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Hornsey Town Hall, The Broadway, Crouch End, London N8 9JJ: Review of 'Economic Viability Appraisal Report'

Prepared for

London Borough of Haringey

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Contents

Appendices

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1 Introduction

The London Borough of Haringey has commissioned BNP Paribas Real Estate to review an 'Economic Viability Appraisal Report' dated July 2017 prepared by ULL Property ('ULL') on behalf of Crouch End (FEC) Limited (the 'Applicant') in relation to its proposed development ('the Development') at Hornsey Town Hall, The Broadway, Crouch End, London N8 9JJ ('the Site').

The Site has the benefit of planning permission ('the Extant Scheme') comprising 123 residential units; 46,148 square feet of D1/D2/Theatre and performance floorspace; 2,670 square feet of B1 office floorspace; and 64 car parking spaces.

The Development comprises 146 residential units, 34,036 square feet of Community floorspace; 4,769 square feet of co-working office space; a 67 bed hotel; 7,557 square feet of food and beverage floorspace; and 40 car parking spaces.

This report provides an independent assessment of ULL's viability assessment in order to inform the Council's negotiations with the Applicant.

ULL's first report indicated that the Development could not viably provide any affordable housing. Their report suggested that the residual land value generated by the proposed Development was only marginally higher than the residual generated by the Extant Scheme. Following the issue of our draft report and subsequent discussions between the parties, it is agreed that the Development can viably provide 11 affordable housing units (London Affordable Rent) without recourse to grant funding and no subsidy from the Council (through recycling of the land receipt).

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 150 offices, across 30 countries in Europe, Middle East, India and the US, including 15 wholly owned and 15 alliances.

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 Anthony Lee MRICS MRTPI, RICS Registered Valuer.

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

In 2007 we were appointed by the GLA to review its Development Control Toolkit Model (commonly referred to as the 'Three Dragons' model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model; and advising on areas that required amendment in the re-worked toolkit. We were appointed again in 2012 by the GLA to review the Three Dragons model and our recommendations were carried forward to the 2014 version of the Toolkit.

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'.

In addition, we were retained by the Homes and Communities Agency ('HCA') to 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 Disclaimer

In accordance with PS 1.6 of the RICS Valuation – Professional Standards (January 2014 Edition) (the 'Red Book'), the provision of VPS1 to VPS4 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation.

1.4 Confidentiality

The Applicant has provided information to us on a confidential basis. This information is referred to both directly and indirectly in this report and we therefore request that the Council treat this report as confidential and commercially sensitive.

2 Description of the Development

2.1 Site Description

The 1.44 hectare site is located in the Crouch End area of the London Borough of Haringey. The Site accommodates Hornsey Town Hall and ancillary buildings, including Broadway Annexe, Weston Park Annexe and Mews Studio.

Crouch Hill Station is located 0.7 miles from the Site, providing access to London Overground services and Hornsey Station is located 0.8 miles to the north east, providing access to National Rail services to Moorgate Station (typical journey time of 19 minutes). In addition, the site is served by numerous bus routes providing access to various locations.

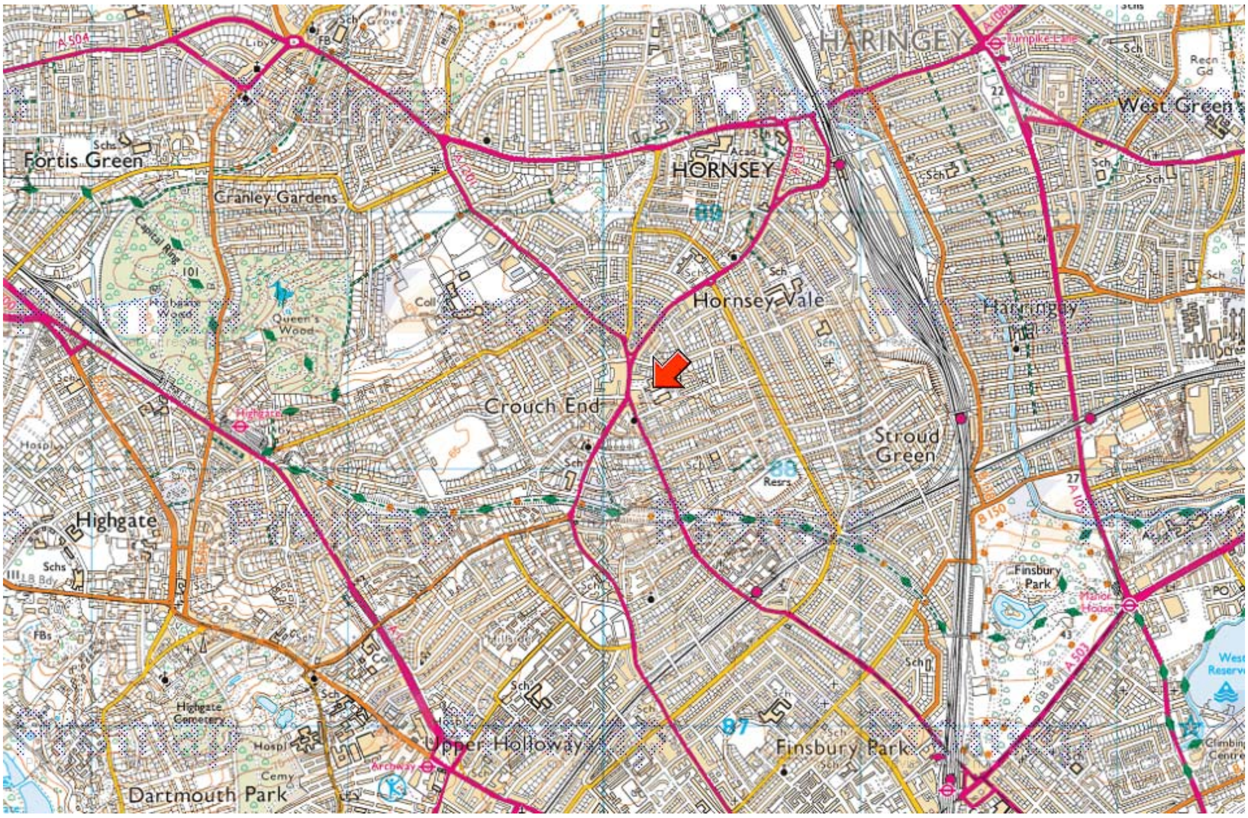
The Site benefits from a range of leisure and retail facilities on Broadway Parade and The Broadway.

The Site accommodates the Grade II* listed Hornsey Town Hall which was constructed in 1935 for Hornsey Borough Council. When the London Borough of Haringey was formed in 1966, the building ceased to function as a town hall but was used by the Council as offices as well as events and performance space. The Town Hall was to be refurbished for use as a performance venue in 2012, but the primary occupier (Mountview Academy of Theatre Arts) withdrew from the project.

Figure 2.1.1: Site plan

Source: Promap

Figure 2.1.2: Location plan



Source: Promap

2.2 Planning

We have reviewed the Council's planning applications database and highlight the relevant and most recent planning permission on the Site below.

Table 2.2.1: Recent extant planning permissions

Reference	Building(s)	Details
HGY/2013/1384	Hornsey Town Hall	Conservation Area Consent for the demolition of existing buildings, including Courtyard infill building, Library garage, Mews studio, public WCs, and removal of prefabricated unit to rear of the Town Hall. Demolition of walls, fences and removal of trees
HGY/2013/1383	Hornsey Town Hall	Listed Building Consent for refurbishment and conversion of the Town hall Building comprising alterations, extension and change of use from B1 (Business) and Sui Generis to a mixed use scheme incorporating: D1 (Non-Residential Institutions), A3 & A4 uses (Restaurants, Cafes and drinking establishment), D2 (Assembly and Leisure) and retaining existing B1 and Sui Generis (Theatre and performance venue) use. Alterations, extensions and change of use of Link Block and East Wing from B1 (office) to C3 dwellinghouses. Extension, alteration, refurbishment and change of use of the Broadway Annexe East Part from B1 office to A1 retail and B1 office (West part to be C3 residential). New residential development comprising 123 No. units in total (35 x 1 bed flats, 61 x 2 bed flats, 20 x 3 bed flats, 3 x 4 bed flats and 4 x 4 bed houses) and associated car parking at basement level, including residential accommodation in the existing Town hall (East Wing and Link Building), the Broadway Annexe (West Part) and Mews to be demolished. Erection of sub-stations. Alterations and landscape improvements including to the Town Hall Square, and use of the square for both public events and markets / small festival uses.

2.3 Scheme proposals

The Applicant is seeking planning permission for the following:

Table 2.3.1: Current planning applications

Reference	Details
HGY/2017/2223	Listed Building Consent for internal and external alterations to the Broadway House (Listed as 'Electricity Board Office and Showroom' - Grade II. HE Listing Ref: 1358881) including comprehensive programme of repair works to brick and stonework, roofs, floor and wall surfaces, doors, decorative metalwork, joinery, ironmongery and windows. Various removals and insertion of internal partitions, including insertion of French doors to the Town Hall square, fire escape replacement and facilitating works to allow insertion of extension.
HGY/2017/2222	Listed Building Consent for internal and external alterations to the Hornsey Town Hall (Grade II* - HE Listing Ref: 1263688) including comprehensive programme of repair works to brick and stonework, roofs, floor and wall surfaces, doors, decorative metalwork, joinery, ironmongery, etched glazing and windows. Various removals and insertion of internal partitions, doors, partial excavation of basement, lift insertions, ramp and access insertions and relocations, fire escape replacement, removal of stage hoist, balcony seating and 1972 roof addition. Repair of historic finishes, furnishings, commemorative plaques and war memorial. Curtilage demolition of the Weston Clinic Building and courtyard infill extension.
HGY/2017/2220	Refurbishment and change of use of the Hornsey Town Hall from B1 Use and Sui-Generis Use to a mixed use scheme comprising a hotel (Use Class C1), food and beverage uses (Use Classes A3 and A4), community uses (Use Class D1, D2 and Sui-Generis Use) and co-working use (Use Class B1). Use of the Town Hall roof terrace as a bar (Use Class A4). Removal of east wing extension and erection of east wing roof extensions to the Town Hall. Change of use of the ground floor of Broadway Annex Building East to food and beverage use/drinking establishment use (Use Class A3/A4). Provision of 146 residential units comprising: the erection of a 7 storey building; the erection of a part 4, part, 5, part 6, part 7 storey building and associated car parking at basement level; change of use of the first and second floors of the Broadway Annexe to residential use and the erection of an extension to the rear of the Broadway Annex; the erection of a residential mews block to the rear of the Broadway Annexe. Alterations and landscaping improvements to the town hall square and open spaces. Provision of cycle parking. Demolition of the Weston Clinic building; courtyard infill extension to the Town Hall; Hornsey Library garage; Library annex and energy centre. Demolition and replacement of metal stairwell to the rear of the Assembly Hall and demolition and replacement of stage hoist structure adjoining the Assembly Hall

The ULL report does not provide any details on the proposed mix of housing in the proposed Development. The Applicant's Planning Statement provides the following mix:

Table 2.3.2: Proposed mix (units)

Unit type	Number of units
1 bed 1 person	11
1 bed 2 person	38
2 bed 3 person	37
2 bed 4 person	42
3 bed 4 person	1
3 bed 5 person	6
3 bed 6 person	9
4 bed 8 person	2
Totals	**146**

The floor areas of the non-residential proposals are summarised in Table 2.3.3. A schedule of both gross and net internal areas for commercial and residential is attached at Appendix 1.

Table 2.3.3: Non-residential floorspace

Use	Gross internal area (square metres)	Gross internal area (square feet)
Hotel (67 rooms)	2,689	28,944
Food and beverage A4	702	7,556
Community use D1/D2/SG	3,162	34,036
B1 co-working space	443	4,768
Shared ‘back of house’ space	243	2,616
Total non-residential	**7,329**	**77,920**

3 Methodology

The appraisal submitted by ULL has been undertaken using Argus Developer ('Argus'). Argus is a commercially available development appraisal package in widespread use throughout the development 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 model which allows the finance charges to be accurately calculated over the development 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 and inputted as a cost) or the Residual Land Value ('RLV').

The output of the appraisal is a RLV, which is then compared to an appropriate benchmark, often considered to be the Current Use Value ('CUV') of the site plus, where appropriate, a landowner's premium.

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.

In this particular case, the Site benefits from an extant planning permission which ULL have appraised through a residual valuation. The residual valuation of the extant scheme forms the basis of the Site's benchmark land value, which is a reasonable approach to adopt. We understand that the extant scheme has been implemented and the landowner clearly has the option to build out that scheme in place of the application scheme (should planning permission not be granted).

Using the residual valuation of the Extant Scheme simplifies the viability assessment to a degree, as many of the inputs to the appraisal of the Application Scheme will be identical to those used for the Extant Scheme.

4 Review of assumptions

In this section, we review the assumptions adopted by ULL in their assessment of the proposed development.

4.1 Private residential values

ULL's report cites Land Registry data for the Borough as a whole indicating a fall in values between February and May 2017. However, more recent data reverses this trend with values in July 2017 exceeding those in February.

ULL's private sales values are based on selected sales from the following developments:

- Smithfield Square (Hornsey Depot);
- 77 Muswell Hill;
- Campsbourne Road apartments;
- Pinnacle, 56 Muswell Hill

On the basis of their interpretation of the comparable evidence, ULL have applied a sales value of £800 per square foot to the proposed Development.

Pinnacle has achieved an average of £879 per square foot across an average unit size of 1,277 square feet. In comparison, the unit sizes in the subject development are significantly smaller.

77 Muswell Hill has achieved average values of £960 per square foot, again based on large unit areas averaging 1,075 square feet.

In addition to the schemes above, the development at Highgate Police Station has achieved average values of £956 per square foot.

We have reflected the averages above by testing the Development at both ULL's £800 per square foot and also increasing the values at the subject development to £925 per square foot. The values clearly apply equally to both the Extant Scheme and the Application Scheme, so the GDV of both schemes will increase if sales values increase. However, we envisage that the Development will be subject to an end of scheme review so that outturn sales values can be established.

4.2 Ground rents

ULL's appraisal incorporates an average ground rent of £400 per unit per annum. ULL have capitalised the rental income at a yield of 5%, resulting in a capital value of £1,168,000. These assumptions do not fall outside normal parameters.

4.3 Affordable Housing

ULL did not included any affordable housing in their initial appraisal of the proposed Development. Their revised appraisal incorporates 11 units to be provided as London Affordable Rent to which ULL ascribe a capital value of £194.53 per square foot.

To value the affordable housing units, we have used a bespoke model specifically created for this purpose. This model takes into account factors such as standard levels for individual RPs management and maintenance costs; finance rates currently obtainable in the sector, and a view on the amount of grant obtainable.

The 'Shared Ownership and Affordable Homes Programme 2016-2021 – Prospectus' document provides a clear indication that Section 106 schemes are unlikely to be allocated Grant funding, except in exceptional circumstances. It is therefore considered imprudent to assume that Grant will be secured. Therefore our assessment relies upon the assumption that none is provided.

For the London Affordable Rent units, we have valued the units on the basis that rents will be capped at Target Rents of £144.26 per week. In the 2015 Budget, the Chancellor announced that the government will require RPs to reduce their rents by 1% per annum over the next four years. Our model reflects this requirement which results in the reduction in capital value of the affordable rented units. Our modelling indicates that ULL's adopted value is not unreasonable.

4.4 Car parking spaces

ULL's draft report indicates that there will be 40 car parking spaces available for sale, to which they attributed a value of £20,000 per space, which is within the normal range in this area. However, given the low ratio of spaces to flats (0.27 spaces per flat) there will be significant competition for spaces, which is likely to increase pricing. In our draft report, we increased the value to £25,000 per space in our appraisal. ULL have undertaken additional research on car parking values and agree that our £25,000 per space assumption is reasonable.

4.5 Hotel

The Applicant proposes to convert part of the Town Hall building to a hotel. The hotel will extend to 28,944 square feet and accommodate 67 rooms.

ULL have ascribed a value of £225,517 per room with limited evidence provided to support this value (3 sales). We have provided sales data for 17 hotels sold since January 2016. Four star hotels secured an average value of £388,000, which is significantly higher than the £225,000 assumed by ULL. Taking into account the location, we have applied a value of £300,000 per room in our appraisal.

Table 4.5.1: Hotel sales 2016/17

Property Name	Property Postcode	Year Built	Star Rating	Sale Date	Sale Price	No of Rooms	Price Per Room
South Place Hotel	EC2M 2SN	2012	4Star	18/04/2017	67,000,000	80	837,500
Magistrates Court	WC2E 7AS	1881	3Star	24/10/2016	65,000,000	100	650,000
Doubletree Hilton	EC3N 4AF	2008	4Star	30/11/2016	300,000,000	583	514,580
Holiday Inn Kensington Forum	SW7 4DN	1975	3Star	04/01/2016	400,000,000	906	441,501
Z Hotels	WC2H 7DF	1986	3Star	25/10/2016	46,000,000	112	410,714
Doubletree by Hilton	SW1P 4DD	2014	4Star	01/01/2017	187,500,000	464	404,095
Park Plaza London Waterloo	SE1 7DU	1965	4Star	20/07/2017	161,500,000	497	324,950
Premier Inn	SW1H 9LL		4Star	31/12/2016	101,825,000	339	300,369
Travelodge London Liverpool Street Hotel	E1 7DB	2000	3Star	26/07/2016	42,000,000	142	295,775
Hilton London Wembley	HA9 0EG	2012	3Star	27/01/2016	95,000,000	361	263,158
The Pembridge Palace Hotel	W2 4PX	1850	2Star	06/01/2017	31,100,000	120	259,167
Hub by Premier Inn	N1 9AG	2017	3Star	07/07/2016	84,500,000	389	217,224
Grafton	W1T 5AY	1800	3Star	21/12/2016	69,740,000	330	211,333
DoubleTree by Hilton Hotel	W5 3HN	1965	3Star	14/07/2017	39,412,500	189	208,532

Property Name	Property Postcode	Year Built	Star Rating	Sale Date	Sale Price	No of Rooms	Price Per Room
Hilton London Docklands Riverside	SE16 5HW	1965	4Star	09/09/2016	75,600,000	378	200,000
London Kings Cross Royal Scot	WC1X 9DT	1965	3Star	23/06/2016	70,300,000	408	172,304
Hampton by Hilton	E16 2QT	2017	3Star	01/03/2017	33,500,000	209	160,287

ULL subsequently provided the Operator's business plan to support the value they ascribed to the Hotel. This indicated that the Operator is assuming higher rents than those assumed by ULL and higher occupancy and pointed to a capital value of £21.32 million (higher than our original estimate of £20.1 million.

ULL's response indicates that the Operator's business plan is ambitious and not supported by evidence. Although ULL have provided evidence from other hotels to support their original rents and occupancy assumptions, the Operator clearly assumes that they will outperform the market. We suggest that this point is addressed through the end of scheme review. For the purposes of testing the scheme, we have applied ULL's hotel value in our appraisal on the understanding that it is not agreed.

4.6 Commercial revenue

4.6.1 Co-working space

ULL attribute a rent of £30 per square foot to the B1 'co-working' floorspace, which will occupy areas of the ground, first and second floors of the Town Hall. ULL capitalise the rental income at a yield of 6.5% after allowing for a 3 month rent free period. These assumptions are not unreasonable.

4.6.2 Food and beverage

ULL attribute a rent of £25 per square foot to the food and beverage floorspace in the Town Hall and Broadway Annexe. ULL capitalise the rental income at a yield of 6% after allowing a 6 month rent free period. These assumptions are not unreasonable.

4.6.3 Community use

The Community floorspace will provide a performing arts facility which will be controlled via a 'community access agreement', the terms of which were not disclosed in ULL's first report. In the absence of the details of the agreed terms, ULL ascribed a market rent of £5.45 per square foot, which is based on a letting of a 2,660 square foot Community Centre in Bounds Green. This building is not in a town centre location and is used very differently from the planned offer at Hornsey Town Hall, which will extend to 34,036 square feet. ULL have subsequently provided details of the agreed terms with the Boroughwhich confirm the rent as £5.50 per square foot.

ULL have applied a yield of 8% on the grounds that the space is to be occupied by a "*small, community based organisation*". The Applicant is providing a shareholder loan to the operator, equating to 70% of the annual rent and also subsidising the running costs for two years, indicating that the covenant strength justifies the high yield in this specific case.

4.7 Construction costs

The ULL report indicates that they have relied upon a cost plan prepared by Fulkers which shows a cost estimate of £66,778,000 including contingency but excluding fees. This equates to £277 per square foot GIA, or £2,980 per square metre.

The RICS *Building Cost Information Service* ('BCIS') indicates that costs for buildings or 6 or more storeys adjusted for Haringey currently amount to £2,253 per square metre (mean average) or £2,622 per square metre (upper quartile). The BCIS does not account for external works, so it would be reasonable to add an allowance of up to 10% to cover these costs, increasing the rates to £2,478 and £2,844 per square metre respectively for mean average and upper quartile respectively.

On the basis of benchmarking the scheme costs against BCIS data, the Applicant's costs are marginally higher than those indicated by BCIS. However, given the works required to the existing structures (including listed structures), this is to be expected. However, should the Council have any concerns regarding the costs, we can seek further advice from a specialist.

4.8 Contingency

The Fulkers cost plan incorporates a contingency of 5% of build costs. This assumption sits within the normal range and we therefore consider it to be reasonable. However, in our draft report, we noted that ULL also applied an additional developer's contingency of 5% in their appraisal. We would not normally apply a second contingency but have done so on the basis that it increases costs of both the Application Scheme and the Extant Scheme. Actual build costs and the degree to which this second appraisal is required will be addressed through the end of scheme review.

4.9 Professional Fees

The 10% total allowance for professional fees is within the normal range for a scheme of this nature.

4.10 Developer's return

ULL's report indicates target rates of return as follows:

- Private housing (including car parking and ground rents): 20% of value;
- Commercial: 15% of value; and
- Affordable housing: 6% of value.

These target rates of return are within the normal range and we have adopted the same rates in our appraisal. ULL have applied profit as a single, blended rate. This approach does not allow for changes between different uses, as the target rate will change. We have therefore incorporated specific allowances for the three elements in our appraisal.

4.11 Finance costs

The ULL assessment adopts a finance rate of 6.75% and we consider this to be within the normal range. We have adopted the same finance rate in our appraisal.

4.12 CIL and Section 106

4.12.1 Mayoral CIL

ULL have incorporated a total of £317,764 for Mayoral CIL, although the basis for calculation of this figure is unclear. We have therefore adopted this figure pending confirmation from officers.

4.12.2 Borough CIL

ULL's appraisal includes a CIL payment of £2,244,667, which they have assumed is paid at commencement of construction. It is unclear why ULL have not timed the payment in line with the Council's instalments policy.

4.12.3 Section 106

ULL's initial appraisal did not include any allowances for S38 and S278 works and any residual Section 106 requirements. They have subsequently indicated that contributions totalling £611,252 will be required.

4.13 Marketing and Disposal Costs

ULL have incorporated a marketing allowance of 1% of GDV (applied to all uses) and sales agent fee of 1% of GDV (applied to all uses). Although the rates are both within the normal range, we would not expect to see the Marketing budget applied to non-residential elements of the development, as this specifically relates to residential (e.g. show homes etc). We have therefore removed the marketing budget for non-residential uses and ULL have subsequently agreed this.

Conveyancing fees of £750 per residential unit are incorporated, which is within the normal range. For non-residential floorspace, ULL have applied a sales legal fee of 0.5% of GDV, which again is within the normal range.

Letting agents fees and letting legal fees are applied at 15% and 5% of the first's year's rent. These assumptions are within the normal range.

4.14 Rights to Light

ULL's initial appraisal included a £300,000 allowance for Rights to Light compensation for adjoining owners for which no supporting evidence or supporting evidence was provided. ULL have subsequently provided a report confirming a higher figure of £600,000 which ULL have incorporated into their revised appraisals of both the Extant Scheme and the Application Scheme.

4.15 Development programme

ULL's report indicates that the Development will be constructed over a programme commencing in July 2017 and completing in January 2020, as summarised in Table 4.15.1. This does not appear unreasonable in the context of the number of units and mix of uses in this case.

Table 4.15.1: Development programme

Building or activity	No of months	Start month	End month
Purchase	1	Jul 2017	Jul 2017
Pre-construction	6	Aug 2017	Jan 2018
Construction	24	Feb 2018	Jan 2020
Sales	9	Feb 2020	Oct 2020
Sale of non-residential	1	Oct 2020	Oct 2020

The overall programme does not appear unreasonable, although the percentage of off-plan sales and the timing of the balance of residential units are not explicitly stated in ULL's report. It is unusual for a developer to dispose of the investment value of the commercial floorspace; this would be sold at practical completion (with any letting void explicitly allowed for).

5 Analysis

5.1 Benchmark land value

As noted in Section 3, the benchmark land value is the value generated by the Extant Scheme, which ULL have sought to establish through a residual valuation. In principle, this approach is acceptable and consistent with the Mayor's Supplementary Planning Guidance '*Homes for Londoners: Affordable Housing and Viability Guidance 2017*'.

Many elements of the Extant Scheme are the same or similar to those in the proposed Development and should therefore share common appraisal inputs. We consider the inputs to the appraisal of the Extant Scheme below.

5.2 Extant Scheme revenue

5.2.1 Residential sales values

ULL have applied the same vale per square foot of private housing in the appraisal of the Extant Scheme as they adopted for the proposed Development (£800 per square foot). We do not consider that the differences between the two schemes are of sufficient magnitude to warrant a difference in sales values. However, as noted in Section 4.1, we have applied a higher sales value of £925 per square foot to the proposed Development and have therefore adopted the same value for the Extant Scheme. ULL have accepted the same approach for testing purposes.

5.2.2 Ground rents

ULL have applied the same ground rent assumptions for the Extant Scheme as they have applied to the proposed Development, which we agree is acceptable.

5.2.3 Affordable housing value

The Extant Scheme incorporates 4 four bed units of affordable housing with a net internal floor area of 5,996 square feet (1,499 square feet per unit). It is unclear why the units are so large; smaller units would still comply with London Plan space standards and result in a more efficient use of space.

ULL's appraisal incorporates a value of £196.16 per square foot for these units.

This value is calculated by applying "*LSH rents of £388.65 per week*" net of service charges at £20 per unit per week. It is unclear what LSH rents are, but the amount stated is equivalent to the Local Housing Allowance ('LHA') for the Outer London Broad Rental Market Area, which is possibly what ULL were intending to refer to.

We have undertaken our own calculations of the likely payment by an RP for the units, based on a model reflective of RPs' valuation approach and rents that do not exceed relevant LHAs (i.e. £388.65 per week)

We have also reflected a rent reduction of 1% per annum over the first four years of the cashflow. In reality, this will overstate the impact of the rent reduction, as it is unlikely that the RP would occupy the units until well into the four year period.

Our model indicates that the values adopted by ULL are not unreasonable. However, more economical unit sizes would result in a higher value per square foot which would improve viability.

5.2.4 Office

ULL have applied the same assumptions to the office space in the Extant Scheme as they adopted for the Co-working space in the proposed Development. This is reasonable if the space is to be let on the same terms and is of a similar configuration. Further explanation is required to confirm this. Pending receipt of this additional information, we have applied the same rent of £30 per square foot and yield of 6.5%.

5.2.5 D1/D2 Theatre and performing arts centre

ULL have applied the same £5.50 rent and 8% yield for the D1/D2 space in their appraisal of the Extant Scheme as they applied to the community space in the proposed Development. This reflects the agreed inputs for the proposed Development.

5.3 Extant scheme development costs

5.3.1 Construction costs

ULL's initial appraisal of the Extant Scheme assumed a build cost of £240 per square foot, which was £36.87 per square foot (13.3%) lower than the build cost adopted for the proposed Development. Although ULL indicated that this lower cost reflects a saving resulting from the hotel not being provided, no evidence or calculations were provided to support this proposition. ULL have subsequently provided an order of cost estimate confirming a cost of £243 per square foot.

5.3.2 Contingency

As the cost plan for the proposed Development incorporates a contingency of 5% of build costs, we initially removed the additional allowance from the appraisal. As this has been applied in both of ULL's appraisals, we have adopted the same approach.

5.3.3 Professional Fees

ULL have applied the same allowance for professional fees to the Extant Scheme as adopted for the proposed Development (10% of build costs) which is reasonable.

5.3.4 Developer's return

ULL have applied the same level of return to the Extant Scheme as adopted for the proposed Development, which is reasonable.

5.3.5 Finance costs

The ULL assessment adopts the same finance rate of 6.75% for the Extant Scheme as applied to the proposed Development. However, a fundamental issue with appraisal is that the total finance costs for the Extant Scheme in ULL's initial report were £5.57 million *lower* in comparison to the proposed Development. Following alignment of the development programmes, this difference has narrowed to £3.16 million, which can be accounted for by the higher total costs in the Application Scheme (£66.77 million for the Application Scheme and £49 million for the Extant Scheme. Such a significant difference in finance costs can only result from different timing assumptions in ULL's appraisal. We have made adjustments to the timing of costs and income to generate the same differential in finance costs in our appraisal. This is considered further below.

5.3.6 Borough and Mayoral CIL

ULL have incorporated a total of £2,100,000 for Mayoral and Borough CIL and £122,500 for Section 106. We have therefore adopted this figure pending confirmation from officers.

5.3.7 Marketing and Disposal Costs

The same marketing and disposal costs have been applied to the Extant Scheme and this is what we would expect to see.

5.3.8 Rights to Light

ULL's initial appraisal of the Extant Scheme did not include any allowances for Rights to Light compensation, while their appraisal of the proposed Development included a £300,000 allowance. ULL have subsequently applied the higher amount of £600,000 to both appraisals.

5.3.9 Development programme

ULL initially assumed that the development programme for the Extant Scheme would be faster than the proposed Development, as summarised below:

- Pre-construction period: 4 months (2 months faster);
- Construction: 20 months (4 months faster)

Given that both developments are not of significantly differing scales and address conversion of the Town Hall, we applied the same programme for both schemes (i.e. pre-construction period of 6 months and 24 month build period). ULL have subsequently adopted the longer build period for both schemes.

5.4 Appraisal results

5.4.1 ULL's appraisal results

ULL's initial appraisal of the proposed Development with zero affordable housing generated a residual land value of £2,762,780, while their Extant Scheme appraisal generated a residual land value of £2,726,697, a marginal surplus of £36,083.

ULL's revised appraisal of the proposed Development (incorporating 11 affordable housing units at target rents) assuming sales values of generates a residual land value of £6,991,717 compared to a residual land value of £6,997,265 for the Extant Scheme.

5.4.2 BNP Paribas Real Estate appraisal results

As noted in the previous sections, in our draft report we have made the following amendments to the appraisal inputs:

- Increase private residential values from £800 to £925 per square foot;
- Increase car parking values from £20,000 to £25,000 per space;
- Increase Hotel value from £22,517 to £300,000 per room;
- Increase community use rent from £5.45 to £15 per square foot and reduce yield from 8% to 7%;
- Remove separate contingency as this has already been accounted for within the cost plan;
- Adjust timing of sales and receipt of income so that they are consistent with the timings adopted within the Extant Scheme appraisal.

Our base appraisal is attached at Appendix 2. Where relevant, we applied the adjustments above to the appraisal of the Extant Scheme (this applies to sales values, car parking, community use rent and yield and removal of separate contingency). In addition, we adjusted the Extant Scheme appraisal to apply the same build costs as the proposed Development.

On the basis of the changes above, the residual land values were as follows:

- Proposed Development: £22,619,052
- Extant Scheme: £8,086,278
- **Surplus available to provide affordable housing: £14,532,774**

Our appraisals are attached at Appendix 3.

Since provision of additional information by ULL, the difference between the Proposed Development and the Extant Scheme has closed due to the following:

- Inclusion in the Proposed Development of 11 affordable units at London Affordable Rent;
- Confirmation of higher build costs for the Proposed Development in comparison to the Extant Scheme;
- Alignment of development programmes;
- Reductions in floor area of the Proposed Development due to changes following the Council's Design Review Panel (the overall reduction in gross internal area amounts to 3,257 square feet);

- Increased Section 106 requirements.

As noted in the previous section, there remain some doubts regarding the value elements of the Proposed Development, the most significant being private sales values and the value attributed by ULL to the Hotel. Both of these items should be addressed in an end of scheme review which will enable the Council to compare initial estimates to outturn values which will identify if any additional contribution towards affordable housing can be provided.

6 Conclusions

In summary, ULL's report concludes that the Development generates a residual land value that is only marginally higher than the residual land value generated by the Extant Scheme and consequently, the Scheme cannot deliver any affordable housing.

At face value, this is clearly surprising given that the proposed Development has an increased quantum of private housing and provides a hotel, both of which are net contributors to land value. Furthermore, the proposed Development has a reduced quantum of community floorspace. As this floorspace requires subsidy from other uses, the reduction in quantum of space reduces the need for subsidy. All these factors should logically result in an improvement in viability with a significantly higher residual land value. There are some elements of the Proposed Scheme which will need to be revisited through an end of scheme review, including private sales values and the value of the Hotel which are both difficult to establish definitively at this stage.

Whilst our initial appraisals indicated that the proposed Development generated a surplus of £14.5 million (based on ULL's assumption at the time of no affordable housing), this gap has closed due to the inclusion of 11 affordable housing units and various other factors outlined in the previous section. Based on the information available at this stage, we therefore conclude that the Proposed Development provides the maximum reasonable proportion of affordable housing. This will need to be revisited through an end of scheme review when outturn costs and values have been established.

Appendix 1 - Floor areas

Extant Scheme

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

Proposed Development

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

Appendix 2 - BNPPRE appraisals with amended inputs

APPRAISAL SUMMARY	BNP PARIBAS REAL ESTATE

Hornsey Town Hall (extant planning permission)

Summary Appraisal for Phase 1

Currency in £

REVENUE						
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**	
Block A (private res)	66	51,066	925.00	715,698	47,236,050	
Block B (private res)	26	20,344	925.00	723,777	18,818,200	
East Wing (private res)	13	11,712	925.00	833,354	10,833,600	
Link Block (private res)	6	4,435	925.00	683,729	4,102,375	
Broadway Annex (private res)	8	5,533	925.00	639,753	5,118,025	
Mews (affordable)	4	5,996	196.16	294,044	1,176,175	
Car parking	64	0	0.00	25,000	1,600,000	
Totals	**187**	**99,086**			**88,884,425**	
Rental Area Summary				**Initial**	**Net Rent**	**Initial**
	Units	**ft²**	**Rate ft²**	**MRV/Unit**	**at Sale**	**MRV**
Town Hall (office)	1	2,670	30.00	80,100	80,100	80,100
Town Hall (D1/D2 Theatre & Arts Centre	1	46,168	15.00	692,520	692,520	692,520
Ground rents	119			400	47,600	47,600
Totals	**121**	**48,838**			**820,220**	**820,220**
Investment Valuation						
Town Hall (office)						
Market Rent	80,100	YP @	6.5000%	15.3846		
(0yrs 3mths Rent Free)		PV 0yrs 3mths @	6.5000%	0.9844	1,213,059	
Town Hall (D1/D2 Theatre & Arts Centre						
Market Rent	692,520	YP @	7.0000%	14.2857		
(0yrs 3mths Rent Free)		PV 0yrs 3mths @	7.0000%	0.9832	9,727,211	
Ground rents						
Current Rent	47,600	YP @	5.0000%	20.0000	952,000	
					11,892,270	
GROSS DEVELOPMENT VALUE				**100,776,695**		
Purchaser's Costs		6.30%	(749,213)			
				(749,213)		
NET DEVELOPMENT VALUE				**100,027,482**		
NET REALISATION				**100,027,482**		
OUTLAY						
ACQUISITION COSTS						
Residualised Price			8,086,278			
Stamp Duty		5.58%	451,214			
Agent Fee		1.00%	80,863			
Legal Fee		0.50%	40,431			
				8,658,786		
CONSTRUCTION COSTS						
Construction	**ft²**	**Rate ft²**	**Cost**			
Town Hall (office)	3,645 ft²	276.87 pf²	1,009,205			
Town Hall (D1/D2 Theatre & Arts Centre	63,028 ft²	276.87 pf²	17,450,559			
Block A (private res)	69,715 ft²	276.87 pf²	19,301,902			
Block B (private res)	27,773 ft²	276.87 pf²	7,689,615			
East Wing (private res)	15,989 ft²	276.87 pf²	4,426,896			
Link Block (private res)	6,055 ft²	276.87 pf²	1,676,339			
Broadway Annex (private res)	7,554 ft²	276.87 pf²	2,091,361			
Mews (affordable)	8,186 ft²	276.87 pf²	2,266,365			
Totals	**201,944 ft²**		**55,912,243**	**55,912,243**		
Municipal Costs						
S106			122,500			
CIL			2,100,000			
				2,222,500		
PROFESSIONAL FEES						
Professional and other fees		10.00%	5,591,224			
				5,591,224		
MARKETING & LETTING						
Marketing		1.00%	996,005			
Letting Agent Fee		10.00%	82,022			

Hornsey Town Hall (extant planning permission)

Letting Legal Fee		5.00%	41,011	
				1,119,038
DISPOSAL FEES				
Sales Agent Fee		1.00%	1,000,275	
Non residential sales legal fee		0.50%	50,955	
Ground rent sales legal fee		0.50%	4,760	
Affordable Hsg sales legal fee		0.50%	5,881	
Residential sales legal fee	119 un	750.00 /un	89,250	
				1,151,121
FINANCE				
Debit Rate 6.750% Credit Rate 0.000% (Nominal)				
Land			1,577,597	
Construction			4,103,207	
Total Finance Cost				5,680,803
TOTAL COSTS				**80,335,716**
PROFIT				
				19,691,766
Performance Measures				
Profit on Cost%		24.51%		
Profit on GDV%		19.54%		
Profit on NDV%		19.69%		
Development Yield% (on Rent)		1.02%		
Equivalent Yield% (Nominal)		6.79%		
Equivalent Yield% (True)		7.09%		
IRR		27.04%		
Rent Cover		24 yrs		
Profit Erosion (finance rate 6.750%)		3 yrs 3 mths		

APPRAISAL SUMMARY **BNP PARIBAS REAL ESTATE**

Hornsey Town Hall (application scheme)

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Block A (private res)	79	68,244	925.00	799,059	63,125,700
Block B (private res)	41	33,325	925.00	751,845	30,825,625
Broadway Annex (private res)	11	6,340	925.00	533,136	5,864,500
Broadyway Annex Lofts (private res)	6	3,509	925.00	540,971	3,245,825
Broadway Annex Mews (private res)	9	6,383	925.00	656,031	5,904,275
Car parking	40	0	0.00	25,000	1,000,000
Totals	**186**	**117,801**			**109,965,925**

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**
Hotel	67	28,944	49.32	18,002	1,206,121
Community use	1	34,036	15.00	510,540	510,540
Ground rents	146			400	58,400
Co-working space	1	3,897	30.00	116,910	116,910
Food and beverage	1	7,556	25.00	188,900	188,900
Totals	**216**	**74,433**			**2,080,871**

Investment Valuation					
Hotel					
Current Rent	1,206,121	YP @	6.0000%	16.6667	20,102,010
Community use					
Market Rent	510,540	YP @	7.0000%	14.2857	
(0yrs 3mths Rent Free)		PV 0yrs 3mths @	7.0000%	0.9832	7,171,100
Ground rents					
Current Rent	58,400	YP @	5.0000%	20.0000	1,168,000
Co-working space					
Market Rent	116,910	YP @	6.5000%	15.3846	
(0yrs 3mths Rent Free)		PV 0yrs 3mths @	6.5000%	0.9844	1,770,520
Food and beverage					
Market Rent	188,900	YP @	6.0000%	16.6667	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	6.0000%	0.9713	3,057,932
					33,269,562

GROSS DEVELOPMENT VALUE			**143,235,487**
Purchaser's Costs	6.30%	(2,095,982)	
			(2,095,982)
NET DEVELOPMENT VALUE			**141,139,505**
NET REALISATION			**141,139,505**

OUTLAY

ACQUISITION COSTS			
Residualised Price		22,619,052	
Stamp Duty	5.58%	1,262,143	
Agent Fee	1.00%	226,191	
Legal Fee	0.50%	113,095	
			24,220,481

CONSTRUCTION COSTS

Construction	**ft²**	**Rate ft²**	**Cost**	
Hotel	36,316 ft²	276.87 pf²	10,054,862	
Community use	42,705 ft²	276.87 pf²	11,823,773	
Co-working space	4,890 ft²	276.87 pf²	1,353,780	
Food and beverage	9,481 ft²	276.87 pf²	2,624,880	
Block A (private res)	85,626 ft²	276.87 pf²	23,707,298	
Block B (private res)	41,813 ft²	276.87 pf²	11,576,779	
Broadway Annex (private res)	7,955 ft²	276.87 pf²	2,202,454	
Broadyway Annex Lofts (private res)	4,403 ft²	276.87 pf²	1,218,992	
Broadway Annex Mews (private res)	8,009 ft²	276.87 pf²	2,217,392	
Totals	**241,197 ft²**		**66,780,210**	**66,780,210**

Other Construction		
Rights Light Compensation	300,000	
		300,000

Municipal Costs

APPRAISAL SUMMARY	BNP PARIBAS REAL ESTATE

Hornsey Town Hall (application scheme)

Borough CIL			2,306,125	
Mayoral CIL			660,991	
				2,967,116
PROFESSIONAL FEES				
Professional and other fees		10.00%	6,708,021	
				6,708,021
MARKETING & LETTING				
Marketing		1.00%	1,384,070	
Letting Agent Fee		10.00%	208,087	
Letting Legal Fee		5.00%	104,044	
				1,696,201
DISPOSAL FEES				
Sales Agent Fee		1.00%	1,411,395	
Non residential sales legal fee		0.50%	125,886	
Ground rent sales legal fee		0.50%	5,840	
Residential sales legal fee	146 un	750.00 /un	109,500	
				1,652,621
FINANCE				
Debit Rate 6.750% Credit Rate 0.000% (Nominal)				
Land			4,413,748	
Construction			5,100,423	
Total Finance Cost				9,514,171
TOTAL COSTS				**113,838,821**
PROFIT				
				27,300,684
Performance Measures				
Profit on Cost%		23.98%		
Profit on GDV%		19.06%		
Profit on NDV%		19.34%		
Development Yield% (on Rent)		1.83%		
Equivalent Yield% (Nominal)		6.21%		
Equivalent Yield% (True)		6.46%		
IRR		23.48%		
Rent Cover		13 yrs 1 mth		
Profit Erosion (finance rate 6.750%)		3 yrs 3 mths		