outside zone 1. This emphasises the changing landscape for development in London, with a greater focus on affordability.

The timeframe over which we are forecasting, 2018-2021, encompasses the opening of the Queen Elizabeth Line (Crossrail). In many cases the opening of the high-speed rail link from the end of next year has already been priced into sales values in and around station hubs, although for stations where large-scale development is still in the pipeline, pricing could reflect this in the future.

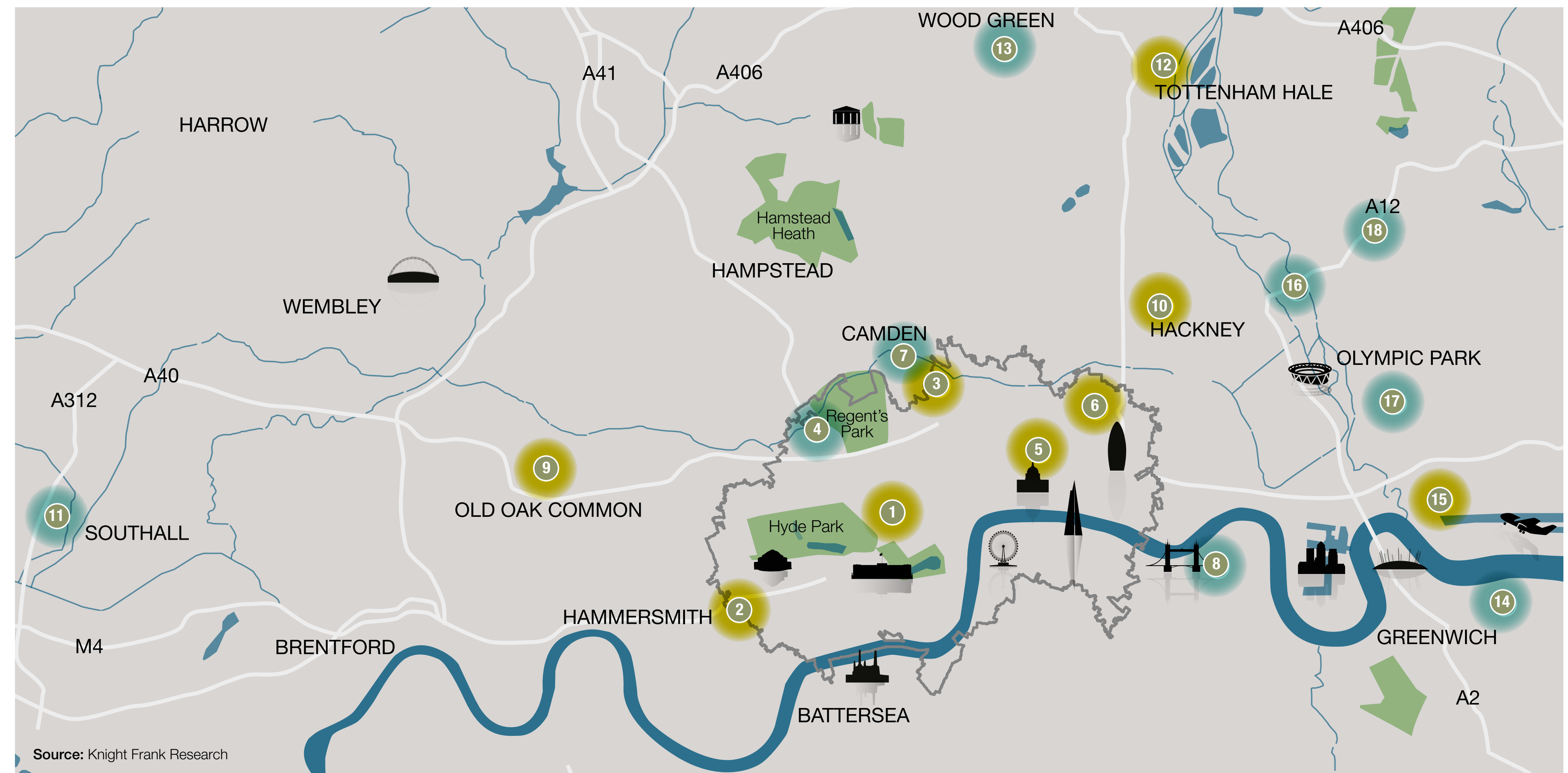
The changing dynamics of the London market in the last two years have also had an impact on the performance of some of our 2015 hotspots. Some of these areas have not seen the growth in pricing over the timeframe forecast, but are still seen as areas of opportunity. Other hotspots identified in 2015 are no longer included in the list, in many cases because they have reached their outperformance potential, and are likely now to move more in line with the market.

FIGURE 2
PRIME CENTRAL LONDON PRICES ANNUAL CHANGE



Source: Knight Frank Research

FIGURE 1
LONDON'S FUTURE RESIDENTIAL DEVELOPMENT 'HOTSPOTS'



Source: Knight Frank Research

The financial demands of undertaking large urban renewal projects are material and it is essential that it is recognised by all parties that pump priming prices is a necessity, not only to ensure financial viability but also to encourage developers, through profit, to commit to these projects. Given the current conditions, particular attention and emphasis is needed to ensure the built environment is of the highest quality. In particular we believe many schemes need to over stretch the upfront cashflow to deliver exemplar product set into a high quality realm. Where successful, the rewards will follow. However, it is important that these are not seen just as super profit, instead they should be considered in the context of each scheme's long-term heritage and environmental contribution.

JAMES KEEGAN
RESIDENTIAL DEVELOPMENT CONSULTANCY

2018 HOTSPOTS

Hotspots not ranked in order of forecast growth — ZONE 1 — NEW HOTSPOTS

Hotspot	2018	2021
1. MAYFAIR	£6,000	£7,000
2. EARLS COURT*	£1,650	£2,100
3. KING'S CROSS	£1,600	£1,850
4. LISSON GROVE	£1,400	£1,850
5. FARRINGDON	£1,450	£1,750
6. SHOREDITCH	£1,300	£1,500
7. CAMDEN	£1,100	£1,500
8. CANADA WATER*	£900	£1,250
9. OLD OAK COMMON*	£750	£1,000
10. HACKNEY CENTRAL	£875	£1,000
11. SOUTHALL	£600	£750
12. TOTTENHAM HALE	£675	£750
13. WOOD GREEN	£650	£800
14. CHARLTON RIVERSIDE*	£550	£700
LOWER LEA VALLEY		
15. ROYAL DOCKS	£800	£1,000
16. HACKNEY WICK	£700	£850
17. WEST HAM*	£700	£950
18. LEYTON	£675	£800

REGENERATION KEY

- Pre-regeneration
- Early regeneration
- Sense of 'place' created but further phases to be delivered
- Regeneration not the value-add factor

* dependent on critical mass being achieved in timeframe

HOTSPOT FACTORS

Place-making

Investment in improvements to public spaces and upgrading existing town centres is helping to drive demand across the capital, as well as opening up previously under-used land for both residential and commercial development use. As the need for new housing continues to rise, the creation of new neighbourhoods will become increasingly important.

Achieving critical mass is a key assumption in a number of our hotspots, as this delivers the perception of change, which in turn drives value. There is undisputed broad demand for new homes in these areas, however, there remain tangible threats to delivery in the form of uncertain macroeconomic conditions, Government cooling measures and restrictive planning policy direction. The key to successful delivery will lie in creative and thoughtful solutions to these threats, to meet the demands of both policy makers and developers alike.

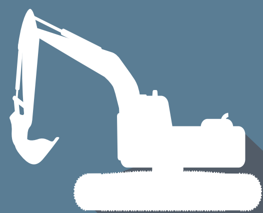
CHARLIE HART
HEAD OF CITY AND EAST DEVELOPMENT

Transport

Changes in transport infrastructure stimulate and open up parts of a city, attract investment, create additional demand for housing and can bring new energy to markets in and around transport hubs. The opening of the Elizabeth Line this year will cut journey times across the capital, opening up new markets and improving connections in existing ones. Proposed and future transport upgrades, such as HS2 and Crossrail 2 are likely to further drive development in and around station hubs.

Regeneration

Regeneration can lead to a wholesale change of identity for an area. The Mayor of London is working alongside local authorities and developers to bing physical improvements to London. Many large-scale schemes planned or currently under development in London will also see the provision of new shops, restaurants and cafés alongside residential property. Where this is happening, we see potential for outperformance relative to the wider market.



Price Differential

Changing dynamics in the residential market in London are reflected in the 2018 development hotspots. Demand has increased in the outer boroughs and this is driving strong residential price growth, yet average values across the area remain lower than London's average. As investment in infrastructure and regeneration continues, these areas have the potential to help deliver a wider range of new homes.

Development

Net supply of new housing London rose to 39,560 in 2016/17, compared to the 66,000 new homes a year needed in the capital. This imbalance looks set to continue. There are a number of areas of the capital where large-scale development projects are currently taking place, many of which won't be fully completed for a number of years. As demand continues to outstrip supply, these new neighbourhoods are expected to benefit and have the potential to outperform the wider market. However, the changing policy landscape could weigh on new supply in some areas.

FOCUS ON NEW HOTSPOTS

SOUTHALL/HAYES

CURRENT PRICING: **£600 PSF**
2021 FORECAST: **£750 PSF**

Southall will see a significant reduction in journey times once Crossrail trains are in operation in 2019. As of yet, there has been very little development activity in the area, but there are a number of large projects in the pipeline that will enhance the area's amenity offering, as well as delivering new homes. There is currently one development under construction within a 15-minute walk of the Crossrail station, with a further eight developments in the pipeline with permissions for 4,489 private units. The level of development and regeneration set to take place around the station indicates that Southall has the potential for price outperformance relative to the local area.

WOOD GREEN

CURRENT PRICING: **£650 PSF**
2021 FORECAST: **£800 PSF**

The local authority, Haringey, has earmarked over £3 billion for development in Wood Green, which would include 60,000 sq ft of new employment space and the potential creation of 4,000 jobs. The development would also include 7,700 new homes and a new town centre with shops, restaurants and cafés. The local authority points to the opening of the Green Rooms on Station Road in June 2016, a social enterprise that offers affordable accommodation aimed at people working in the arts, as a catalyst for regeneration in the area. Wood Green is a 15-minute journey to King's Cross on the Piccadilly line. It has also been shortlisted as a potential station along the Crossrail 2 line – this is important to the plans for the area, but regeneration will continue whether or not the route gets the green light.

CAMDEN TOWN

CURRENT PRICING: **£1,100 PSF**
2021 FORECAST: **£1,500 PSF**

Camden Town is receiving a multi-million pound investment from the Mayor's Regeneration Fund, plus £1m from Camden Council, Camden Town Unlimited and Transport for London, to improve public space and invest in local business. Over 150,000 people a week visit Camden's markets, shops, restaurants and music venues. Part of the redevelopment includes the Camden Lock Village development, which will comprise eight buildings, a new canal-side market, cafes and restaurants, a cinema, 195 residential units, a food quarter and commercial space. Nearby Euston Station is also set for improvements, with six new high-speed platforms being built to support the opening of the first branch of the HS2 route in 2026, and a further five high-speed platforms planned for the opening of HS2 phase 2, which runs from London to Leeds and Manchester. Technology giant Google's plan to open a new head office down the road in King's Cross underpins the status of the wider area as a business, as well as a residential, hub. If granted, the plans for an interchange for both Crossrail 2 and HS2 in Euston will enhance this standing.

LISSON GROVE

CURRENT PRICING: **£1,400 PSF**
2021 FORECAST: **£1,850 PSF**

Lisson Grove has lagged behind neighbouring areas of Regents Park, St John's Wood and Marylebone in terms of capital values over the past decade. Its relative affordability compared with prime central London makes Lisson Grove well placed to benefit as buyers widen their search areas. Westminster council launched a 20-year, £1.2 billion regeneration blueprint for the Church Street ward, in which Lisson Grove is located, earlier this year. As part of the plan, the local authority has pledged to favour art and antiques tenants over other uses when shops come up for lease, with the aim to turn it into a market to rival Portobello Road. This comprehensive regeneration and improvement to the local housing stock will enhance values.

38%

PROJECTED GROWTH IN NUMBER OF HOUSEHOLDS IN INNER LONDON 2012-2037 (DCLG)

CANADA WATER

CURRENT PRICING: **£900 PSF**
2021 FORECAST: **£1,250 PSF**

The Canada Water Masterplan, led by British Land, is a £2 billion project to create a major new town centre within Southwark. This will comprise 3,500 new homes, offices, shops, restaurants and public spaces, including a three-acre park, a cultural and leisure centre and a new campus for King's College London. Work is already underway on a mixed-use, residential-led development by Notting Hill Housing and Sellar Developments on an eight-acre site in the heart of Canada Water. Transport connectivity in the area is already of a high standard, with the Jubilee line offering journey times of 2 minutes and 12 minutes to Canary Wharf and the West End respectively. It is also a key interchange on the Overground network. The new masterplan, coupled with the existing transport links, will serve to generate a greater rate of growth than in the wider area.

LOWER LEA VALLEY

Royal Docks within the Lower Lea Valley area was identified as a hotspot in 2015. It remains a development opportunity area, alongside three other localities within the wider Leamouth area:

WEST HAM

CURRENT PRICING: **£700 PSF**
2021 FORECAST: **£950 PSF**

West Ham station was recently rezoned by TfL from Zone 3 to Zone 2/3, a move which saves commuters travelling into central London several hundred pounds a year in ticket fares. Transport options from this area also include the Jubilee, District, Hammersmith & City, Overground and DLR lines, along with Crossrail running from Stratford from 2019, making it one of the best-connected transport hubs in East London. Despite the strong price growth seen in this area over the last three years, average prices still offer a relative discount when compared to neighbouring localities. Looking along the Jubilee line, average re-sale prices in West Ham are the lowest compared to all other stations in zones 1 and 2.

LEYTON

CURRENT PRICING: **£675 PSF**
2021 FORECAST: **£800 PSF**

Leyton sits on the edge of an area that has undergone considerable change, with the development of Westfield, Stratford International Station and the Queen Elizabeth Olympic Park all nearby. The local council has identified Leyton as a priority growth area within Waltham Forest, with plans to create a new community to the west and south of the town centre. As part of this, there are proposals to build new homes, primary schools, health and public facilities, as well as making improvements to road and rail access, resulting in better connections into the Queen Elizabeth Olympic Park. The current timeframe is for this to be complete by 2022.

HACKNEY WICK

CURRENT PRICING: **£700PSF**
2021 FORECAST: **£850 PSF**

Situated on the edge of the Olympic Park and just four miles north of the City of London, Hackney Wick is benefitting from public sector-led regeneration overseen by the London Legacy Development Corporation. Plans are in place to create a new neighbourhood with thousands of new homes, live-work dwellings, workshops and small business premises, further enhancing the offer for creative industries which have sprung up in the canal-side area. In addition, the overground train station, which connects the area with Canary Wharf and the West End is undergoing a £25 million facelift to help improve accessibility. We expect this ongoing regeneration will have a positive impact on pricing in the coming years.

EXISTING HOTSPOTS, AND AREAS TO WATCH

24,201
new private housing starts in 2016 (20+ units)

As noted earlier in the report, some areas in our hotspots are included for the second or even third time, as there is still anticipation of some future outperformance. A few of these areas have not seen the full level of growth previously predicted between 2015 and 2018 given the changing dynamics of the market, but may now see this growth over a longer time-frame.

In the case of Earl's Court, the scale of the forecast uplift is dependent on the commencement of development work. In recent years, the estimated average value in Earl's Court for best-in-class development has risen to £1,650 psf, but this could reach £2,100 by 2021, as long as comprehensive development starts on the Earl's Court Masterplan.

Other previous hotspots do not make the 2017 list as, having registered some levels of growth, they are now expected to move more in line with the market.

However, there will still be some opportunities for outperformance, for example in Acton, with the opening of Crossrail, and the Canary Wharf Estate as the new residential district becomes established. Other areas to watch are Whitechapel and the Olympic Park. The level of growth seen in the last two years are behind those forecast in 2015, but there is likely some additional level of price outperformance to come. Euston is another area to watch. Development plans have been pushed back several times but, once agreement is reached, there will be a complete overhaul of the station, which will be felt in the surrounding areas.

MARKET UPDATE

The development market in London has not only been affected by the tax and policy changes which have had an impact on the whole housing market, but also specific factors such as rising development costs, changing land values and the availability of development funding, especially for smaller developers.

Residential development land prices in prime central London are now 13% lower than two years ago, although price declines have largely abated this year.

Average land prices in the wider London market, based on a small basket of sites around the capital, are largely flat on the year.

The increased focus on affordability, and the drive towards the provision of more Affordable Housing, which is to be welcomed, has led to new policy around planning, with the Mayor of London pledging to speed up the process for those who offer at least 35% Affordable Housing when submitting schemes for planning approval. This change has led to some developers having to reassess their development economics and has, in some cases, slowed down the process of development.

Certainly the level of development across the capital has dipped since 2015, with 24,201 new private housing starts on schemes of more than 20 units in 2016, down from nearly 34,000 in 2015, according to data from Molior.

Financing is also a factor at play here, with rising costs for materials and, for some developers, funding. In other cases, accessing funding is becoming more challenging. The weakness of sterling is proving a draw for overseas developers however.

There is still a strong need for housing in the capital as employment continues to rise. In such an environment however, all the fundamentals need to be aligned before market outperformance can be expected. This report highlights some locations where a variety of factors have the potential to deliver above-market performance, but this assumes best-in-class development.

FIGURE 3
RESIDENTIAL DEVELOPMENT LAND PRICES

Source: Knight Frank Research *indicative

FIGURE 4
LONDON ANNUAL PRICE GROWTH OCT 2016 - OCT 2017

Source: Knight Frank Research / Land Registry

METHODOLOGY:

In our analysis, we had regard for demographic and economic forecasts – but the critical elements in our assessment have been the factors which are likely to lead to the dynamics of a particular market area meaningfully changing over time. We have looked closely at new and proposed transport infrastructure, the spread of gentrification as well as current and potential pricing. Critically we have also concentrated on areas where there is a real opportunity, through either refurbishment or redevelopment, for residential developers to enter the market and undertake significant schemes over the next five years. Working with our London Residential Development land and new homes teams we have determined a final short-list of 'hotspots' across London where we believe there is (a) scope for development activity, (b) an underlying market undergoing improvements due to infrastructure investment or sociodemographic shifts and (c) potential for price outperformance over the next few years.

We are not underestimating the risks to the property market posed by the wider economic and geopolitical landscape. These are considered in our quarterly forecast and risk monitor, and we recognise that any dramatic changes in the current market conditions could impact on pricing. However, our analysis indicates that, at this point in time, the areas identified in this report offer the opportunity for outperformance compared to the wider market. The prices refer to average new-build pricing. In some less established markets, this will be a theoretical price.

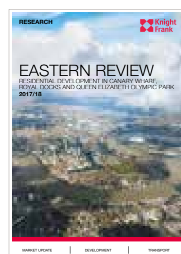
Knight Frank Residential Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

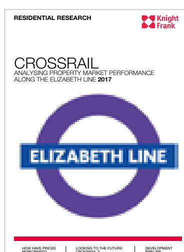
RECENT MARKET-LEADING RESEARCH PUBLICATIONS

Prime Central London Sales Index - Nov 2017

Prime Central London Rental Index - Nov 2017

UK Housing Market Forecast - Dec 2017


Eastern Review 2017/18


Crossrail - 2017

London Development Design - 2017

The London Review - Autumn 2017

UK Res Dev Land Index - Q3 2017

Knight Frank Research Reports are available at **KnightFrank.com/Research**

RESIDENTIAL RESEARCH

Gráinne Gilmore
Head of UK Residential Research
+44 20 7861 5102
grainne.gilmore@knightfrank.com

Oliver Knight
Associate
+44 20 7861 5134
oliver.knight@knightfrank.com

RESIDENTIAL DEVELOPMENT

Justin Gaze
Joint Head of Residential Development
+44 20 7861 5407
justin.gaze@knightfrank.com

Ian Marris
Joint Head of Residential Development
+44 20 7861 5404
ian.marris@knightfrank.com

Rupert Dawes
Head of New Home Sales
+44 20 7861 5445
rupert.dawes@knightfrank.com

James Mannix
Head of Residential Capital Markets
+44 20 7861 5412
james.mannix@knightfrank.com

Charlie Hart
Head of City and East Development
+44 20 7718 5222
charlie.hart@knightfrank.com

Abigail Heyworth
Partner, Residential Development
+44 20 7861 5414
abigail.heyworth@knightfrank.com

James Keegan
Partner, Residential Development
+44 20 7861 5481
james.keegan@knightfrank.com

Important Notice

© Knight Frank LLP 2018 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

Appendix 5: Cargiant Appraisal Results sensitivity testing Knight Frank values

OLD OAK AND PARK ROYAL DEVELOPMENT CORPORATION
Local Plan Strategic Site Viability Testing 2019

Cargiant Strategic Site	
No Units	5,300
Site Area	17.22 Ha

Description of changes to appraisal inputs	Reduced Resi Build cost: £3,089 per sq m Private and £2,847 per sq m Affordable Increased Commercial values: Retail/Leisure £2,050 per sq m and Office £2,600 per sq m Knight Frank Values of £1,000 per sq ft in 2021
2021 Sales Value	£1000. per sq ft
Sales Value Growth 2022 & 2023	2% and 5% respectively
Sales Value Growth from 2024	3.00%
Regeneration/Maturtity Factor pa (2022 to 2027)	3.00%
Build cost inflation to 2022	5.48%
Build cost inflation pa from 2023	3.50%
Affordable Housing Tenure	SR @ LAR, SO and LLR
Affordable Housing Grant per LAR Unit	£0
Affordable Housing Grant per SO/LLR Unit	£0

Residual land values:

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£614,125,394	£569,059,485	£569,059,485	£569,059,485	£569,059,485
30% SR @LAR : 70% SO	5%	£563,454,385	£520,361,126	£520,361,126	£520,361,126	£520,361,126
30% SR @LAR : 70% SO	10%	£512,763,738	£471,599,799	£471,599,799	£471,599,799	£471,599,799
30% SR @LAR : 70% SO	15%	£462,053,271	£422,797,658	£422,797,658	£422,797,658	£422,797,658
30% SR @LAR : 70% SO	20%	£411,304,805	£373,925,504	£373,925,504	£373,925,504	£373,925,504
30% SR @LAR : 70% SO	25%	£360,482,553	£324,935,454	£324,935,454	£324,935,454	£324,935,454
30% SR @LAR : 70% SO	30%	£309,574,902	£275,778,660	£275,778,660	£275,778,660	£275,778,660
30% SR @LAR : 70% SO	35%	£258,513,153	£226,406,111	£226,406,111	£226,406,111	£226,406,111
30% SR @LAR : 70% SO	40%	£207,223,008	£177,004,675	£177,004,675	£177,004,675	£177,004,675
30% SR @LAR : 70% SO	45%	£155,505,762	£127,401,648	£127,401,648	£127,401,648	£127,401,648
30% SR @LAR : 70% SO	50%	£103,594,569	£77,109,711	£77,109,711	£77,109,711	£77,109,711

Residual Land values compared to benchmark land values
Benchmark land value 1 - Open Storage

£7,694,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£481,642,613	£436,576,704	£436,576,704	£436,576,704	£436,576,704
30% SR @LAR : 70% SO	5%	£430,971,604	£387,878,345	£387,878,345	£387,878,345	£387,878,345
30% SR @LAR : 70% SO	10%	£380,280,957	£339,117,018	£339,117,018	£339,117,018	£339,117,018
30% SR @LAR : 70% SO	15%	£329,570,490	£290,314,877	£290,314,877	£290,314,877	£290,314,877
30% SR @LAR : 70% SO	20%	£278,822,024	£241,442,723	£241,442,723	£241,442,723	£241,442,723
30% SR @LAR : 70% SO	25%	£227,999,772	£192,452,673	£192,452,673	£192,452,673	£192,452,673
30% SR @LAR : 70% SO	30%	£177,092,121	£143,295,879	£143,295,879	£143,295,879	£143,295,879
30% SR @LAR : 70% SO	35%	£126,030,372	£93,923,330	£93,923,330	£93,923,330	£93,923,330
30% SR @LAR : 70% SO	40%	£74,740,227	£44,521,894	£44,521,894	£44,521,894	£44,521,894
30% SR @LAR : 70% SO	45%	£23,022,981	-£5,081,133	-£5,081,133	-£5,081,133	-£5,081,133
30% SR @LAR : 70% SO	50%	-£28,888,212	-£55,373,070	-£55,373,070	-£55,373,070	-£55,373,070

Residual Land values compared to benchmark land values
Benchmark land value 2- Secondary industrial (low)

£12,347,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£401,522,730	£356,456,821	£356,456,821	£356,456,821	£356,456,821
30% SR @LAR : 70% SO	5%	£350,851,721	£307,758,462	£307,758,462	£307,758,462	£307,758,462
30% SR @LAR : 70% SO	10%	£300,161,074	£258,997,135	£258,997,135	£258,997,135	£258,997,135
30% SR @LAR : 70% SO	15%	£249,450,607	£210,194,994	£210,194,994	£210,194,994	£210,194,994
30% SR @LAR : 70% SO	20%	£198,702,141	£161,322,840	£161,322,840	£161,322,840	£161,322,840
30% SR @LAR : 70% SO	25%	£147,879,889	£112,332,790	£112,332,790	£112,332,790	£112,332,790
30% SR @LAR : 70% SO	30%	£96,972,238	£63,175,996	£63,175,996	£63,175,996	£63,175,996
30% SR @LAR : 70% SO	35%	£45,910,489	£13,803,447	£13,803,447	£13,803,447	£13,803,447
30% SR @LAR : 70% SO	40%	-£5,379,656	-£35,597,989	-£35,597,989	-£35,597,989	-£35,597,989
30% SR @LAR : 70% SO	45%	-£57,096,902	-£85,201,016	-£85,201,016	-£85,201,016	-£85,201,016
30% SR @LAR : 70% SO	50%	-£109,008,095	-£135,492,953	-£135,492,953	-£135,492,953	-£135,492,953

Residual Land values compared to benchmark land values
Benchmark land value 3 - Secondary industrial (medium)

£13,241,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£386,128,968	£341,063,059	£341,063,059	£341,063,059	£341,063,059
30% SR @LAR : 70% SO	5%	£335,457,959	£292,364,700	£292,364,700	£292,364,700	£292,364,700
30% SR @LAR : 70% SO	10%	£284,767,311	£243,603,373	£243,603,373	£243,603,373	£243,603,373
30% SR @LAR : 70% SO	15%	£234,056,845	£194,801,232	£194,801,232	£194,801,232	£194,801,232
30% SR @LAR : 70% SO	20%	£183,308,379	£145,929,078	£145,929,078	£145,929,078	£145,929,078
30% SR @LAR : 70% SO	25%	£132,486,127	£96,939,028	£96,939,028	£96,939,028	£96,939,028
30% SR @LAR : 70% SO	30%	£81,578,475	£47,782,234	£47,782,234	£47,782,234	£47,782,234
30% SR @LAR : 70% SO	35%	£30,516,727	-£1,590,315	-£1,590,315	-£1,590,315	-£1,590,315
30% SR @LAR : 70% SO	40%	-£20,773,418	-£50,991,752	-£50,991,752	-£50,991,752	-£50,991,752
30% SR @LAR : 70% SO	45%	-£72,490,664	-£100,594,779	-£100,594,779	-£100,594,779	-£100,594,779
30% SR @LAR : 70% SO	50%	-£124,401,857	-£150,886,715	-£150,886,715	-£150,886,715	-£150,886,715

Residual Land values compared to benchmark land values
Benchmark land value 4 - Secondary office and industrial (high)

£17,357,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£315,255,674	£270,189,764	£270,189,764	£270,189,764	£270,189,764
30% SR @LAR : 70% SO	5%	£264,584,665	£221,491,406	£221,491,406	£221,491,406	£221,491,406
30% SR @LAR : 70% SO	10%	£213,894,017	£172,730,079	£172,730,079	£172,730,079	£172,730,079
30% SR @LAR : 70% SO	15%	£163,183,550	£123,927,938	£123,927,938	£123,927,938	£123,927,938
30% SR @LAR : 70% SO	20%	£112,435,084	£75,055,783	£75,055,783	£75,055,783	£75,055,783
30% SR @LAR : 70% SO	25%	£61,612,833	£26,065,734	£26,065,734	£26,065,734	£26,065,734
30% SR @LAR : 70% SO	30%	£10,705,181	-£23,091,060	-£23,091,060	-£23,091,060	-£23,091,060
30% SR @LAR : 70% SO	35%	-£40,356,567	-£72,463,610	-£72,463,610	-£72,463,610	-£72,463,610
30% SR @LAR : 70% SO	40%	-£91,646,712	-£121,865,046	-£121,865,046	-£121,865,046	-£121,865,046
30% SR @LAR : 70% SO	45%	-£143,363,959	-£171,468,073	-£171,468,073	-£171,468,073	-£171,468,073
30% SR @LAR : 70% SO	50%	-£195,275,151	-£221,760,010	-£221,760,010	-£221,760,010	-£221,760,010

Appendix 6: Cargiant Appraisal Results sensitivity with no grant funding

OLD OAK AND PARK ROYAL DEVELOPMENT CORPORATION
Local Plan Strategic Site Viability Testing 2019

Cargiant Strategic Site	
No Units	5,300
Site Area	17.22 Ha

Description of changes to appraisal inputs	Reduced Resi Build cost: £3,089 per sq m Private and £2,847 per sq m Affordable Increased Commercial values: Retail/Leisure £2,050 per sq m and Office £2,600 per sq m No grant
2019 Sales Value	£750. per sq ft
Sales Value Growth to 2023	10.75%
Sales Value Growth from 2024	3.00%
Regeneration/Maturtity Factor pa (2022 to 2027)	6.70%
Build cost inflation to 2022	5.48%
Build cost inflation pa from 2023	3.50%
Affordable Housing Tenure	SR @ LAR, SO and LLR
Affordable Housing Grant per LAR Unit	£0
Affordable Housing Grant per SO/LLR Unit	£0

Residual land values:

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£530,125,689	£482,888,626	£482,888,626	£482,888,626	£482,888,626
30% SR @LAR : 70% SO	5%	£483,440,982	£438,141,945	£438,141,945	£438,141,945	£438,141,945
30% SR @LAR : 70% SO	10%	£436,716,862	£393,336,514	£393,336,514	£393,336,514	£393,336,514
30% SR @LAR : 70% SO	15%	£389,911,741	£348,430,170	£348,430,170	£348,430,170	£348,430,170
30% SR @LAR : 70% SO	20%	£343,040,720	£303,430,925	£303,430,925	£303,430,925	£303,430,925
30% SR @LAR : 70% SO	25%	£296,058,976	£258,444,514	£258,444,514	£258,444,514	£258,444,514
30% SR @LAR : 70% SO	30%	£248,895,747	£213,383,552	£213,383,552	£213,383,552	£213,383,552
30% SR @LAR : 70% SO	35%	£201,470,741	£168,081,464	£168,081,464	£168,081,464	£168,081,464
30% SR @LAR : 70% SO	40%	£153,987,410	£122,373,598	£122,373,598	£122,373,598	£122,373,598
30% SR @LAR : 70% SO	45%	£106,317,482	£75,655,930	£75,655,930	£75,655,930	£75,655,930
30% SR @LAR : 70% SO	50%	£57,781,142	£26,829,586	£26,829,586	£26,829,586	£26,829,586

Residual Land values compared to benchmark land values
Benchmark land value 1 - Open Storage £7,694,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£397,642,908	£350,405,845	£350,405,845	£350,405,845	£350,405,845
30% SR @LAR : 70% SO	5%	£350,958,201	£305,659,164	£305,659,164	£305,659,164	£305,659,164
30% SR @LAR : 70% SO	10%	£304,234,081	£260,853,733	£260,853,733	£260,853,733	£260,853,733
30% SR @LAR : 70% SO	15%	£257,428,960	£215,947,389	£215,947,389	£215,947,389	£215,947,389
30% SR @LAR : 70% SO	20%	£210,557,939	£170,948,144	£170,948,144	£170,948,144	£170,948,144
30% SR @LAR : 70% SO	25%	£163,576,195	£125,961,733	£125,961,733	£125,961,733	£125,961,733
30% SR @LAR : 70% SO	30%	£116,412,966	£80,900,771	£80,900,771	£80,900,771	£80,900,771
30% SR @LAR : 70% SO	35%	£68,987,960	£35,598,683	£35,598,683	£35,598,683	£35,598,683
30% SR @LAR : 70% SO	40%	£21,504,629	-£10,109,183	-£10,109,183	-£10,109,183	-£10,109,183
30% SR @LAR : 70% SO	45%	-£26,165,299	-£56,826,851	-£56,826,851	-£56,826,851	-£56,826,851
30% SR @LAR : 70% SO	50%	-£74,701,639	-£105,653,195	-£105,653,195	-£105,653,195	-£105,653,195

Residual Land values compared to benchmark land values
Benchmark land value 2- Secondary industrial (low) £12,347,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£317,523,025	£270,285,962	£270,285,962	£270,285,962	£270,285,962
30% SR @LAR : 70% SO	5%	£270,838,318	£225,539,281	£225,539,281	£225,539,281	£225,539,281
30% SR @LAR : 70% SO	10%	£224,114,198	£180,733,850	£180,733,850	£180,733,850	£180,733,850
30% SR @LAR : 70% SO	15%	£177,309,077	£135,827,506	£135,827,506	£135,827,506	£135,827,506
30% SR @LAR : 70% SO	20%	£130,438,056	£90,828,261	£90,828,261	£90,828,261	£90,828,261
30% SR @LAR : 70% SO	25%	£83,456,312	£45,841,850	£45,841,850	£45,841,850	£45,841,850
30% SR @LAR : 70% SO	30%	£36,293,082	£780,888	£780,888	£780,888	£780,888
30% SR @LAR : 70% SO	35%	-£11,131,923	-£44,521,200	-£44,521,200	-£44,521,200	-£44,521,200
30% SR @LAR : 70% SO	40%	-£58,615,254	-£90,229,066	-£90,229,066	-£90,229,066	-£90,229,066
30% SR @LAR : 70% SO	45%	-£106,285,182	-£136,946,734	-£136,946,734	-£136,946,734	-£136,946,734
30% SR @LAR : 70% SO	50%	-£154,821,522	-£185,773,078	-£185,773,078	-£185,773,078	-£185,773,078

Residual Land values compared to benchmark land values
Benchmark land value 3 - Secondary industrial (medium) £13,241,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£302,129,263	£254,892,200	£254,892,200	£254,892,200	£254,892,200
30% SR @LAR : 70% SO	5%	£255,444,556	£210,145,518	£210,145,518	£210,145,518	£210,145,518
30% SR @LAR : 70% SO	10%	£208,720,436	£165,340,087	£165,340,087	£165,340,087	£165,340,087
30% SR @LAR : 70% SO	15%	£161,915,315	£120,433,744	£120,433,744	£120,433,744	£120,433,744
30% SR @LAR : 70% SO	20%	£115,044,294	£75,434,499	£75,434,499	£75,434,499	£75,434,499
30% SR @LAR : 70% SO	25%	£68,062,550	£30,448,088	£30,448,088	£30,448,088	£30,448,088
30% SR @LAR : 70% SO	30%	£20,899,320	-£14,612,874	-£14,612,874	-£14,612,874	-£14,612,874
30% SR @LAR : 70% SO	35%	-£26,525,685	-£59,914,962	-£59,914,962	-£59,914,962	-£59,914,962
30% SR @LAR : 70% SO	40%	-£74,009,016	-£105,622,828	-£105,622,828	-£105,622,828	-£105,622,828
30% SR @LAR : 70% SO	45%	-£121,678,944	-£152,340,496	-£152,340,496	-£152,340,496	-£152,340,496
30% SR @LAR : 70% SO	50%	-£170,215,285	-£201,166,840	-£201,166,840	-£201,166,840	-£201,166,840

Residual Land values compared to benchmark land values
Benchmark land value 4 - Secondary office and industrial (high) £17,357,000

Tenure	% AH	Base costs	Base Costs & Planning Contributions	Base Costs, Planning Contributions & 10% Wheelchair	Base Costs, Planning Contributions, 10% WC &SUDs + Attenuation	Base Costs, Planning Contributions, 10% WC,SUDs + Atten & CO2
30% SR @LAR : 70% SO	0%	£231,255,969	£184,018,906	£184,018,906	£184,018,906	£184,018,906
30% SR @LAR : 70% SO	5%	£184,571,262	£139,272,224	£139,272,224	£139,272,224	£139,272,224
30% SR @LAR : 70% SO	10%	£137,847,142	£94,466,793	£94,466,793	£94,466,793	£94,466,793
30% SR @LAR : 70% SO	15%	£91,042,021	£49,560,449	£49,560,449	£49,560,449	£49,560,449
30% SR @LAR : 70% SO	20%	£44,170,999	£4,561,204	£4,561,204	£4,561,204	£4,561,204
30% SR @LAR : 70% SO	25%	-£2,810,745	-£40,425,206	-£40,425,206	-£40,425,206	-£40,425,206
30% SR @LAR : 70% SO	30%	-£49,973,974	-£85,486,169	-£85,486,169	-£85,486,169	-£85,486,169
30% SR @LAR : 70% SO	35%	-£97,398,979	-£130,788,256	-£130,788,256	-£130,788,256	-£130,788,256
30% SR @LAR : 70% SO	40%	-£144,882,311	-£176,496,123	-£176,496,123	-£176,496,123	-£176,496,123
30% SR @LAR : 70% SO	45%	-£192,552,238	-£223,213,790	-£223,213,790	-£223,213,790	-£223,213,790
30% SR @LAR : 70% SO	50%	-£241,088,579	-£272,040,134	-£272,040,134	-£272,040,134	-£272,040,134