



**GL Hearn**  
Part of Capita plc

# Old Oak North – Viability Assessment

**Old Oak and Park Royal Development**

February 2018

**Prepared by**

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**APPENDIX A: GARDINER AND THEOBALD COST REPORT**

## Quality Standards Control

The signatories below verify that this document has been prepared in accordance with our quality control requirements. These procedures do not affect the content and views expressed by the originator.

This document must only be treated as a draft unless it has been signed by the Originators and approved by a Business or Associate Director.

DATE

February 2018

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## THIRD PARTIES AND PUBLICATIONS

This report has been prepared for the purposes of assessing the financial viability of the project and should not be relied upon by any third party. It does not constitute a formal valuation report and under no circumstances should be relied upon as such. Any figures contained within this report are specifically excluded from the provisions of the RICS Valuation Standards (The Red Book).

Where we have relied upon information provided by third parties the accuracy of the report will depend upon the accuracy of the information supplied by them. Should the information provided be inaccurate or incomplete then we would reserve the right to amend our report accordingly.

Yours faithfully



**GL Hearn**

## 1 INTRODUCTION

- 1.1 GL Hearn & Gardiner & Theobald have been instructed by Old Oak and Park Royal Development Corporation (OPDC) to advise on the likely viability of the proposed Old Oak Park site which is largely made up of the Car Giant Facility and for which a planning application is anticipated during 2018.
- 1.2 The team was originally instructed in late 2016 at which time it was expected that a planning application would be submitted in mid 2017, but the Applicant's programme has subsequently slipped.
- 1.3 However, the overall content of the expected scheme and hence to the context for this study remains unchanged, i.e. a multi-phase development to include c. 620,000 sq m (GEA) of new residential accommodation and 60,000 sq m of student/co-living space along with a range of commercial uses (A1/A3/A4/D1/D2/B1) providing over 130,000 sq m of floorspace.
- 1.4 GL Hearn has been the lead consultant and undertaken the market research and financial modelling which underpins the conclusions of this report.
- 1.5 Gardiner & Theobald's role has been to provide general cost advice in respect of the proposed development as well as reviewing all pertinent existing cost information and studies relating to the proposed primary and secondary infrastructure items.
- 1.6 A more usual approach would be for a local planning authority to consider viability once the planning application has been submitted or in the immediate lead-up to it, with a viability statement being sought from the Applicant which could be interrogated by the planning authority and its advisors.
- 1.7 However given the strategic importance of this site and the potential impact of a requirement for significant infrastructure provision in addition to policy level of affordable housing, OPDC has commissioned this early viability model to enable it to reach a preliminary understanding of viability. This will enable it to consider its priorities which can feed into pre-application discussions.
- 1.8 Whilst what is sought by OPDC is an 'arm's length' consideration of analysis, given that this work will inform subsequent negotiations with the applicant there is considerable merit in ensuring that the approach to viability modelling (if not the actual financial assumptions) is broadly aligned to that which will be adopted by the Applicant unless there are strong reasons not to do so.

- 1.9 Accordingly the starting point for this exercise is to adopt the same floor areas, mix of uses and phasing plan as is currently proposed and has been provided to us by the Applicant's consultants DS2.
- 1.10 For a scheme of this complexity, a standard residual appraisal is not appropriate as in focussing on a measure of profit based on cost or value rather than return on capital over what will be a long deliver period, it will overly simplify the viability equation. Our proposed approach is set out in in further detail in Section 2.
- 1.11 The report then goes on to summarise the scheme and the wider economic context into which it will be delivered, provide local market summaries which inform specific financial assumptions, review build cost assumptions including those relating to major infrastructure packages and summarise the outputs of our financial modelling.

## 2 APPROACH TO VIABILITY ANALYSIS

- 2.1 DS2 have provided OPDC with a document “Viability Principles Note – Old Oak Park” dated April 2017. In this they set out their approach to viability assessment. It effectively reads like a form viability submission but without any specific financial assumptions included.
- 2.2 Our approach aligns with DS2’s Methodology in that the viability of the development is based on modelling the scheme from the perspective of a ‘Master Developer’. Their role would be to prepare the site for development by delivering infrastructure and rendering individual plots suitable for disposal to individual developers. This approach does not rule out the Master Developer actually undertaking some or all the phases – the financial outputs would be broadly the same.
- 2.3 The Applicant will be looking to secure an outline planning consent for the whole site. Then reserved matters will be sought for the individual phases. This could either be by the Master Developer or more likely by the individual developer purchasing the site.
- 2.4 Residual appraisals are undertaken for the individual phases, on the assumptions that the sites are fully prepared with infrastructure already provided and ready for development. Each appraisal produces a plot value i.e. the assumed price for which the Master Developer will sell the site. This is then positioned in the master cashflow as a receipt.
- 2.5 The Master Developer’s role will be one of incurring the expenditure required to prepare the sites. We have adopted the same approach as DS2 in splitting this expenditure into Primary and Secondary infrastructure.
- 2.6 The Secondary Infrastructure items are those which are specifically required to enable development of a particular site, i.e. site clearance, remediation, on-site highways, open space etc. These are assumed to equate to 7.5% of the overall build cost of a phase, with 2.5% to be incurred by the plot developer (and so included within the residual appraisal for the plot) and 5% to be incurred by the Master Developer (and included within the cashflow)
- 2.7 Primary Infrastructure items are more strategic including northern viaduct, bridges etc. The infrastructure items would be modelled in the site-wide cashflow analysis but with the ability to remove them from the cashflow to assess the impact on viability should they not be required to be delivered by the Applicant.
- 2.8 As indicated in the Introduction to the report, the other significant cost associated with the Master Developer role is site assembly – effectively the Benchmark Land Value.

- 2.9 Rather than including the Benchmark Land Value (BLV) in the cashflow, we have calculated a Net Present Value/Cost from the anticipated costs and receipts over the period of the cashflow which can then be referenced against the BLV.
- 2.10 In addition to the assumptions highlighted in previous sections of the report, the cashflow assumes the following:
- £2m up-front costs incurred by master developer to secure outline planning
  - Demolition costs assumed at £75 psm applied to all existing structures
  - General infrastructure allowance of 5% of build costs (in addition to the 2.5% on costs reflected in the plot appraisals).
  - Annual cost of £100,000 incurred by Master Developer for Project Management/ plot marketing etc.
  - Interest of 6% applied to cumulative cashflow where in deficit;
  - Interest of 1% applied to cashflow where in surplus
  - Discounted cashflow at 6%
- 2.11 At this stage we have not applied a profit margin to the Master Developer's costs. This will ultimately depend on the risk attached to it i.e. are they making fixed contributions for infrastructure delivery or undertaking the works themselves at risk? Also given that we are testing scenarios with reduced infrastructure provision, clearly the overall level of profit required by the Master Developer will vary. (N.B. Full developer's profit is included within each of the plot appraisals to reflect cost and sales risk and this is examined in detail below).

#### **Benchmark Land Value**

- 2.12 It is normal practice to assess a Benchmark Land Value for development against which the scheme viability is assessed.
- 2.13 National planning policy is fairly unprescriptive on the basis of valuation which should be used but local policy has increasingly sought to impose a measure based on Current Use Value plus a premium to incentivise the landowner to bring forward the site for development unless there is a compelling argument to the contrary. This approach is clearly favoured in the recent GLA draft SPD on Affordable Housing and Viability.
- 2.14 Ultimately what the benchmarking exercise needs to assess is a reasonable level of value which the landowner/Applicant should expect to receive for land to provide justification for bringing it forward for development. There is no 'one size fits all' approach and in particular with complex sites such as this it is important to review possible approaches on their merits.
- 2.15 In the case of Old Oak Park, the assessment of BLV is not straightforward. It is certainly important to have an understanding of Current Use Value as this is the general starting point for viability

assessments and clearly a landowner cannot be expected to bring forward a site for development if it is going to result in a reduction in land value.

- 2.16 We have been provided with an assessment of Market Value (on the special assumption of continued use of the existing uses) undertaken by CBRE on behalf of the applicant. This assessment arrived at a total value of £179,710,000 for the owner-occupied properties and £46,855,000 for the investment properties, which combined makes an assumed market value of £226,565,000.
- 2.17 We have reviewed the information provided but have not had the benefit of undertaking site inspections of the properties, which vary significantly in use and condition.
- 2.18 Having reviewed the general tone of the assumptions which make up the investment properties we do believe the valuations inputs to be reasonable. In respect of the owner-occupied properties deriving a value of the specific properties is more difficult given their current use and particularly the variation in condition and specification as far as we are able to ascertain without undertaking internal inspections.
- 2.19 Overall we consider that the values attached to the investment properties are likely to reflect better quality buildings more suitable for re-letting than those in owner occupation. We have therefore considered employment land values in the area and have adopted an indicative land value of £3.25m per acre for our modelling purposes.
- 2.20 . Reflecting the above we have calculated an overall value of £159.950m and a full breakdown is provided within the summary viability model.
- 2.21 The complication here is whether a financial return based around existing use value is indeed an appropriate basis for considering viability of redevelopment of an operational business such as Car Giant. For continuation of the business, alternative premises will need to be secured which will be far from straightforward given the unique nature of the business. Also given the specialist equipment associated with the business, it is certainly arguable that relocation/replacement costs are a legitimate element of the benchmarking sum.
- 2.22 Whilst there has been a suggestion since the commencement of this instruction that the applicants will be providing a report outlining their own approach to valuation of the existing business, this has not been forthcoming although it has been indicated that the overall figure is several orders of magnitude greater than our Current Use valuation.
- 2.23 The planning authority may dispute a figure in excess of the CUV though ultimately the case put forward will need to be analysed on its merits. Given that Car Giant are perhaps somewhat



reluctant in bringing forward this site for development, it is likely that they will take a fairly hard-nosed approach to negotiating this element of the viability equation. OPDC are of course keen to see the regeneration of this area and do have the potential for use of compulsory purchase powers to bring the scheme forward. However were that to be the case, there is a risk that Car Giant would make a case for total extinguishment of their business under such circumstances. Whilst we have not made any calculation of the likely cost, it is to be expected that it would be greater than the CUV.

- 2.24 Consideration of whether this would indeed be an appropriate basis for consideration of compensation goes beyond the scope of our brief. We understand that Car Giant have been purchasing potential relocation sites which indicates that they do anticipate continuation of the business and that would suggest a more standard approach to compensation but more detailed advice will be required to reach firm conclusions on this point.
- 2.25 At present our summary figures in Section 10 have deducted the CUV from the overall cashflow surplus (or added it to the cashflow deficit where negative). Effectively this is treating it as a single purchase in year one. Whilst it may be that the notional acquisition could be spread over a number of years at the start of the project, which would improve the cashflow, there is a risk that a larger BLV will need to be agreed either to reflect a landowner's premium or additional costs associated with location etc. Thus there is scope for variation to our output figures which must be considered a broad representation of viability based on information currently available.

### 3 SCHEME CONTENT

3.1 As mentioned in Section One our starting point for our model has been to adopt the same floor areas, mix of uses and phasing plan as is currently proposed and has been provided to us by the Applicant's consultants DS2.

3.2 DS2's document sets out a summary of the proposed scheme as follows:

Use	GEA (sq m)	GEA (sq ft)
Retail (A1)	12,654	136,206
Food (A3/A4)	8,501	91,504
Community & Leisure (D1/D2)	32,145	346,006
Office / Workspace (B1)	79,868	859,691
Energy Centre	7,474	80,449
Residential	618,831	6,661,035
Student / Co-living	60,919	655,726

3.3 They also provide the building efficiencies as follows:

Use	GEA to GIA	GEA to NIA	GIA to NIA
Retail (A1)	96.0	90.0	93.75
Food (A3/A4)	96.0	90.0	93.75
Community & Leisure (D1/D2)	96.0	85.0	88.54
Office / Workspace (B1)	96.0	75.0	78.13
Energy Centre	100.0	100.0	100.00
Residential	96.0	68.0	70.83
Student / Co-living	96.0	75.0	78.13

3.4 This reflects the fact that the scheme is not 'designed' as such to the extent that internal layouts are yet to be worked up and at this stage the design team has simply provided details of the external envelope of the buildings.

3.5 Given the scale of the scheme and the period for delivery that is unsurprising – as we have highlighted in the previous section it is anticipated that Reserved Matters applications will come forward on a phase-by-phase basis.

3.6 The upshot of this is that any financial model will be valuing floorspace rather than specific units/ mixes and will be reliant on basing achievable overall value (generally applied to NIA) on an appropriate gross:net ratio.

- 3.7 Gardiner & Theobald have commented on the DS2 efficiencies assumptions as follows:
- 3.8 Retail and food efficiencies vary depending on whether the units are part of a shopping centre, a retail park or a mixed use development. A retail park would likely have efficiencies of c.100% and a shopping mall would be a lot lower than DS2 have indicated so it's assumed that these retail units are part of a mixed use building (i.e. retail units on the ground floor and residential/ commercial space above). On this basis, the indicated efficiencies appear to be reasonable assumptions.
- 3.9 At this stage of a project, G&T would expect a developer to be targeting greater efficiencies for office and residential (c.85% and c.75% respectively). That said, as the scheme develops then the efficiencies may reduce from these targets but not to the degree that is indicated by DS2. G&T would suggest an office target of c.80% and a residential target of c.75%.
- 3.10 The student housing efficiencies seem within the normal range but this is subject to how the NIA has been measured (i.e. whether it includes kitchen facilities and amenity spaces). That said, the DS2 report notes under Section 4.2 that the average space per bed is 20m<sup>2</sup> whereas we'd suggest that this should be slightly higher between 20-25m<sup>2</sup>.
- 3.11 Of course there may be scope to improve efficiencies as design development is undertaken. Indeed developers will certainly be pushing their design teams to improve on them.
- 3.12 Thus whilst the figures provided by the Applicant's design team are reasonable for the purposes of initial analysis we propose to undertake sensitivity analysis based on a higher efficiency rate. (See Section 12 on sensitivity assumptions).
- 3.13 These overall areas have been split into phases and then into individual plots. The phase summary is set out below with the plot breakdown detailed within the supporting viability model.

Phase	Retail (A1)	Food (A3/A4)	Leisure (D2)	Community & Culture (D1)	Office/Workspace	Student/Hotel	co-living	Housing SQM	Total Sq M GEA
1	-	80	-	-	3,726	-	-	40,607	44,413
2	228	722	2,000	1,000	18,727	35,531	13,148	68,296	139,652
3a	1,645	-	-	-	1,645	-	-	60,492	63,782
3b	-	-	-	4,320	-	-	-	-	4,320
4	1,549	820	3,300	2,215	-	-	12,240	75,610	95,734
5	2,792	2,364	2,200	-	3,203	-	-	77,033	87,592
6	3,498	734	-	-	3,386	-	-	74,055	81,673
7	1,748	312	-	-	2,059	-	-	30,146	34,264
8	1,194	1,937	-	-	2,402	-	-	48,738	54,271
9	-	-	-	16,000	-	-	-	48,230	64,230
10	-	1,333	-	1,110	-	-	-	64,810	67,252
11	-	200	-	-	1,666	-	-	30,814	32,680
12	-	-	-	-	43,054	-	-	-	50,528

## 4 ECONOMIC CONTEXT

- 4.1 Section 5 and 6 provide an overview of the pertinent residential and commercial property markets sectors but inevitably these sectors are impacted by the wider economic context and as such we provide an overview of the current economic indicators.
- 4.2 UK gross domestic product (GDP) in volume terms was estimated to have increased by 0.4% between Quarter 2 and Quarter 3 2017, a similar rate of growth to the previous two quarters.
- 4.3 In terms of sector contribution, the services industries contributed the largest to GDP growth, with 0.3 percentage points, whilst Total production contributed 0.2 percentage points to GDP. These positive contributions were offset by a negative 0.1 percentage point contribution from the construction industry. Agriculture provided no contribution to GDP growth to one decimal place.
- 4.4 The largest component within the output approach of GDP is the services industries, which drove the growth in the output measure of GDP in Quarter 3 2017. Services increased by 0.4%. Positive growth was recorded within three out of four sub-sectors of the services industries between Quarter 2 2017 and Quarter 3 2017, with transport, storage and communications remaining flat with zero growth.
- 4.5 The largest contribution to quarterly GDP growth was from business services and finance, which contributed 0.2 percentage points; within this industry group the largest contributor to growth was professional, scientific, administration and support, which includes employment activities, and accounting, bookkeeping and auditing activities.
- 4.6 Production output was estimated to have increased by 1.1% between Quarter 2 2017 and Quarter 3 2017. Within production, growth was broad-based with all four sub-sectors of the production industries seeing positive growth into Quarter 3 2017. Mining and quarrying including oil and gas extraction increased by 2.1%, whilst electricity, gas and steam and air conditioning, and manufacturing both increased by 1.1%. The fourth component of production, water supply industries, increased by 0.7%.
- 4.7 Construction output was estimated to have decreased by 0.9% in the third quarter of 2017, which has been revised downwards from negative 0.7% in the preliminary estimate of GDP. This is the second consecutive quarter with a decrease in growth after a sustained period of positive growth in all quarters since Quarter 4 2015. Further information relating to the most recent quarter can be found in the Construction output in Great Britain statistical bulletin.
- 4.8 Agriculture, the sector that makes up the smallest proportion of total output, increased by 0.2% into Quarter 3 2017.

- 4.9 The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month rate was 2.8% in November 2017, unchanged from October 2017. The steady increase in the inflation rate since late 2015 has slowed over the last eight months, with the rate having ranged between 2.6% and 2.8% since April 2017. In comparison, the Consumer Prices Index (CPI) 12-month rate has risen slightly to 3.1% in November 2017 from 3.0% in October. The CPI rate is higher than the CPIH equivalent principally because the CPI excludes owner occupiers' housing costs. These rose by 1.5% in the year to November 2017, less than the CPI rate of 3.1% and, as a result, they pulled the CPI rate down slightly, to CPIH.
- 4.10 All else being equal, the depreciation of sterling seen in 2016 and particularly following the outcome of the EU referendum would increase the prices producers pay for imported goods. Whilst depreciation is likely to increase the cost of imports, other factors determine whether these are passed on to consumers. For example, there were reports of businesses having measures to protect against exchange rate changes in the short-term, often reported as being up to spring this year.
- 4.11 The inflation rate for a range of goods has, however, picked up since the start of the year and the overall rate in the UK is higher than in most other EU countries, including all of the larger western European nations. Depreciation may have influenced this but increasing global commodity prices could also be a factor.
- 4.12 The largest upward contribution to the CPIH 12-month rate continues to come from housing and household services, albeit that contribution is less than was observed during the spring and summer months this year. The CPI excludes owner occupiers' housing costs and, as a result, the largest upward contribution comes from transport.
- 4.13 The largest upward contribution to change in the CPIH rate came from transport, where prices rose by 0.1% between October and November this year compared with a fall of 0.3% between the same two months a year ago. The contribution came principally from air fares, which fell by 10.4% this year compared with a larger fall of 13.4% a year ago.
- 4.14 Recreation and culture also had an upward effect, with prices of games, toys and hobbies rising between October and November this year by more than a year ago. This effect came from computer games whose prices are heavily dependent on the composition of bestseller charts, often resulting in large overall price changes from month to month. Within the broader recreation and culture category, there was a small offsetting downward effect from data processing equipment, with prices falling this year but rising in 2016, particularly for PC peripherals.

- 4.15 The upward contributions were partially offset by a downward effect from miscellaneous goods and services, where prices fell by 0.1% this year compared with a rise of 0.2% a year ago. The overall contribution comprised a range of small effects coming from areas such as other personal effects (for example, handbags), other financial services and jewellery, clocks and watches.
- 4.16 Within housing and household services, owner occupiers' housing costs (OOH) have consistently been the largest contributor to the rate during the period from 2015 to date though it has fallen back slightly from a high in October 2016. The contribution from other components has varied. Utility bills had a negative contribution during 2015 and 2016 but recent rises, most notably in electricity prices, have seen this category rise to become the second-largest contributor. Increases in Council Tax in 2016 and 2017 mean that its contribution has also increased over this period.
- 4.17 Conversely, the reduction in the contribution from rents is likely to be a result of a policy to reduce social housing rent starting from April 2016, whilst other housing costs (namely regular maintenance and repair, along with water and sewerage services) tend to make a very small contribution to the 12-month rate.
- 4.18 The Retail Price Index (RPI), which is no longer considered an official measure by the ONS decreased to 3.90% in November 2017, down from 4.00% in October 2017.
- 4.19 For ease of reference, the key economic indicators are detailed in the table below:-

	Rate	Date updated	Comment
Gross Domestic Product (quarterly)	0.40%	23/11/17	Up from 0.30% in Q2 2017.
Consumer Price Index (CPI)	3.10%	12/12/17	Up from 3.00% in October 2017.
Consumer Price Index including owner occupiers' Housing (CPIH)	2.80%	12/12/17	Unchanged from October 2017.
Retail Price Index (RPI)	3.90%	14/11/17	Down from 4.00% in October 2017.
UK Interest Rate	0.50%	02/11/17	Interest raised in November 2017, from 0.25% which was set in August 2016. This is the first interest rate rise since July 2007.
European Union Interest Rate	0.00%	10/03/16	Decreased by 5bps in March 2016.
USA Interest Rate	1.50%	13/12/17	Increased from 1.50%, which was set in June 2017.

## 5 RESIDENTIAL ASSUMPTIONS

- 5.1 Residential accounts for over 75% of the proposed floorspace across the development and will be the most significant value generator. Accordingly the assumptions associated with this will be of fundamental importance in assessing scheme viability.
- 5.2 It is important to examine this in the context of what will be largely a new residential area. The nearest comparable evidence is either in attractive and well established locations achieving values which can be aspired to but certainly will not be reflected in early sales prices or in more remote locations which probably undervalue the scheme.
- 5.3 For a more modest scheme, it is customary to assume today's values throughout as well as build costs on the basis that whilst there may well be movement in both, the best estimate is that the impact of these will broadly cancel one another out.
- 5.4 Old Oak Park does warrant the consideration of a different approach, largely because the location will change significantly over time. Early phases will be sold into an environment which will inevitably attract a discount compared to the highest value locations in the broader area to reflect the surroundings i.e. employment/industrial/building site.
- 5.5 That said, the specific phasing adopted here sees early phases to be developed in what would be considered the more attractive locations within the overall development area. At the time of this exercise (and this is subject to change as more detailed work is done on infrastructure requirements) some of the later phases will be further into the site, therefore more distant from the new transport facilities and in some cases more adjacent to lower quality industrial land. This may have a balancing out effect on achievable values.
- 5.6 We examine how this should be modelled below but start by providing a summary of current market characteristics.

### National Outlook

- 5.7 House prices have continued to grow at strong level since Autumn 2013 but there are signs that this continued rate of growth is beginning to ease. The Land Registry House Price Index (HPI) reported in October 2017 that the annual rate of growth of house prices in England was 4.75%, and the monthly rate of change was -0.62%. The average house price in England was £240,860 at October 2017.
- 5.8 Nationwide's November 2017 press release reports that house prices increased by a modest 0.1% month-on-month in November. They note that annual house price growth remained stable at 2.5%. They comment that *"The annual rate of house price growth remained stable in November at 2.5%.*



*Nevertheless, annual growth remains within the 2-4% range that has prevailed since March. Low mortgage rates and healthy rates of employment growth are providing support for demand, but this is being partly offset by pressure on household incomes, which appears to be weighing on confidence. The lack of homes on the market is providing support to house prices."*

- 5.9 Prices in London have reflected more modest growth during 2017 compared to England and Wales at 2.14%, with average house prices in London at October 2017 being £481,102
- 5.10 The supply of both new homes and existing properties available for sale remains low. This combination is pushing up prices. The annual rate of house price growth has, however, nearly halved over the 10 months from January 2017 to October 2017. A sustained period of house price growth in excess of pay rises has still made it increasingly difficult for many to purchase a home. This development, Brexit and signs of squeezed consumer spending power are all expected to curb house price growth during 2018.
- 5.11 The General Election result, with a hung parliament and a minority Government, following on from Britain having voted to leave the EU and triggering Article 50, will spur a period of uncertainty whilst both the UK and the world economy adjust to the implications. The short term implications will be one of adjustment and will be dependent upon financial stability, while markets, both in the UK and internationally, find a level.
- 5.12 Despite the uncertainty the Government are seeking to promote business as usual by reassuring the markets that investment in major infrastructure projects will continue as planned, and that increasing the supply of housing remains a national priority.

#### **Local Residential Market Outlook**

- 5.13 The subject site is located in the OPDC area, made up of Old Oak and Park Royal and is one of London's largest industrial areas. Located to the West of Central London, the OPDC area is situated within three London Boroughs, namely Brent, Ealing and Hammersmith & Fulham. Old Oak Park, the subject site, is within Hammersmith & Fulham.
- 5.14 The area is bounded by National Rail, Overground and Tube lines to the north, south and east, while the North Circular (A406) and Western Avenue (A40) form additional boundaries to the west and south.
- 5.15 The ODPC area covers circa 650 ha, over twice the area of the City of London Corporation. Although most of the land is industrial there are a handful of residential pockets.

- 5.16 We have researched the residential markets in the surrounding areas of Harlesden, North Acton, White City and Ladbroke Grove, with a focus on new-build residential properties but also analysing re-sale units.
- 5.17 Before focusing on specific comparables we have analysed information published by Molior (Sales Report October 2017) to provide an indication of sale value trends from 2013 to 2017 (Q1-Q3) in each of the three Boroughs.

Local Authority	End 2013	End 2014	End 2015	End 2016	Q1-Q3 2017
LB Brent	£462	£576	£640	£764	£816
LB Ealing	£458	£734	£753	£774	£729
LB Hammersmith and Fulham	£1,104	£1,145	£1,180	£1,224	£1,400
Outer London Average	£428	£512	£593	£653	£659

Source: Molior

- 5.18 The table above indicates a steady increase in sales values from 2012 to Q3 2017 in all Boroughs apart from Ealing. As you would expect, LB Hammersmith and Fulham considerably outperforms Brent and Ealing in respect of average sales values. However, both Brent and Ealing have achieved sales values which are circa £100 per ft<sup>2</sup> greater than the outer London Borough average over the period, with the exception of Ealing in 2017.
- 5.19 Set out below are number of recent development schemes, which provide further indication of the likely sales value tone for the subject site.
- Television Centre, White City - in 2013 the BBC and Stanhope have established a vehicle called TVC Developments Ltd to oversee the site's redevelopment. Currently 392 units are under construction and we understand that they will complete in three roughly equal tranches over the course of 2018. The sales total at the end of Q4 2017 was 328 units and pricing averages £1,250 psf.
  - Wembley Park - Quintain are progressing with the South West Lands development at Wembley Park - the developer has recently announced that all future phases at Wembley Park will be built to rent. Currently construction is progressing on Phase 1, which contains 188 units and is due to complete in Q3 2019. Barratts have also recently completed sales on their Wembley Park Gate Scheme with construction having completed in Q2 2017. The scheme includes a 15 storey building of a mixed use development providing 211 residential units. At the end of Q3 2017, all units had sold. The most recent pricelist shows 1-beds from £385,000, 2-beds from £503,000 and an average of £704 psf.
  - Dickens Yard is a large development by St George Development located in Ealing Town Centre . At the end of Q4 2017, the scheme had 512 units completed and sold. Recent sales indicate a selling price in excess of £1,174 per ft<sup>2</sup>.
  - Kensal Rise - on Kilburn Lane is a development by Prime Place developments comprising a part 7/part 6/part 5/part 4-storey building with 9293 sq. m of Sports and Leisure Centre, 56 flats and 15 terraced townhouses and 240 sq. m of retail floor space with car and cycle parking.

Construction commenced at the end of Q2 2016 and is due to run to May 2018. The most recent pricelist shows 1-beds from £499,950, 2-beds from £699,972 and an average of £882 psf.

- Acton Gardens is a development by London and Quadrant and comprises 271 units. The scheme is located just off Bollo Lane within easy reach of Acton Lane Tube Station. At the end of Q4 2017 construction was progressing with 72 units being delivered as BTR for L&Q PRS in mid-2018, and the other 70 for private sale with completions due to run from May to July 2018. 34 units had sold by the end of 2017. The current pricelist shows 1-beds from £422,500, 2-beds from £570,000, 3-beds from £720,000 and an average of £740 psf.
- Park Grove - in Ealing is a development being brought forward by Mizen Homes Properties Limited comprising a part five, part six storey residential building involving excavation to provide lower ground floor level to provide 50 flats (19 x 1 bed, 20 x 2 bed, 10 x 3 bed and 1 x 4 bed) and provision of car parking at lower ground floor level. The scheme completed and sold out in Q2 2017. The last price list demonstrated 1 bed flats in the region of £836/psf, 2 bed flats at £724-£908/psf, 3 bed flats at £772-£790/psf.

### Sale Value Summary

- 5.20 Our research indicated that sales values vary significantly in the areas surrounding the subject site. Equally given the scale of development and characteristics of the site there will inevitably value contours depending on location and aspect of specific residential blocks.
- 5.21 Our research indicates that the redevelopment of the BBC television Studio in White City and the Dickens Yard development in Ealing Town centre are both achieving in excess of £1,000 psf. However, these developments are not directly comparable to the subject site due to the degree of proximity to existing transport and in respect of the BBC development, the Westfield shopping centre.
- 5.22 Typically, sales values in the surrounding area achieve between £7,000psm (£650psf) and £9,150psm (£850psf), which is a similar price bracket to the Wembley Park development. Locations such as Harlesden and North Acton are typically at the lower end of this range. The Acton Gardens development has asking prices equating to circa £650 per ft and the Kensal Rise and Park Grove developments are achieving values between £720-890 per sq ft.
- 5.23 The subject site is an untested residential location but the scale of change envisaged will clearly allow the creation of a new market and possible sale value tone for the immediate area. It is therefore extremely difficult to accurately price early phases of development until the infrastructure is in place. There is a critical mass of development and the area rebalances from largely industrial to residential in nature. Equally achievable values will be dependent on economic considerations at the time of sale and also the perception of the area arising from wider regeneration delivery.
- 5.24 It should also be borne in mind that this large quantum of residential accommodation is not a homogenous product. Given that it is not yet 'designed' beyond block-planning, it will be necessary

to value floorspace rather than units – no typology mix is currently provided and even if were, it is likely to change over time given the duration of the build programme.

- 5.25 There will also be more and less attractive locations within the development. DS2 are proposing to split the scheme into three value bands which broadly speaking show high value units along the southern perimeter adjacent to the canal, mid-range towards the centre where they will be in close proximity to the commercial heart and to the transport hub, and lower 'base' values to the north and east where units may feel more remote from the rest of the scheme.
- 5.26 We consider this to be an appropriate approach for modelling at this stage in the process. As individual plots come forward there will no doubt be scope for more sophisticated unit pricing which can take into account e.g. premium values for units at upper storeys with attractive views, discounts where necessary due to adjacency to railway line etc. However that is unnecessarily complex for a development at this stage in its evolution.
- 5.27 That being the case, we have modelled a range of values starting at £750 psf, £800psf and £850psf for the three location bands highlighted above.
- 5.28 It should be noted that all these value bands are in advance of what might be expected to be achieved for a smaller scale intervention in this particular location in current market conditions. An element of regeneration growth is built into the figures from day one and they also reflect that the plots anticipated to come forward in the earlier stages of the scheme are in the more attractive parts of the overall area.
- 5.29 With this level of anticipatory growth built into the starting value assumptions and the fact that some of the latter phases are in less attractive parts of the overall site, we have elected not to build a further increment of growth arising from the regeneration effect into our base modelling although we do examine the impact of value growth through our sensitivity analysis,

### **Student Housing**

- 5.30 The emerging Old Oak Park proposals include a total of 60,919m<sup>2</sup> of student / co Living accommodation.
- 5.31 Similarly to Private Rental Sector the student housing sector offers investors an opportunity to diversify away from traditional core real estate. Student accommodation offers quality assets with relatively high achieving yields compared to other sectors. The London market has suffered from structural levels of undersupply with The London Plan suggesting a need for between 20,000-31,000 additional bed spaces by 2025.

- 5.32 The sector has generally been resilient to wider economic volatility, with investor demand remaining strong throughout the final months of 2016 and total investment volumes for the year exceeding £3bn. With that said it appears that the focus of investment is moving towards the regions, with the proportion of transactions in London falling by two thirds.
- 5.33 Recent research by Cushman & Wakefield indicated that across the UK, the Purpose Built Student Accommodation (PBSA) market continued to be one of the most attractive asset classes in real estate for investors. Despite applications to Universities falling by 3.7%, the sector has witnessed year-on-year rental growth.
- 5.34 There has been an increase in capital from overseas buyers in 2017 who are now competing with UK purchasers. Recent deals have seen investors from the Middle East, Singapore, China and Russia.
- 5.35 According to the same research it is currently anticipated average headline rental growth of 2.9% between 2016/17 and 2017/18.
- 5.36 There are a number of significant purpose built student housing schemes in Acton and Ealing, namely The Costume Store, The Lyra and Central Studios. The areas of Acton and Ealing are now established student housing markets.
- 5.37 Our research suggests that the typical rent achievable for this student accommodation in the local market is circa £200 per week, with an average room size of 13 sqm (140sqft).
- 5.38 There has been a significant amount of student housing investment recently. Based on our research, investors are likely to seek a yield of approximately 5.5% in this area. This is in line with Cushman and Wakefield research, which also indicated that the yield profile for prime London (Zones 3&4) currently stands at 5.00 - 5.50%.

## 6 COMMERCIAL USES

### Employment/Office Market

- 6.1 The emerging Old Oak Park proposals include a total of 79,868 m<sup>2</sup> of office / workspace (B1). The subject site and immediate surrounding area is currently largely industrial in nature as indicated in the aerial photo below.



- 6.2 According to the OPDC Industrial Land Review report (Feb 2016) approximately 92% of the employment land in the ODPC area is categorised as industrial uses with only 2.4% being categorised as office use.
- 6.3 At the centre of the ODPC area is Park Royal, which is an important location for industrial uses within London due to its connectivity to Central London, London Heathrow airport, and the strategic road network of the A40 and A406. Park Royal is sometimes referred to as the 'kitchen of London' and supplies two thirds of the city's restaurants and hotels. SEGRO is the main investor and developer in Park Royal who control a footprint of over 370,000 sq m (4 million sq ft).
- 6.4 Looking more widely, office property has been a leading performer among the commercial sectors. International investor appetite for London offices appears to have strengthened in recent months, with the proportion of total overseas investment into the capital's office sector surging past 80% during Q1 2017, compared to just 59% in Q1 2016. Occupier take-up in London's office market during Q1 2017 was 37% down on Q4 2016 at 2.2m ft<sup>2</sup>.

6.5 Within the West London office market the Hammersmith area is the traditional office stronghold but is suffering from a shortage of vacant floor space. As a result Hammersmith is being challenged by White City, which is being transformed from a semi-industrial area in to a new business district through a range of co-ordinated regeneration initiatives. These include the redevelopment of the former BBC Television Centre and the proposed development at Imperial College's White City Campus, which includes a molecular science research facility of circa 420,000 ft sf.

6.6 Looking more widely at comparator office locations we have considered Paddington, Vauxhall and Stratford as relatively new emerging office locations following the implementation of significant regeneration initiatives. The table below provides an indication of rental value in these locations.

Locations	Grade A New	Grade A Refurbished	Grade B	Prime capital value, £ per sq ft
<b>Paddington (west)</b>	£60.00 - £68.00	£49.00 – £59.00	£40.00 – £47.00	£1,050
<b>Vauxhall (Battersea)</b>	£52.00 - £60.00	£42.00 – £50.00	£30.00 - £40.000	£725
<b>Hammersmith (White City)</b>	£52.00 - £58.00	£45.00 – 52.00	£35.00 - £45.00	£900
<b>Stratford</b>	£37.00 - £49.00	£27.50 - £35.00	£19.50 - 25.00	N/A
<b>King's Cross</b>	£67.00 - £85.00	£52.00 – £65.00	£45.00 - £55.00	£1,250

Source: Various

6.7 In terms of the subject site it is likely the area will be competing with different markets pre and post 2026 when HS2 and Crossrail are expected.

6.8 The majority of pre-2026 commercial space is likely to be smaller micro and SME business space and this is what has been indicated in DS2's Prior principles note. Prior to the opening of HS2 and Crossrail, the area is likely to struggle to attract major corporate occupiers due to the largely industrial nature of the area and the relatively poor accessibility for office use.

6.9 The DS2 viability prior principles note sets out the proposed approach to office accommodation. Specifically two broad categories are proposed namely:

- Smaller companies, typically more creative, with demand for lower specification, traditional studio-type space ranging from 5,000 to 20,000 sq ft. These occupiers are generally considered to have lesser covenants; and
- Larger companies, with stronger covenants, seeking more conventional headquarter buildings. These occupiers will typically demand a larger quantum of space in standalone office buildings.

- 6.10 Given the variation in product and timing of development of the proposed office floorspace they then propose to split the floorspace into 3 value bands:
- Individual spaces on ground floor – typically more creative-type studios, possibly simple specification, geared to smaller companies who by their nature reflect lesser covenants;
  - Individual spaces on first floor or ‘buffer’ offices that sit between active ground floor uses and residential on the floors above – the next grade up in terms of quality i.e. will attract better companies on better terms; and
  - Quanta of space which are combined to deliver standalone office buildings akin to more conventional HQ buildings. Specifically, these would be the Rolls Royce building, the two buildings adjoining the Powerday site, and the diamond shaped block on the eastern side of the site. These should attract blue chip companies with good covenants.
- 6.11 We consider this to be a sensible approach given the early stage of the design process and are proposing to reflect it in our own modelling.
- 6.12 Therefore we have adopted a rental tone of circa £20.00 - 25.00 per sq ft for the Individual spaces on ground and first floor and we expect an investor to require a yield of 6% in the local office market. This will need to be reviewed when the application is submitted at which point there should be a clearer indication of the quality of this floorspace and how it will integrate with the rest of the development.
- 6.13 For the larger space, which has the potential to accommodate standalone office buildings possibly suitable for HQ buildings, we have modelled a rental value tone which is in line with the lower end of the current Stratford area i.e. £37 per sq ft and a 6% yield.

#### **Retail and Restaurant Market Commentary**

- 6.14 The emerging Old Oak Park proposals include a total of 12,654 m<sup>2</sup> of A1 retail floorspace and a further 8,501 of Food (A3/A4) m<sup>2</sup>. This will represent a new market for the area and will be largely reliant on the critical mass of residents and workers from the development and also footfall generated from the increased activity around the new HS2 and Crossrail station once opened.
- 6.15 Clearly the subject site’s proximity to Westfield (White City) will also have a bearing on the level and type of demand the area will attract. Westfield’s White City development maintains a prominent position on the Central, and Hammersmith and City underground lines and now has a formidable tenant line up which will be further enhanced by its proposed extension which will include circa 740,000 sq ft of new retail space including a new 230,000 sq ft flagship John Lewis store.
- 6.16 In terms of the general retail market conditions, occupational demand remained strong in established retail locations in 2017. Although there has been high profile reports about the demise of New Look, and profit warnings from Debenhams and Mothercare, there has also been occupiers who have performed well for example the Games Workshop's sales were up by 54% in the six



months to the end of November, Topps Tiles' Q1 sales were up by 3.4% like-for-like, and Joules' retail sales were up by 19.2% pre-Christmas.

- 6.17 It is likely in the short to medium term, demand will remain polarised, with the stronger towns or retail destinations continuing to attract tenant interest, whilst high vacancy rates in weak locations will persist.
- 6.18 One issue which continues to stand out in the retail market is the performance of the online market. Retailers such as Asos and Boohoo continue to increase market share.
- 6.19 According to Mintel (Online Fashion UK 2017 Report) over the past five years, sales of online fashion have doubled. Online sales of fashion accounted for 24% of total fashion spend in 2017, up from 17% in 2013. According to the same report over the next five years, the online fashion market will continue to see strong double-digit growth, with the market forecast to increase a further 79% by 2022, reaching just under £29 billion.
- 6.20 Looking at the subject area there is little occupational retail evidence within the immediate area, with varying quality of retail units available. The occupational evidence suggests a rental tone of £161- £269psm (£15-£20psf) for modern retail stock, which reflects both stock recently let as well as stock currently on the market. For more traditional (period) high street units, which tend to offer more constrained space typical rents are in the region of £86 – 129psm (£8-£12psf).
- 6.21 Looking more widely St Modwen completed the redevelopment of Wembley Central Centre at the end of 2015 following a £90m investment programme which has seen brands brought to the town centre, including TK Maxx, Costa, Tesco Metro and Sports Direct. They have recently signed Supercuts, Realeyes and US burger brand BurgerFi, which opened its first UK restaurant in the centre at the end of last year. Supercuts has taken a 10-year lease on a 1,104 sq ft ground floor unit. Optician Realeyes has taken a 10-year lease on a 1,034 sq ft ground floor unit, which will be its fifth South East store. BurgerFi committed to a 15-year lease on a 3,690 sq ft unit within the development.
- 6.22 Clearly in the context of the scale of development, planned improvements to accessibility and high quality housing this will increase investor and occupier sentiment. For the purpose of modelling we have used a rental tone of £20 per ft<sup>2</sup> for the A1 units and £25 per ft<sup>2</sup> for the A3 / A4 units. The likely yield target for investors would be in the region of 6.0%.

#### **Leisure and Community Use market Commentary**

- 6.23 The emerging Old Oak Park proposals include a total of 32,145m<sup>2</sup> of Community & Leisure (D1/D2). At this stage there is little detail around the type of space envisaged.

- 6.24 In respect of the latter we would normally expect a community use to be seen as an asset to the overall community, and would often be provided through a section 106 agreement. There are circumstances where a community centre would be run privately, as most are constructed and run through significant grants and public funding. As a result, the risk would be reflected in a high yield (often 10% plus) and the rent would be in the region of £8 - £12psf.
- 6.25 For the remaining D1 and D2 space we provide a brief overview of the UK nursery and health and sectors to provide an indication of rental and capital value tone.
- 6.26 In respect of the nursery sector this continues to be fragmented. There continues to be an increase in demand from national and regional nursery groups seeking to expand their businesses via acquisitions and organic developments, as well as increased enquiries from early years' operators, investors and overseas buyers.
- 6.27 Buyers continue to principally seek high quality freehold or leasehold settings with a minimum of 50 places, which can demonstrate proven and established levels of Earnings before interest, tax, depreciation and amortization (EBITDA) and present opportunities for further development.
- 6.28 The most highly desired assets are those which are held on unencumbered freehold titles or those which are leasehold on leases which are inside of the Landlord and Tenant Act, with rents which are either at or below market rent, and businesses which can demonstrate solid sustainable earnings.
- 6.29 Brexit has not had a negative impact on activity in the UK childcare market, indeed we have actually witnessed positives emerging with increased interest emerging from overseas groups and investors seeking UK platforms, in part arising due to enhanced monetary gains for overseas potential purchasers, due to the fall in the value of Sterling.
- 6.30 Specific demand and financial terms are more difficult to gauge for a building of the type under consideration here. However, it does provide large areas of open plan floorspace with access to outdoor space and so we would be optimistic that it will attract interest.
- 6.31 Turning to the Health and Fitness market, this continues to see strong growth. This growth is driven largely by the growth at the low cost end of the market, popularity of studio concepts with flexible memberships and new operators with ambitious expansion plans.
- 6.32 This competition for sites, particularly in London, is not only driving rental growth, but also necessitating broader property searches considering less conforming units. Furthermore, a rise in the popularity of athleisure wear and clean eating have led many gyms and studios to dedicate space to secondary retailing opportunities such as juice bars or retail collaborations.

- 6.33 Significant expansion by Pure Gym, through the acquisition of LA Fitness, moved ten London gyms across from Mid-Market to Budget, which when added to The Gym Group's acquisition of four Fitness First units and aggressive organic new openings from Anytime Fitness, means one in every five clubs are now run by low cost operators.
- 6.34 In terms of rental profile, research by Colliers International has indicated that studio concepts are likely to pay twice the average rents of mid-market gym operators at £27.80 psf vs £13.40 psf. Out of the broad four health and fitness categories namely Studio, Budget, Mid-market and Luxury the same research indicated an average rent for each category being £27.80 psf, £15.88 psf, £13.40 psf and £21.56 psf.
- 6.35 For the purpose of modelling we have assumed a generic rental value for D1 and D2 space of £17.50 reflecting the characteristics of the subject area. Further although the area does not currently have comparable investment transactions we have assumed that this form of use would attract a yield of around 6.5%.

## 7 BUILD COSTS

7.1 Cost advice has been provided by Gardiner and Theobald and includes advice in respect of the demolition of the existing structures on the site, construction of considerable primary infrastructure assets (including bridges, underpasses and a railway station), secondary infrastructure such as highways and utility distribution and then the new buildings themselves which have a range of use types.

7.2 The below summaries the main costs adopted but for ease of reference the Gardiner and Theobald full report can be found at Appendix A.

7.3 The physical build costs adopted in the modelling exercise fall into three categories:

- Unit build costs
- Primary Infrastructure
- Secondary Infrastructure

7.4 Gardiner & Theobald have advised the following range of build costs should be adopted for individual 'development-ready' plot appraisals. The below costs have been benchmarked against a similar type/ scale/ quality previously advised to Old Oak and Park Royal Development Corporation (OPDC) by Gardiner & Theobald

Use Type	Rate
Retail (A1)	£1,950 - £2,550 (per m <sup>2</sup> GEA)
Food (A3/ A4)	£1,950 - £2,550 (per m <sup>2</sup> GEA)
Community & Leisure (D1/ D2)	£1,850 - £3,000 (per m <sup>2</sup> GEA)
Office/ Workspace "Creative Studio"	£2,200 - £2,500 (per m <sup>2</sup> GEA)
Office/ Workspace "Buffer" offices	£2,200 - £2,600 (per m <sup>2</sup> GEA)
Office/ Workspace (B1)	£2,650 - £3,500 (per m <sup>2</sup> GEA)
Residential (open market)	£2,700 - £3,500 (per m <sup>2</sup> GEA)
Student/ co-living (assume undergraduate and assume 12m <sup>2</sup> bedroom)	£80,000 - £100,000 per bedroom

7.5 The above rates exclude abnormals such as basements and external works and are current day (i.e. Q3 2017). The above include for build costs including main contractor prelims and OH&P but excludes design fees, land costs etc.

7.6 For the purpose of our modelling we have adopted the mid-point of the range indicated in the table above but have undertaken sensitivity analysis around 10% +/- on plot build costs.

7.7 In addition to the above Gardiner & Theobald have also provided cost advice in relation to:-

- Demolition Costs
  - Energy Centre
  - Tall Building Premium
- 7.8 In respect of demolition costs the site is typically covered by a series of low rise industrial buildings and as such Gardiner & Theobald have advised on an indicative demolition cost range of £75-£100/m<sup>2</sup> (GIA). This cost excludes any below ground works, which will be heavily dependent on the level of contamination where no information is available.
- 7.9 Gardiner & Theobald have also provided an estimate of £50-£60/m<sup>2</sup> (based on GIA) for fitting out an energy centre, which would include:
- Heating Plant and Primary Infrastructure
  - Electrical Infrastructure
  - BMS controls
  - Standby Power
  - Energy Centre Fit Out
- 7.10 This should be regarded as indicative as the level of fit out and plant installed will vary depending on what the energy centre is required to provide in terms of heating and cooling (or both) and how any contract is structured with the utility provider.
- 7.11 Throughout the scheme there are a number of tall buildings identified with the current designs and as such ODPC have sought advice in respect of the likely cost premium which should be attached to the delivery of these structures.
- 7.12 Gardiner & Theobald has advised that the generally accepted watershed for 'tall buildings' would be a height greater than 20 storeys high and these would have impact on:
1. Structure: deeper and wider piles to take the additional loads;
  2. Façade: installation methodology can change and wind loads can increase;
  3. Vertical transport: Additional lifts can be required and additional floors at these heights can incur a premium due to the plant required to operate them.
  4. MEP: depending on heights and use type, booster sets or even intermediate plant floors can be required.
- 7.13 They have advised an indicative cost premium to reflect the above would range from £100-175/m<sup>2</sup> (GIA) depending on the wall: floor ratio, building use and MEP requirements.
- 7.14 For the purpose of modelling as per the base construction costs we have adopted the mid-point of the cost range advised by Gardiner & Theobald.

**Primary Infrastructure**

- 7.15 Thirteen Primary Infrastructure items have been identified and reports prepared for OPDC, which have been reviewed by Gardiner & Theobald.
- 7.16 Although there is a range of source information primarily they are based on either an Aecom Asset Database (Old Oak Common – Structures Database report dated 31st January 2017) or item specific design information issued to Gardiner & Theobald by OPDC.
- 7.17 In particular, this includes the cost of item 10 in the table below which is based on the Arcadis GRIP 3B proposal. For the school costs (item 12), Gardiner & Theobald have adopted Option C from the Atkins Old Oak Park School Feasibility Report issue 2 (18th December 2015) as the basis of estimate.
- 7.18 As out lined in the viability approach section the primary infrastructure items will sit outside the on-plot appraisals within the Master Developer cashflow.
- 7.19 This approach allows a range of sensitivity analysis to be undertaken in respect of testing the impact on viability of removing specific primary infrastructure items.

Item/Map Reference		Total Cost
1	High Street Bridge to Willesden Junction	£35,449,000
2	Genesis Bridge	£21,547,000
3	High Street Bridge to Old Oak South	£31,077,000
4	HS2 Bridge Vehicular	£29,024,000
5	HS2 Bridge Pedestrian/Cycle	£34,083,000
6	Hythe Road Pedestrian/Cycle Link	£2,824,000
7	Scrubs Lane Southern Vehicular Access	£69,633,000
8	Scrubs Lane Northern Pedestrian/Cycle Bridge	£11,064,000
9	Pedestrian Cycle Bridge to Willesden Junction	£18,723,000
10	Viaduct & Hythe Road Station	£149,477,000
11	West London Line Underbridge	£28,290,000
12	School	£16,912,000
13	Basin	Unknown at this stage

- 7.20 The above costs include for prelims, OH&P, design fees and rail possessions/ compensations required to carry out the works.

**Secondary Infrastructure**

- 7.21 Lastly in respect of the Secondary Infrastructure items Gardiner & Theobald have reviewed Arup’s Stage 1 Infrastructure report dated 17 April 2015 as the basis of estimate. Specifically Figure 7.1 which has informed our assumption about which roads are intended to be trafficked roads and which are to be pedestrian/ cycle routes.

Secondary Infrastructure – highway network	Total length	Total Cost
Primary Route - High Street (6.5m carriageway; 2 x 4m footways)	c.1,550m	£4,588,000
Secondary Route – Street (5.5m min, 6.5m ave carriageway; 2 x 2.5m verges; 2 x 3.75m footways)	c. 1,400m	£5,572,000

Secondary Infrastructure – distribution of new utilities	Total cost
Gas distribution	£2,050,000
Water distribution	£850,000
Electricity distribution (including substations)	£10,100,000
Foul water collection	£1,200,000
Surface water collection	£8,300,000
Comms distribution	£500,000

7.22 The secondary infrastructure items are those which are specifically required to enable development of a particular site, i.e. remediation, on-site highways, open space etc. For the purpose of our modelling we assumed these to equate to 7.5% of the overall buildcost of a phase, with 2.5% to be incurred by the plot developer (and so included within the residual appraisal for the plot) and 5% to be incurred by the Master Developer (and included within the cashflow). The table above covering secondary infrastructure is not comprehensive – e.g. it does not include access, internal roads etc, and therefore the percentage allowances adopted will be significantly above these figures. We consider it to be a reasonable assumption for initial modelling of this type of development and the figures are sufficiently full to allow an element of risk return for the Master Developer.

## **8 OTHER COST ITEMS**

8.1 The previous sections set out the specific value and cost assumptions on which the viability model will be based. However, there are a number of other standard and scheme specific assumptions which will also need to be factored into the assessment. These are summarised below.

### **Profit and Return**

8.2 There are two elements of return which need to be considered in the model – those for the individual plot appraisals and the overall return for the Master Developer.

8.3 We are going to be modelling a wide range of assumptions and sensitivity analyses and that being the case we consider it appropriate to take a straightforward approach to profit for the plot appraisals.

8.4 It is a common assumption in viability assessments to assume profit requirements for residential accommodation to be based on 20% GDV for private residential and 6% for affordable residential. Where a blended profit rate is used, a figure of 17.5% is generally considered an appropriate 'shorthand' for these figures.

8.5 The majority of the plots are either wholly residential or where more mixed are weighted towards residential and accordingly we have used this blended profit on GDV approach for all of them.

8.6 With the few plots that are weighted towards or are solely commercial uses, we have adopted a profit of 15% on GDV.

8.7 For the alternative development scenario which tests a 100% private scheme we have adopted a 20% on GDV profit margin across all uses.

8.8 The profit margins outlined above are included within the individual plot appraisals which produce residual land value outputs that are shown in the cashflow i.e. they represent the amount for which we consider the master developer will be able to sell off individual serviced plots.

8.9 The appropriate profit margin to apply to the master developer's position is more difficult to assess. This is going to be a factor of extent of cost and level of risk. The majority of the cost in the cashflow model applicable to the Master Developer arises from infrastructure delivery. If this is made as fixed contributions to the planning authority for delivery rather than direct delivery at risk, clearly the risk profile is considerably reduced. Similarly if it is concluded that elements of the infrastructure delivery should not fall upon the applicant, to enhance viability and maximise affordable housing, this would also have an impact on the appropriate profit margin to apply to the Master Developer.



- 8.10 We have also highlighted above that there is a potentially significant 'margin for error' on the benchmark land value in the absence of a specific claim from Car Giant around relocation costs etc.
- 8.11 Taking all this into account, at this stage we have elected not to include a Master Developer's return in the cashflow model. The potential additional cost that this could put on the overall development will need to be considered further when a clearer delivery strategy is identified but it is likely to add some overall cost.
- 8.12 Although a high level assessment for Mayoral CIL has been undertaken, which amounts to a total contribution of circa £26m reflected in the master cashflow no further allowance for local CIL or S106 cost –above the 2.5% and 5.0% allowances for secondary infrastructure in the on-site plots and wider development area respectively have been allowed for. The inclusion of additional infrastructure costs including CIL and S106 costs, if included, will have an adverse impact on the viability position indicated in Section 10.

#### **Fees and Finance**

- 8.13 In respect of fees and finance we have adopted the following assumptions, which reflect current market expectations:
- Professional Fees – 10%
  - Contingency – 5%
  - Private Residential Marketing and Agency – 3% GDV
  - Commercial Letting – 10% of annual rent
  - Commercial Sales – 1%
  - Finance Costs – 7%

## 9 ASSUMPTIONS SUMMARY SHEET

Item	Assumption	Notes
<b>Private residential values</b>	Base - £750 per sq ft Medium - £800 per sq ft High Value - £850 per sq ft	An average sales value has been adopted for the private accommodation in specific blocks depending on location within the subject area. (Growth only modelled through sensitivity analysis – not in the base model).
<b>Affordable residential values</b>	£410 per sq ft 35% affordable housing – base scenario 100% Private – Variant proposal	For the base option which assumes the delivery of 35% on-site affordable housing provision a blended affordable housing sales rate of £410 psf has been applied.
<b>Offices/Employment</b>	GF/1F - £20 - £25 per sq ft – 6% HQ - £37 per sq ft – 6% Reflecting incentives	The rental value and yield profile has been informed by market research but reflecting the likely characteristics of the subject site at the time of implementation.
<b>Retail</b>	A1 - £20 per sq ft A3/A4 - £25 per sq ft – 6%	The rental value and yield profile has been informed by market research but reflecting the likely characteristics of the subject site at the time of implementation.
<b>Build Costs</b>	Retail (A1) £1,950 - £2,550 (per m2 GEA) Food (A3/ A4) £1,950 - £2,550 (per m2 GEA) Community & Leisure (D1/ D2) £1,850 - £3,000 (per m2 GEA) Office/ Workspace "Creative Studio" £2,200 - £2,500 (per m2 GEA) Office/ Workspace "Buffer" offices £2,200 – £2,600 (per m2 GEA) Office/ Workspace (B1) £2,650 – £3,500 (per m2 GEA) Residential (open market) £2,700 – £3,500 (per m2 GEA) Student/ co-living (assume undergraduate and assume 12m2 bedroom)	The build costs have been advised by Gardiner and Theobald as detailed in Section 7 – for the purposes of the viability modelling we have adopted the mid-point of the range indicated with sensitive analysis undertaken assuming a 10% increase and decrease in construction costs.

	£80,000 - £100,000 per bedroom	
<b>Tall Building Premium</b>	£100-175/m <sup>2</sup> (GIA)	Gardiner and Theobald have advised an indicative cost premium to reflect the above would range from £100-175/m <sup>2</sup> As per the base construction costs we have adopted for the purposes of the viability modelling we have adopted the mid-point of the range indicated
<b>Primary Infrastructure Costs</b>	Various - See Section 7	See Section 7 The viability model has been constructed to allow sensitivity analysis to be undertaken through excluding specific Primary Infrastructure Costs
<b>Secondary Infrastructure costs</b>	Various – See Section 7	For the secondary Infrastructure costs we assumed these to equate to 7.5% of the overall build cost of a phase, with 2.5% to be incurred by the plot developer (and so included within the residual appraisal for the plot) and 5% to be incurred by the Master Developer (and included within the cashflow).
<b>Contingency</b>	5%	In line with current market expectations
<b>Profit</b>	17.5% GDV – base option 20.0% GDV – variant option (100% Private)	In line with current market expectations – reflecting the scale and development risk of the project.
<b>Professional Fees</b>	10%	In line with current market expectations
<b>Marketing/Agency</b>	Private Residential Marketing and Agency – 3% GDV Commercial Letting – 10% of annual rent Commercial Sales – 1%	In line with current market expectations
<b>Finance</b>	7%	In line with current market expectations
<b>Existing Use Value</b>	£159.95m	Used for benchmarking without addition of premium.
<b>Variant Scheme</b>	100% private Accommodation	

<b>Sensitivity Analysis Undertaken</b>	<b>Individual Phases</b> <ul style="list-style-type: none"><li>• 35% affordable</li><li>• 100% private</li></ul> <b>Cost/Value Sensitivity</b> <ul style="list-style-type: none"><li>• 10% +/- on values</li><li>• 10% +/- on plot build costs</li></ul> <b>Variation of Use</b> <ul style="list-style-type: none"><li>• Removal of 3 loss making plots from the model (A, B and M)</li><li>• Replacing A&amp;B commercial with residential</li></ul> <b>Variation of Primary Infrastructure</b> <ul style="list-style-type: none"><li>• Provides Southern Scrubs Lane access, regraded Hythe Road entrance and viaduct with Hythe Road station only</li><li>• Provides regraded Hythe Road entrance and viaduct with Hythe Road station only</li><li>• No provision of primary infrastructure</li></ul>	
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## 10 VIABILITY RESULTS AND SENSITIVITY ANALYSIS SUMMARY

10.1 The base scenario which we have tested assumes that the Master Developer will be required to deliver:

- 35% affordable housing
- All Primary and Secondary Infrastructure.

10.2 We have modelled this on the basis outlined in previous sections and this produces a cashflow with a net present value of -£318.9m i.e. circa £478.8m less than the assumed EUV of the scheme.

10.3 We have also undertaken testing of a number of scenarios as follows:

### Individual Phases

- 100% private

### Cost/Value Sensitivity

- 10% +/- on values
- 10% +/- on plot build costs

### Variation of Use

- Removal of 3 loss making plots from the model (A, B and M)
- Replacing A&B commercial with residential

### Variation of Primary Infrastructure

- Provides Southern Scrubs Lane access, regraded Hythe Road entrance and viaduct with Hythe Road station only
- Provides Southern Scrubs Lane access, regraded Hythe Road entrance, viaduct with enabling works for a station and a £15 contribution to the eastern HS2 vehicular bridge
- Remove all Primary Infrastructure

10.4 The outputs are shown in the tables below.

10.5 In each case the figures shown represents the Net Present Value of the Master Developer's Cashflow less the gross Benchmark Land Value i.e. a figure of zero would indicate that the overall NPV of the cashflow was at a surplus equal to the BLV. A negative figure shows a deficit. As indicated above, these figures do not allow for a profit margin for the Master Developer and if we were to assume that this were to be, say, equivalent to a contractor's margin of 6% on the total cost of Primary and Secondary Infrastructure this would represent an additional cost of £38.7m

**Remove A, B and M - All Primary Infrastructure**

	-10% costs	-10% values	Base	+10% costs	+10% values
35% affordable	-£265.3m	-£662.1m	-£478.8m	-£693.3m	-£295.6m
100% private	+£4.5m	-£396.2m	-£147.3m	-£340.6m	+£44.9m

**Remove M, A&B all residential - All Primary Infrastructure**

	-10% costs	-10% values	Base	+10% costs	+10% values
35% affordable	-£252.3m	-£659.1m	-£471.2m	-£691.1m	-£283.5m
100% private	+£24.8m	-£387.2m	-£131.9m	-£330.1m	+£66.6m

**Reduced Primary Infrastructure - Option 1**

Provides Southern Scrubs Lane access, regraded Hythe Road entrance and viaduct with Hythe Road station only.

	-10% costs	-10% values	Base	+10% costs	+10% values
35% affordable	-£8.6m	-£349.5m	-£167.2m	-£381.5m	-30.4m
100% private	+£249.9m	-£103.7m	+£94.74m	-£61.8m	+£291.6m

**Reduced Primary Infrastructure – Option 2**

Provides Southern Scrubs Lane access, regraded Hythe Road entrance, viaduct with enabling works for a station and a £15m contribution to the eastern HS2 vehicular bridge

	-10% costs	-10% values	Base	+10% costs	+10% values
35% affordable	+£9.9m	-£324.1m	-£147.3m	-£356.1m	-£11.9m
100% private	+£268.3m	-£85.0m	+£113.2m	-£43.1m	+£310.0m

### Reduced Primary Infrastructure – Option 3

Provides regraded Hythe Road entrance, viaduct with enabling works for a station and a £15m contribution to the eastern HS2 vehicular bridge

	-10% costs	-10% values	Base	+10% costs	+10% values
35% affordable	+£12.1	-£321.1m	-£145.1m	-£353.1m	-£9.7m
100% private	+£270.5m	-£82.7m	+£115.4m	-£40.9m	+£312.2m

### Removal of All Primary Infrastructure

	-10% costs	-10% values	Base	+10% costs	+10% values
35% affordable	£137.5m	-£153.0m	-£18.51m	-£180.4m	£115.8m
100% private	£395.7m	£43.5m	£240.6m	£85.0m	£437.4m

- 10.6 It has always been understood that the combination of a high existing use value and a significant infrastructure requirement means that delivery of the scheme on a viable basis will be extremely challenging.
- 10.7 Using our base cost and value assumptions, the only scenarios which produce a positive cashflow outcome are those based on 100% private residential and a scaled back provision of primary infrastructure.
- 10.8 Given the sheer scale of floorspace, particularly residential, within the overall scheme, a 10% value increase or 10% cost decrease does have a significant impact on overall viability. Either of these brings the cashflow close to breakeven assuming 35% affordable housing and the first of our reduced primary infrastructure scenarios.
- 10.9 However it is important to bear in mind the context for these is a benchmark against Current Use Value with no landowner's premium applied and no margin added for Master Developer's profit (albeit as the infrastructure requirement put on the developer is reduced, so too will the risk premium associated with it).
- 10.10 Clearly the scheme proposals are not designed to any great degree of detail at present and given the size of some of the figures involved, the cashflow will be quite sensitive to changes in timing, sequencing etc. That being the case, we consider it important to focus on the overall tone of the

outputs from our model rather than drilling down into too much detail. However, there are a number of key themes which we are able to take away from the exercise.

- 10.11 Firstly, the residential-led plots are generating positive land values even based on 35% affordable housing. In the case of the lowest band of private residential values, land surplus is relatively modest but it produces some healthy receipts at the highest band.
- 10.12 This does demonstrate that the economics of development in this location based on accessible serviced sites is positive and illustrates that the delivery of infrastructure is, not unexpectedly, the main impediment to development.
- 10.13 Commercial development, however, is generally at best breakeven. Clearly there does need to be a mix of uses to some degree in this location for a number of reasons. Ground floor units will in many cases be unsuitable for residential development and beyond this the provision of a mixed environment with activity and vibrancy will be important for the marketability of residential properties and will also drive value.
- 10.14 Our modelling does include the removal of loss making plots from the model – A, B & M. This does not necessarily imply no development in these locations – simply that in a development of this nature it is unlikely that these plots will come forward if they are not capable of delivering a surplus and so we can expect their content to evolve over time to reflect this. Based on current market conditions this is most likely to be a shift towards residential.
- 10.15 Clearly our sensitivity analyses do present quite a limited selection of options. In particular they simply show the effect of a move from 35% affordable housing to wholly private sale provision. There are of course a range of viability outcomes depending on the specific infrastructure requirements put on the applicant.
- 10.16 However overall it is clear that the currently proposed masterplan combined with the full infrastructure requirements is not viable in its own right.