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Review of 'Economic Circumstances Statement'

Tottenham Hotspur Stadium, 748 High Road, Tottenham, N17 0AL

FINALREPORT

Prepared for

London Borough of Haringey

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Contents

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1 Introduction and Terms of Reference

The London Borough of Haringey ("the Council") has commissioned BNP Paribas Real Estate to advise on an 'Economic Circumstances Statement' prepared by Quod on behalf of Tottenham Hotspur Property Company Ltd ("the Applicant") in relation to development proposals at Tottenham Hotspur Stadium, 748 High Road, Tottenham, N17 0AL ('the site").

The development comprises the redevelopment of the site to provide a hotel and 49 apartments.

This report provides an objective review of the Applicant's viability assessment in order to advise the Council whether the Applicant's S73 application to amend the scheme materially alters the economic circumstances of the scheme in comparison to the 2017 revised scheme appraisal.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 37 countries in Europe, Middle East, India and the United States of America, including 16 wholly owned and 21 alliances. In 2005, the firm expanded through the acquisition of eight offices of Chesterton and in 2007, the firm acquired the business of Fuller Peiser and Strutt & Parker in 2017. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France, the second largest bank in the Euro Zone and one of only six top rated banks worldwide.

BNP Paribas Real Estate has a wide-ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ("RPs").

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Jamie Purvis MRICS, RICS Registered Valuer and reviewed by Anthony Lee, MRTPI MRICS, RICS Registered Valuer.

The UK Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the provision of affordable housing.

Anthony Lee was a member of the working group which drafted guidance for planning authorities on viability, which was published by the Local Housing Delivery Group in June 2012 as '*Viability Testing Local Plans: Advice to Planning Practitioners*'. He was a member of MHCLG's 'Developer contributions expert panel' which assisted in the drafting of the viability section of the 2019 Planning Practice Guidance. He is also a member of the Mayor of London's Housing Delivery Taskforce expert panel.

In addition, we were retained by Homes England ('HE') advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report Structure

This report is structured as follows:

Section two provides a brief description of the Development;

Section three describes the methodology that has been adopted;

Section four reviews the assumptions adopted by the Applicant, and where necessary, explains why alternative assumptions have been adopted in our appraisals;

Section five sets out the results of the appraisals;

Finally, in **Section six**, we draw conclusions from the analysis.

1.3 The Status of our advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Professional Standard ('PS') 'Assessing viability in planning under the National Planning Policy Framework for England 2019' (first edition, March 2021). However, paragraph 2.2.3 of the PS acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the PS and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.

This report is addressed to London Borough of Haringey only. No liability to any other party is accepted.

2 Development Description

2.1 Site Location and Description

The application site (plot 3) extends to approximately 0.23 hectares and is located to the south-west of the Tottenham Hotspur Stadium on the junction of Park Lane and High Road. It is bound by the Stadium to the north, two temporary five a side football pitches and events space to the east, Park Lane to the south and the Tottenham Experience building to the west.

The Site is within a short walking distance of bus stops on The High Road, White Hart Lane and Northumberland Park and the White Hart Lane Overground Station is a short walk from the Site to the north-west. There are five main bus routes on the High Road (149, 259, 279, N279 and 349) and the frequent W3 services running east west from along White Hart Lane and Northumberland Park as well as several night services operating in the area. Rail services run approximately every 15 minutes from White Hart Lane Overground Station running into Liverpool Street, Enfield and Cheshunt. The Site is also within a 1,400m (18 minute) walk of Northumberland Park Railway Station, providing access to West Anglia services to Liverpool Street and Stansted.

2.2 Planning History

We have reviewed the Council's planning website and the site was granted planning permission in April 2016 (Ref: HGY/2015/300) for:

"Proposed demolition and comprehensive phased redevelopment for stadium (Class D2) with hotel (Class C1), Tottenham Experience (sui generis), sports centre (Class D2); community (Class D1) and / or offices (Class B1); housing (Class C3); and health centre (Class D1); together with associated facilities including the construction of new and altered roads, footways; public and private open spaces; landscaping and related works. Details of "appearance" and "landscape" are reserved in relation to the residential buildings and associated community and / or office building. Details of "appearance" and "scale" are reserved in relation to the sports centre building. Details of "appearance" are reserved in relation to the health centre building. Proposal includes the demolition of 3 locally listed buildings and includes works to a Grade II Listed building for which a separate Listed Building application has been submitted (Ref: HGY/2015/3001). The proposal is EIA development".

In May 2017, the subject site was granted planning permission (Ref: HGY/2017/1182) for:

"Non-material amendment following a grant of planning permission HGY/2015/3000: proposed removal of 90 day restriction (Condition D16) to allow operation of hotel serviced apartments as C3, rather than C1 Use Class. Consequential amendments to Conditions A4, A7 and D1".

2.3 The Proposed Development

The Applicant is seeking planning permission for:

"Minor Material Amendments to height, design, maximum floorspace and associated works to Plot 3 (Hotel / Residential development) of the hybrid planning permission HGY/2015/3000 (following previously approved amendments including HGY/2017/1183 to allow part residential (C3) use on Plot 3) for demolition and comprehensive redevelopment of the Northumberland Park Development Project through variation of Conditions A4 (Consented Drawings and Documents); A6 (Conformity with Environmental Statement) and Condition A7 (Maximum Quantity/Density) and D1 (Plot 3 specific drawings) under Section 73 of the Town and Country Planning Act (EIA development)".

The S73 Application will seek to vary conditions A4 and A7 of the Hybrid Consent. It relates to the hotel building in Plot 3 only and, in summary, seeks to make the following amendments:

- Changes to the hotel building form and layout of the building;
- Increase to the height of the hotel (an increase of approximately 27 metres to 127 metres);

- An increase in the scale of the communal areas without any changes to the maximum permitted number of hotel bedrooms (no.180) or dwellings (no.49) in the hotel. The overall floorspace of the hotel building would increase from approximately by 18,820 sq.m. to 27,378 sq.m.

3 Methodology

The Applicant has submitted their appraisal in a table and it is unclear whether the appraisal has been calculated in a bespoke excel sheet or a proprietary appraisal model.

We have used Argus to appraise the development proposals. Argus is a commercially available development appraisal package in widespread use throughout the industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuations. Further details can be accessed at www.argussoftware.com.

Argus is a cashflow-backed appraisal model. This cash-flow approach allows the finance charges to be accurately calculated over the development/sales period. The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value. The model is normally set up to run over a development period from the date of the commencement of the project and is allowed to run until the project completion, when the development has been constructed and is occupied.

Essentially, such models all work on a similar basis:

- Firstly, the value of the completed development is assessed;
- Secondly, the development costs are calculated, using either the profit margin required or land costs (if, indeed, the land has already been purchased).

The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value.

The output of the appraisal is a Residual Land Value ('RLV'), which is then compared to an appropriate benchmark, typically the Existing Use Value ('EUV') of the site plus a site-specific landowner's premium, in line with the Planning Practice Guidance ('PPG'). The PPG clearly states that the purchase price cannot be used in a viability assessment.

An Alternative Use Value ('AUV') may also constitute a reasonable benchmark figure where it is considered to be feasible in planning and commercial terms. Development convention and GLA guidance suggests that where a development proposal generates a RLV that is higher than the benchmark, it can be assessed as financially viable and likely to proceed. If the RLV generated by a development is lower than the benchmark, clearly a landowner would sell the site for existing or alternative use or might delay development until the RLV improves.

4 Review of Assumptions

In this section, we review the assumptions adopted by the Applicant in their assessment of the viability of the scheme.

4.1 Viability Assumptions

In relation to the Applicant's approach to testing the viability of the scheme, the Applicant has had regard to the 2017 application scheme and has indexed the construction costs on the basis of the BCIS All In Tender Price Index ('TPI') and increased revenues on the basis of the Land Registry House Price Index ('HPI').

We summarise in Table 4.1.1 the Applicant's supporting evidence for the indexed costs and increased values.

Table 4.1.1: Cost Inflation and Revenue Increase

Date	Construction Costs (BCIS)	Sales Revenue (HPI)
April 2017 Index	306	120
July 2023 Index	385	133
% Change	+ 26%	+ 11%

We have cross checked the BCIS and HPI and we set out below the current data from the respective websites.

Table 4.1.2: Cost Inflation and Revenue Increase

Date	Construction Costs (BCIS)	Sales Revenue (all properties) (HPI)	Sales revenue (new build only) (HPI)
April 2017 Index	307	120	123
November 2023 Index	388	137	150
% Change	+ 26.47%	+ 14.17%	+22.2%

The Land Registry HPI data indicates that new build values have increased at a faster rate than all properties, which will be predominantly second hand properties. We have applied the change in new build values only in our assessment.

We summarise in Table 4.1.2 the Applicant's updated scheme appraisal compared against the 2017 original scheme appraisal previously prepared by DS2 and the 2017 revised scheme appraisal.

Table 4.1.2: Applicant's Comparison of Appraisals

Appraisal Input	Original Scheme (2017 Viability Inputs)	Revised Scheme (2017 Viability Inputs)	Revised Scheme (Indexed 2023 Viability Inputs)	BNPPRE Comments
Residential Units	49	49	49	-
Residential NIA	36,328	72,441	72,441	-
Residential £PSF	£600	£600	£666	See Heading Below
Residential Revenue	£21,796,800	£43,464,600	£48,245,706	See Heading Below
Hotel Rooms	180	180	180	-
Hotel NIA	56,769	64,971	64,971	-

Appraisal Input	Original Scheme (2017 Viability Inputs)	Revised Scheme (2017 Viability Inputs)	Revised Scheme (Indexed 2023 Viability Inputs)	BNPPRE Comments
Hotel £PSF	£444	£444	£493	See Heading Below
Hotel Revenue	£25,200,000	£28,847,124	£32,030,703	See Heading Below
Total Revenues	**£46,996,800**	**£72,311,724**	**£80,276,409**	**-**
Residential & Hotel GIA	213,504	293,984	293,984	-
Build Costs £PSF GIA	£317	£317	£399	See Heading Below
Build Costs	£67,775,000	£93,192,928	£117,299,616	See Heading Below
Professional Fees (12%)	£8,133,000	£11,183,151	£14,075,954	Agreed
Hotel Marketing (1%)	£252,000	£288,471	£320,307	Agreed
Marketing Residential (2%)	£435,936	£869,292	£964,914	Agreed
Sales Agent & Legal Fee (1.5%)	£704,952	£1,084,676	£1,204,146	Agreed
Total Finance Costs	£4,985,043	£4,985,043	£4,985,043	See Heading Below
Developer's Profit (15%)	£6,130,014	£10,846,759	£12,041,461	See Heading Below
Total Other Costs	£20,640,945	£29,257,392	£33,591,286	-
Total Costs	**£88,415,945**	**£122,450,320**	**£150,891,442**	**-**
Residual Land Value	- £41,419,145	- £50,138,596	- £70,615,033	-

The Applicant has provided the following statement regarding the revised 2023 appraisal:

"The appraisal reflects an optimistic assessment of the viability position on the basis that the analysis assumes i) the 49 residential units retained in the revised scheme will creates the same £PSF value proportionate to their floor area (this unlikely to be achievable given the homes are substantially larger) and ii) that the total finance costs remain unchanged (despite increases in the total costs and finance rates)".

4.2 Residential Revenue

The Applicant's updated revenue totals c. £48.25m equating to a blended capital value per sq/ft of £666. In support this revenue the Applicant has provided the following statement:

"For context the residential values presented for Goodsyard Site (THFC) in April 2019 and High Road West (Lend Lease) in July 2022 were £685 PSF and £700 PSF respectively. These blended values were for considerably smaller homes (which generate a higher £PSF value) and agreed at a time when the residential market was much stronger with lower interest and mortgage rates".

We summarise in Table 4.2.1 the proposed residential units and unit sizes dated 4 August 2023 (set out in the Design and Access Statement) which sets out a total floor area for the 49 units of 75,713 sq/ft compared to the Applicant's total floor area of 72,441.

Table 4.2.1: Proposed Residential Units

Unit Type	Number of Units	Floor Area Range (sq/ft)
1 Bed	5	1,023
2 Bed	20	1,324 – 2,024
3 Bed	24	1,561 – 2,390
Total	**49**	**1,614**

On the basis of the difference in floor areas between the Design and Access Statement and the Applicant's breakdown of floor areas we request clarification regarding the correct floor areas.

Due to the oversized nature of the residential units, storey heights and their location overlooking the Tottenham Hotspur Stadium it is unclear whether the Applicant's indexed values of £666 per sq/ft are appropriate. However, our analysis of the HPI provides an updated revenue of c. £58.84m equating to c. £812 per sq/ft based upon an increase in 'new build' values from April 2017 of 22.2%.

Due to the nature of the units, it is unclear whether a value of c. £812 per sq/ft is appropriate. However, in section 5 of this report we have modelled a sensitivity analysis which demonstrates scheme performance in the event that achievable sales values were higher than c. £812 per sq/ft.

4.3 Hotel Revenue

The Applicant's updated Hotel revenue totals c. £32.03m equating to a capital value per sq/ft of £493. The updated revenue is derived from the application of the HPI to the 2017 Hotel revenue of c. £28.85m. It is unclear why the Applicant has applied an index which tracks the movement in values of residential dwellings to a Hotel as the HPI is irrelevant when considering the current value of the hotel.

We therefore request that the Applicant provides further supporting justification for the current value of the hotel. This should be in the form of comparable evidence of hotel transactions.

For the purpose of this initial draft report, we have adopted the Applicant's Hotel revenue, however, in section 5 of this report we have modelled a sensitivity analysis which demonstrates scheme performance in the event that the Hotel revenue was higher than c. £32.03m.

4.4 Finance

We note that the Applicant has not updated the finance costs of c. £4.98m which will inevitably change from the revised 2017 scheme finance costs due to the increase in revenue by c. £10.6m and increase in costs by c. £28.44m. For the purpose of this assessment, we have maintained the finance costs of c. £4.98m.

4.5 Developer's Profit

The Applicant's updated 2023 appraisal adopts a 15% profit on revenue, however, we highlight that the original 2017 DS2 appraisal adopted a profit of 15% on cost. We have therefore amended the profit to reflect the original profit of 15% on cost.

5 Appraisal Outputs

In this section, we consider the outputs of the appraisals and the implications for the provision of affordable housing at the proposed development and review the benchmark land value.

5.1 Appraisal Results

We highlight that since submitting their report, the Applicant has revised the floor areas for the original 2017 scheme and the 2023 scheme and we summarise these floor areas in Table 5.1.1. Whilst the Applicant has provided updated floor areas, we highlight that their viability conclusions should have been updated to reflect the revised floor areas.

Table 5.1.1: Revised Floor Areas

Use	2017 Original Scheme (GIA sq/ft)	2017 Original Scheme (NIA sq/ft)	2023 Scheme (GIA sq/ft)	2023 Scheme (NIA sq/ft)
Hotel	165,280	56,789	179,714	53,862
Residential	56,252	36,328	125,152	78,189
Total	**221,532**	**93,117**	**304,866**	**132,051**

For the purpose of our analysis, we have removed the Applicant's 2017 revised scheme from our appraisal results. We highlight that we have not been provided with a copy of the revised scheme appraisal and the Applicant has not confirmed whether the base assumptions/floor areas are correct.

We therefore summarise in Table 5.1.2 our appraisal results compared to the original 2017 appraisal. We have not reflected the Applicant's indexed 2023 appraisal results in our comparison due to the change in floor areas.

Table 5.1.1: BNPPRE Appraisal Results

Appraisal Input	Original Scheme (2017 Viability Inputs)	BNPPRE Revised Scheme (Indexed 2023 Viability Inputs)
Residential Units	49	49
Residential NIA	36,328	78,189
Residential £PSF	£600	£813
Residential Revenue	£21,796,800	£63,489,468
Hotel Rooms	180	180
Hotel NIA	56,789	53,862
Hotel £PSF	£444	£493
Hotel Revenue	£25,214,316	£26,553,996
Total Revenues	**£47,011,116**	**£90,043,434**
Residential & Hotel GIA	221,532	304,866
Build Costs £PSF GIA	£317	£401
Build Costs	£70,225,644	£122,251,266
Professional Fees (12%)	£8,427,077	£14,670,152
Hotel Marketing (1%)	£252,143	£265,540
Marketing Residential (2%)	£435,936	£1,269,789
Sales Agent & Legal Fee (1.5%)	£705,116	£1,350,652

Appraisal Input	Original Scheme (2017 Viability Inputs)	BNPPRE Revised Scheme (Indexed 2023 Viability Inputs)
Total Finance Costs	£4,985,043	£4,985,043
Developer's Profit (15%)	£7,051,667	£11,744,808
Total Other Costs	£21,856,982	£34,285,984
Total Costs	**£92,082,626**	**£156,537,250**
Residual Land Value	**- £45,071,510**	**- £66,493,786**

In summary, our updated assessment of the scheme generates a deficit of c. £60.75m compared to 2017 original scheme deficit of c. £45.07m.

5.2 Sensitivity Analysis

We summarise in Tables 5.2.1 a sensitivity analysis which demonstrates scheme performance (via the scheme residual land value) in the event that residential sales values and hotel revenue increase by percentage increments.

Table 5.2.1: Residential Sales Values Sensitivity Analysis (Residual Land Value)

	Residential Sales Values & Hotel Revenue Increase				
	0%	+ 20%	+ 40%	+ 60%	+ 80%
Residual Land Value	- £66,493,786	- £51,411,238	- £36,328,681	- £21,246,177	£6,163,635

The above sensitivity analysis demonstrates that when the residential and hotel revenue increases by 80% that the scheme still generates a deficit of c. £6,613,635.

6 Conclusion

We have reviewed the Applicant's viability assessment, which seeks to demonstrate that the scheme generates a deficit of c. £70.62m on a current day basis. However, the Applicant has subsequently advised provided revised floor areas for the 2017 and 2023 scheme since the submission of their report.

We have undertaken our own assessment of the indexed 2023 scheme (reflecting the revised floor areas) which generates a deficit of c. £66.49m and as a result the S73 application does not materially alter the circumstances of the scheme as the scheme still generates a deficit as per the 2017 revised scheme appraisal.

However, we highlight that we have also undertaken a sensitivity analysis which demonstrates that if residential values increased by 80% to c. £114.28m (c. £1,462 per sq/ft) and Hotel revenue increased by 80% to c. £47.80m (c. £887 per sq/ft) the scheme still generates a deficit of c. £6.16m.

Whilst we have requested further justification for the 2023 value of the Hotel our sensitivity analysis demonstrates that the scheme would need a substantial increase in revenue to overcome the current scheme deficit.