



GL Hearn

Notting Hill Gate Viability Report: Summary

Royal Borough Kensington & Chelsea

July 2013

Prepared by

GL Hearn Limited
20 Soho Square
London W1D 3QW

T +44 (0)20 7851 4900
F +44 (0)20 7851 4910
glhearn.com

Contents

Section		Page
1	INTRODUCTION	4
2	APPROACH	6
3	PROPERTY MARKET CONTEXT / OVERVIEW	9
4	DEVELOPMENT ASSUMPTIONS	11
5	SITE CONTEXT AND VIABILITY ANALYSIS	18
6	DELIVERY OF INFRASTRUCTURE AND CULTURAL FACILITIES	31
7	CONCLUSIONS	33

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
July 2013

ORIGINATORS
Guy Ingham
Associate Director



APPROVED
George Barnes
Director

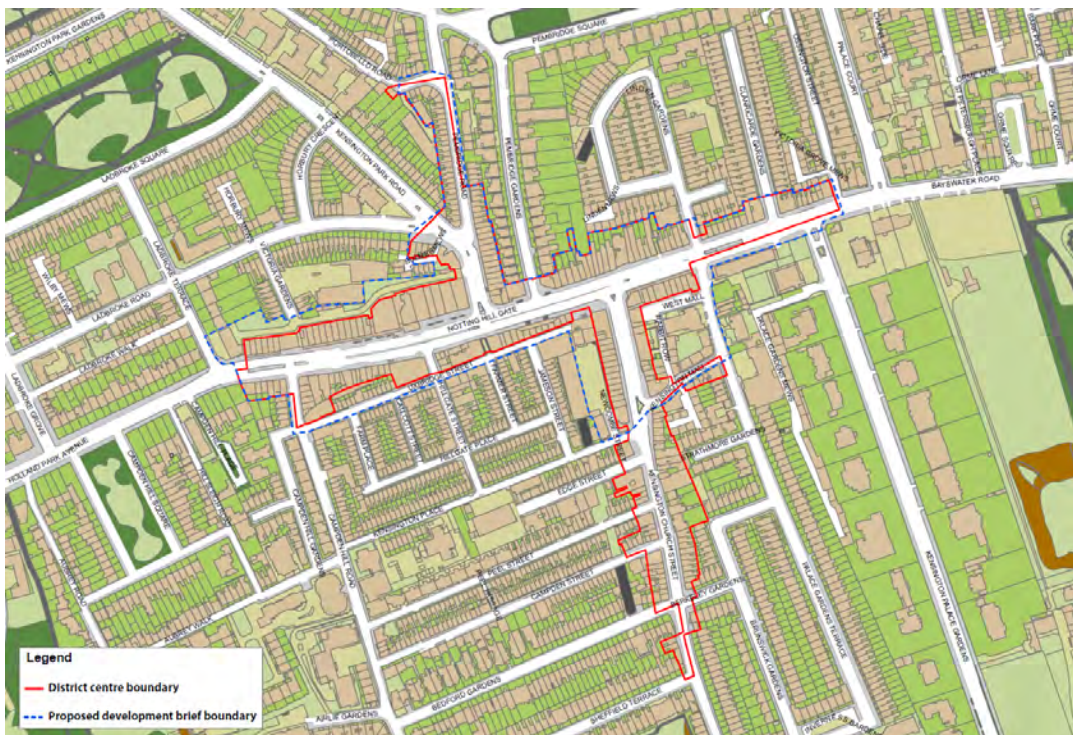


Limitations

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of GL Hearn; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

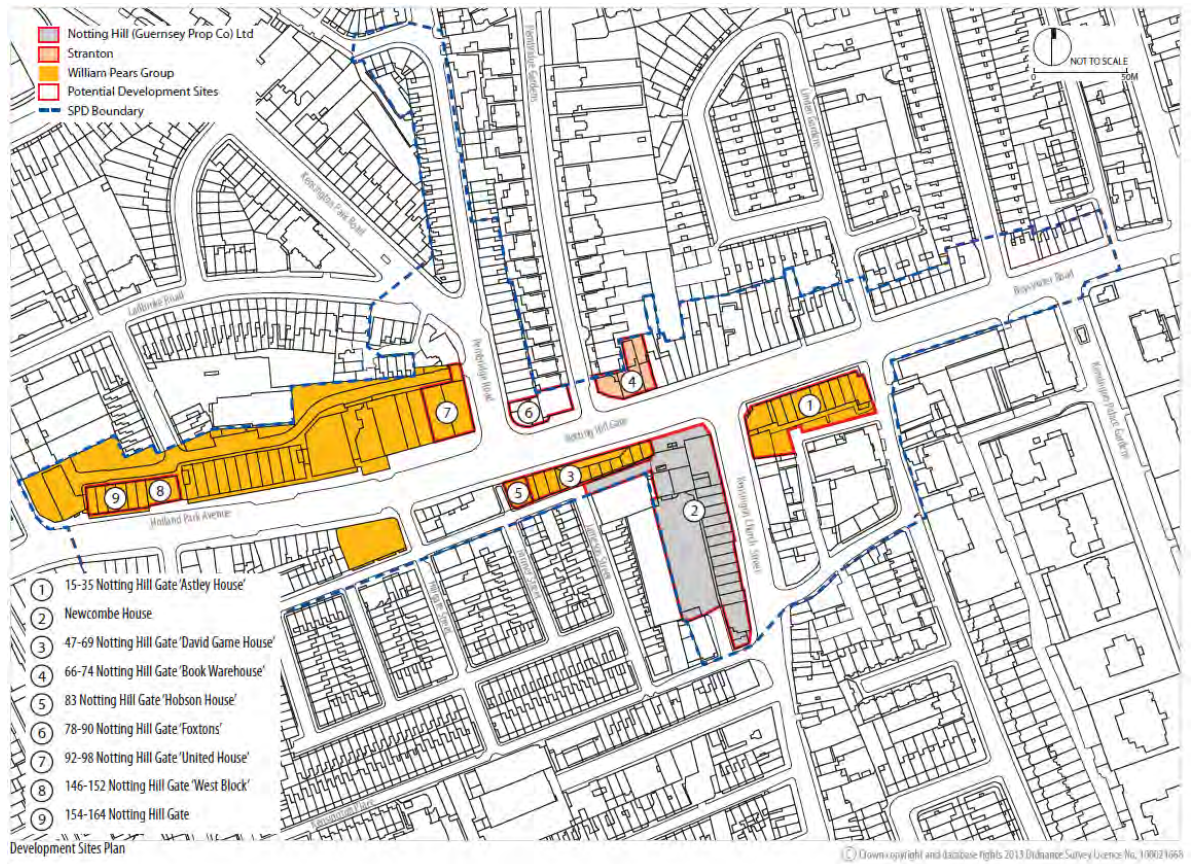
1 INTRODUCTION

- 1.1 GL Hearn was appointed by Royal Borough of Kensington and Chelsea to undertake a Viability Study in support of the Supplementary Planning Document (SPD) for the Notting Hill Gate area.
- 1.2 The purpose of the study is to provide a high level view on viability of a number of schemes proposed for the area and the affordability of streetscape improvements and a new cultural facility. The SPD will be subject to public consultation and scrutiny in September 2013. On completion of the statutory consultation period the Council will formally adopt the document which will act as a material consideration when considering development proposals for the area.



This summary report presents the findings of the main study which is not being placed in the public domain at this stage, as it contains commercially confidential information that might fetter the Council in negotiations in any subsequent planning applications. The viability analysis has been informed by a range of primary and secondary sources including a review of relevant studies, analysis of existing and evolving planning policy, a property market review and information provided by Council officers.

- 1.3 In total nine development opportunities have been identified as indicated in the plan below.



1.4 We have undertaken the residual appraisals using Argus Developer, which is a leading industry - standard development appraisal package commonly used by developers and agents alike to assess development viability. Although the analysis does not constitute formal valuations under the provisions of the RICS Valuation Standards ('Red Book') it is a market accepted approach to providing landowners, developers and investors with an early indication of viability.

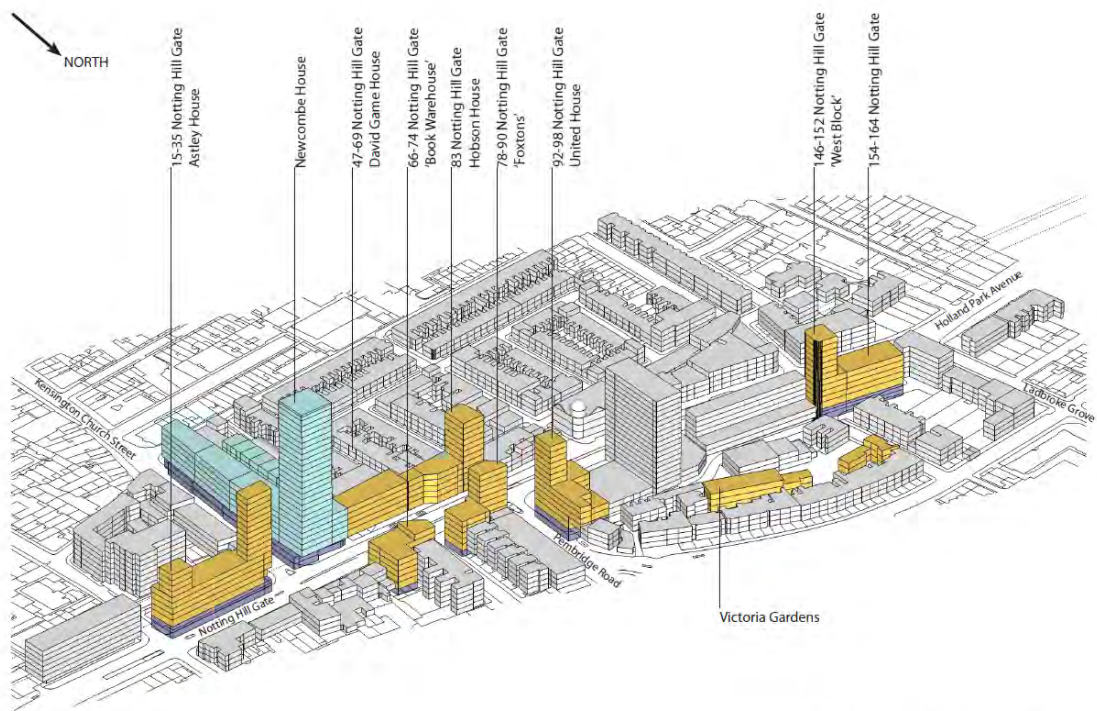
1.5 It is important to highlight from the outset that the team does not include specialist cost advisors. At this stage such input would provide limited added value given that there is minimal information on specification or on the existing sites / buildings. Therefore all development costs are based on standard building indices as well as the team's knowledge of comparable schemes. That said every care has been taken to adopt realistic and robust assumptions at this stage but we would highlight that relatively small changes in inputs, timescales or implementation approach can all have a magnified effect on the residual value / land receipt.

2 APPROACH

- 2.1 In producing this report we have had regard to the RICS Guidance Note “Financial Viability in Planning” and also the Local Housing Delivery Group’s “Viability Testing Local Plans – Advice for Planning Practitioners” as well as best practice established through existing viability studies and Examiners’ reports
- 2.2 For each site two townscape scenarios have been tested, a tower cluster (higher density) and a single tower (lower density). Individual development appraisals have been undertaken for all scenarios. In addition to the base options sensitivity analysis has been undertaken which examines the viability impact of altering the mix from office use to residential.
- 2.3 For the two townscape scenarios we have been provided with plans and floors area for each of the schemes proposals which we have relied on as a base for our viability assessment. Set out on the following pages are illustrations of the development proposal and summary floor space schedule which provides an indication of the mix of uses and quantum of floor space proposed.

Scenario 1 – Tall Building Clusters

2.4 Scenario 1 is a high density scenario which includes a series of tall building at key gateways. It is envisaged that the towers will largely comprise residential accommodation which given the high value location will assist viability, whilst retaining important employment uses. Set out on the following page is an illustration of Scenario 1 development proposal and summary floor space schedule which provides an indication of the mix of uses and quantum of floor space proposed.



Perspective view of scenario 1: Tall Building Cluster

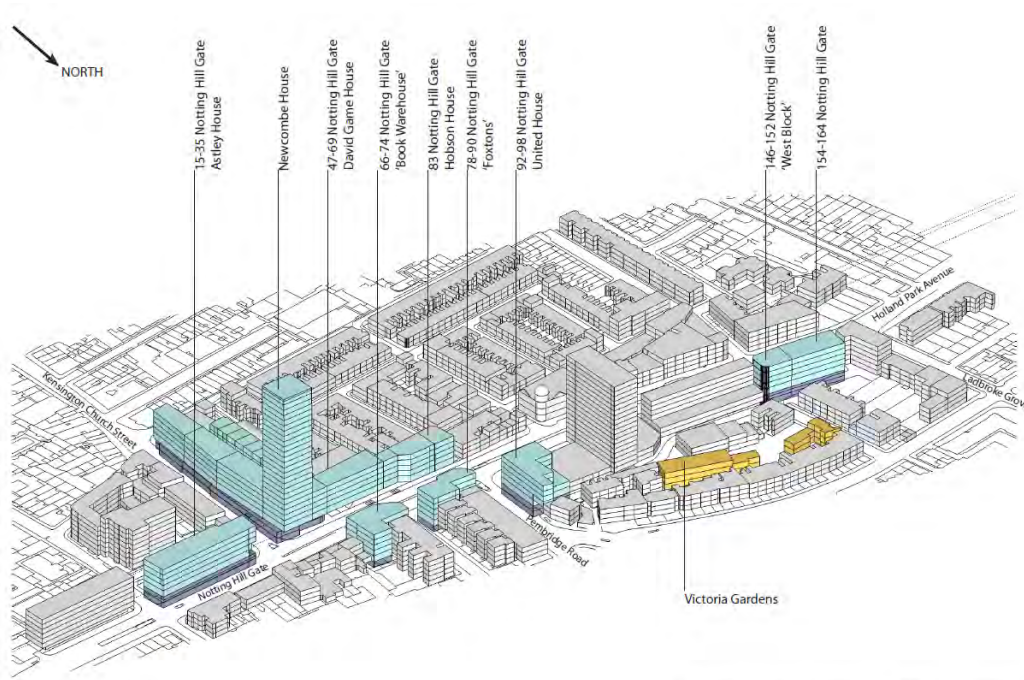
DRAFT

V1 18.06.2013

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	9,275	99,835	
Office	18,566	199,842	
Residential	19,830	213,448	246
Basement	13,430	144,559	
Total	61,101	657,686	246

Scenario 2 – Single Tall Buildings

2.5 Scenario 2 is a lower density option with a single tall building at the corner of Notting Hill Gate and Kensington Church Street to replace the existing Newcombe House. The implication of reducing the number of taller buildings is a reduction in residential units and therefore the proposal has a greater emphasis on employment generating uses.



Perspective view of scenario 2: Single Tall Building

V1 18.06.2013

DRAFT

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	8,013	86,251	
Office	18,570	199,886	
Residential	13,781	144,559	171
Basement	13,430	144,559	
Total	53,794	579,033	171

3 PROPERTY MARKET CONTEXT / OVERVIEW

- 3.1 Notting Hill Gate is one of the main thoroughfares of Notting Hill, located in the Royal Borough of Kensington and Chelsea.
- 3.2 Much of Notting Hill Gate was redeveloped in the 1950s with two large tower blocks, namely Campden Hill Towers and Newcombe House being erected on the north and south sides of the street. At this time Notting Hill Gate tube station was also redeveloped linking two stations on the Circle and District and Central lines which had previously been accessed on either side of the street.
- 3.3 To the south and north of Notting Hill Gate lie higher value locations. To the south is Kensington Church Street, with its restaurants and antique shops, Hillgate Village and Campden Hill Road. North from the tube station lies Pembridge Road, which leads to Westbourne Grove. This area is popular tourist destination especially at weekends with tourists heading to the nearby Portobello Road market.
- 3.4 Notting Hill Gate is home to a variety of shops, restaurants, and cafés as well as more specialist stores, two historic cinemas, the Coronet and The Gate, and several bars and clubs. Key retail occupiers include M&S food, Gap, Boots, Le Pain Quotidien and Jamie Oliver. In addition most of the major banks are represented in the area namely HSBC, Barclays, RBS and Santander.
- 3.5 Much of the Notting Hill Gate estate was owned by Land Securities PLC since the fifties but in May 2010 the 4.4-acre estate was sold to the Notting Hill General Partner Limited, a joint venture between La Salle investment Management and the Pears family for a reported £131m. Newcombe House and a number of the retail units to the rear of the office building and fronting Kensington Church Street were subsequently sold to Development Securities together with Brockton Capital for a reported £47.5m in June 2011.
- 3.6 Although the area comprise a number of office buildings with the most prominent being Newcombe House and Astley House it is not an established office location compared to the established office areas in the West End, Hammersmith, Paddington and Knightsbridge. That said the Council's employment land review identified the area as having potential to intensify employment activity and has been designated as a major office location in the Borough. The Council are currently investigating the precise nature of office demand but it is clear that the area has many advantages as an office location given its diverse economy and its excellent transport links and proximity to the West End.
- 3.7 The clear value driver in the area is residential use. Notting Hill Gate is an extremely popular place to live and some of the more traditional houses on the quieter streets off Notting Hill Gate are amongst the most sought after in London. The table below provides an indication of the average

sales values paid in the area over the past 12 month per residential typology. The table indicates that flatted development averaged sales values in excess of £1,000 per sq ft putting the area into an exclusive band. It is clear, however, through looking at individual comparable transactions that significant premiums can be derived from new development and in high rise development which benefit from City views. (N.B. the figures for detached and semi-detached are distorted due to minimal stock – individual transactions will have a disproportionate impact on average transaction levels).

Property type	current value	£ per sq ft.	beds	Avg. £ paid (last 12m)
Detached	£6,577,232	£1,853	6.0	£2,025,750
Semi-detached	£5,113,414	£1,465	4.5	£9,128,000
Terraced	£2,765,253	£1,320	3.5	£3,368,416
Flats	£792,770	£1,009	1.9	£811,623

3.8 In summary it is clear that although Notting Hill Gate area's environment is generally poor and dominated by the road network, it is extremely diverse in character with a good section of independent retailers and national operators including some high restaurants. Notting Hill Gate is not an established office location but has a number of competitive advantages which would suggest that it could become increasing popular if new more modern office product were to be brought forward. It is clear that residential is the key value driver reflecting the areas popularity with owner occupiers and investors and new residential development is high sought after and commands significant values.

3.9 We have undertaken research into the recent transactional activity and availability for residential, retail and office use. This information has been appended to this report and has help to form our opinions of the appropriate rental values, capital values and investments yields which are set out in the following section.

4 DEVELOPMENT ASSUMPTIONS

- 4.1 The following section provides details of the main development assumptions adopted in undertaking the viability analysis.

Site Preparation and Demolition

- 4.2 An indicative allowance has been included for demolition costs based on the extent of land take proposed, the site's existing uses and the number and nature of building / structures that will need to be demolished to facilitate development.
- 4.3 In terms of site preparation we have assumed that there are no current or latent contamination issues that would adversely affect the sites. We would highlight that no specific enquiries have been made at this stage. Therefore further investigation will be required as individual opportunities progress.

Site Specific Infrastructure (On –site) / Externals

- 4.4 We have assumed an indicative cost allowance of 10% of base build cost towards the provision of on-site infrastructure to support the development as proposed. We have made no allowance for off-site infrastructure within the appraisals. The site specific infrastructure cost is assumed to cover hard and soft landscaping, access improvements, external works including drainage and lighting and statutory service connections.

Mayor and Local CIL

- 4.5 The Mayoral CIL takes effect on developments that were granted planning permission on or after 1 April 2012. The Mayor is imposing a CIL charge of £50 per square metre in RB Kensington and Chelsea against all uses other than health, education and affordable housing floorspace. We have incorporated this charge within our viability assessment.
- 4.6 In addition to the Mayor CIL in January 2013 Cabinet Members agreed for RBKC to become a CIL Charging Authority. The Council have now produced a Preliminary Draft Charging Schedule which has been subject to an initial round of public consultation. The Council intend to review representations and amend any charges. A revised Draft Charging Schedule will then be subject to a second stage of consultation. The PDCS indicates a charge for private residential of £450 per sq m with nil rate for offices, retail and leisure use.
- 4.7 The Council is not anticipating introducing the Borough CIL charge much in advance of April 2014. Given that planning applications may be submitted and determined within that period, this appraisal

is based on contributions being secured through s.106 rather than through CIL. In our appraisals, only Mayoral CIL is allowed for.

4.8 We have limited information about existing floorspace on the development sites or current levels of occupancy which means that it would not be possible to calculate accurate CIL liabilities for the proposed interventions. Accordingly we have had to use a 'rule of thumb' approach.

4.9 In the case of the Mayoral CIL, in most cases existing floorspace is being replaced with a similar level of office space with residential above. We have therefore applied the Mayoral flat rate to all private residential only within these blocks.

Public Realm Improvements

4.10 One of the key aspirations of the SPD is to enhance the environment around Notting Hill Gate and to bring it more in line with other more successful areas of the Borough. The area is dominated by the A402 and an opportunity has been identified to significantly enhance the public realm including widening of pavements and to create a much improved environment and better movement between the north and south of Notting Hill Gate.

4.11 The Council has now completed a public realm study for the area which identified £2,947,449 of costs. The following table provides a breakdown of the cost of public realm improvements and the a locational plan has been appended to this report

Location	Estimated Cost
Area A Mini RDBT at Pembridge Road	£215,708
Area B Core Area	£1,830,230
Area C West of core area	£565,525
Area D North of Mini RDBT	£282,271
Area E South of core area	£53,643
Total	£2,947,449

Cultural Facility

4.12 Another key aspiration is to create a new cultural facility in the Study area – work is on-going in respect of the exact nature and form of development. For the purpose of the viability assessment

we have assumed a facility of 2,000 sq m (21,528 sq ft) at a cost of £3,500 per sq m (£325 per sq ft).

Tube Improvements

- 4.13 We understand that the Council is also considering changes/improvements to the current tube access arrangements which would see the entrances relocated from their current position in the middle of the pavements. This is currently being investigated with Transport for London (TfL).
- 4.14 We have examined the delivery implications of these requirements in Section 6 of the report.

Benchmark Land Values

- 4.15 When examining development viability of any development we must have regard to the underlying value of the land. If this is not exceeded by the value generated by the development then cannot be considered viable and will not proceed.
- 4.16 This is not a straightforward exercise and this is acknowledged at 3.4.6 of the RICS Guidance Note which states that:
- The assessment of Site Value in these circumstances is not straightforward, but it will be, by definition, at a level at which a landowner would be willing to sell which is recognised by the NPPF.*
- 4.17 For the purpose of our viability assessment we have sought to establish the existing use values of the identified development plots. The approach we have adopted is to identify the individual property interests and establish their rateable value as a proxy for rental value using published information from the Valuation Office, making appropriate adjustment to take into account subsequent market changes. We have also included 10% for loss payment and 20% for disturbance to reflect the possible need for CPO to assemble the sites for development.
- 4.18 The RICS guidance does distinguish between Existing Use Value (the calculation of which we are outlining above) and Site Value. However, we consider this distinction to be limited in the case of land which is already intensively used and accordingly that EUV is an appropriate benchmark for this viability study.
- 4.19 Given the high nature of the study and in the absence of full tenancy and land ownership details, we consider the above approach fit for purpose but a further more detailed assessment will be required as projects progress.

Base Build Costs

- 4.20 It is important to stress that the viability analysis has not been subject to specialised cost advice and therefore the build costs are based on standard building indices (BCIS), adjusted for the study area. BCIS provides a range of costs from low to high banding which can be applied depending on the quality of development proposed.
- 4.21 For the study area we have adopted the upper quartile within the BCIS cost range but have also included an additional 5% allowance for enhanced sustainability measures. We have assumed collectively this would be sufficient to achieve Code for Sustainable Homes - Level 4. The most recent comprehensive study which examines the cost associated with achieving the various cost levels is entitled "Code for Sustainable Homes – A Cost Review", which was published by the Department for Communities and Local Government in March 2010. It states that typically the extra-over costs expressed as a percentage of base build costs are 1% for Code Level 1, 1-2% at Level 2, 3-4% at Level 3 and 6-8% at Level 4. Typically an additional £5,000 per residential unit is used as the standardised assumption from moving from Code Level 3 to Code Level 4.
- 4.22 In addition to the above base build costs the development schemes propose development a basement / sub terrain levels. We understand that the existing buildings do not have basements and so the inclusion of basement floorspace within the scenarios which we have been asked to model was driven simply by a desire to maximise floorspace.
- 4.23 To reach any sort of robust conclusions on the viability of basement floorspace would require significant technical work which goes beyond the scope of this study. Given the costs associated with basement development, we would not expect it to generate a significant surplus. The flipside of this is that clearly developers will not provide basement floorspace if it does not add value to the scheme.
- 4.24 Accordingly, as agreed with the Council we have omitted the basement element of the scenarios from our financial appraisals, although the physical potential to include such space is still acknowledged in the tables outlining floor areas for each option.

Gross to Net Ratios

- 4.25 The floor area figures adopted for the value section of the appraisals are the assumed "lettable/saleable area" based on the floor space that could either be let or sold. The following sets out the assumed gross external area to net internal area per use.

Use	Gross to Net
Retail units	80%
Office	80%
Residential Apartments	80%
Residential Houses	100%

Affordable Housing

- 4.26 Details of the Council’s affordable housing requirements are set out in Chapter 35 – Diversity of Housing in the Core Strategy. The guidance indicates that developments are to provide affordable housing at 50% (by floor area) or “the maximum reasonable amount” on residential floorspace in excess of 800sq.m gross external area, and this must be delivered on site on developments where over 1,200sq.m of gross external residential floor space is proposed, unless exceptional circumstances exist. Affordable housing and market housing must be integrated in any development and have the same external appearance. For the wards surrounding Notting Hill Gate a minimum of 85% social rented housing should be provided.
- 4.27 Whilst there is some flexibility built into the policy, our base financial appraisals all assume a full 50% affordable housing provision. However, we have also undertaken sensitivity to show the impact of the affordable housing requirement on overall viability.
- 4.28 The value of the affordable housing (level of revenue received for it by the developer) is variable by its very nature. It is important to highlight that Registered Providers (RP) may have access to other sources of funding, such as related to their own business plan, funding resources, cross-subsidy from sales/other tenure forms, recycled capital grant from stair-casing receipts, for example, but such additional funding cannot be regarded as the norm for the purposes of setting viability study assumptions – it is highly scheme dependent and variable and so has not been factored in here.
- 4.29 We have undertaken various affordable housing calculations for Social rented / affordable rent tenures and shared ownership accommodation.
- 4.30 It should be noted at this stage that based on our figures almost half of the proposed residential floorspace will be deliver less value than the cost of construction. This will have a significant impact on viability.

Private Residential Values

- 4.31 The private residential sales values are based on our market assessment of comparable schemes and discussions with local agents. It is clear from our research that Notting Hill Gate is a high value area although values do range significantly from street to street. For the purpose of our modelling

we have adopted varying residential rates depending on the location and height of the residential accommodation.

Rental Values / Investment yield

- 4.32 Notting Hill gate has a diverse range of occupiers including independent operators and national occupiers. Given the locational qualities of the area and in light of the aspirations to improve the pedestrian environment around the road network it is clear that the area has the potential to become a much improved retail and leisure destination and would appeal to a wide range of national operators. Equally it is clear from the parallel studies there is considerable office demand in the area from occupiers who do not wish to be located in established office locations such as the West End or Paddington Basin but prefer to be in a more diverse location through with equally excellent transport links.
- 4.33 We have adopted varying rental and investment assumptions based on the characteristics of the specific opportunity.
- 4.34 In addition to the above we have applied a market standard allowance for such items as stamp duty, legal and surveyors' fees.

Car Parking

- 4.34 For the purpose of the assessment we have assumed that all parking will be accommodated at basement level. As mentioned above, given the complete lack of information on existing buildings our overarching assumption in respect of the basement accommodation is that it is cost value neutral.

Take Up Rate

- 4.35 For the purpose of the viability assessment we have assumed that the private residential units will be sold at an appropriate monthly rate for the housing accommodation, with the affordable accommodation sold to an RP on completion. In respect of the commercial accommodation we have assumed that the investment is sold on completion.

Professional Fees

- 4.36 We will adopt all usual professional fees for a development of this nature, equating to 12.5% of development costs, along with market standard agents' and legal fees.

Inflation

- 4.37 We have assumed all values and costs are at day one i.e. no allowance for inflation has been made this stage.

Interest

- 4.38 Debt interest charged in respect of the schemes has been assumed at 7.00% to reflect the risk margin involved and reflecting the likely short to medium term continued lending constraints.

Project Contingency

- 4.39 An overall contingency figure of 10% of total construction costs has been applied to all sites / options.

Disposal and marketing fees

- 4.40 We have assumed a letting agents fee of 10% and letting legal fee of 5%. For the residential accommodation we have assumed disposal fees for the agents and legal advisors equating to 2% and 1% respectively. In addition an indicative marketing allowance of 1% has also been included based on the total residential sales values.

Development programme

- 4.41 An estimated construction period and phasing programme will be incorporated into each of the appraisals to reflect the nature of the proposed development.

Developer's Profit

- 4.42 A developer's profit reflects the level of risk attached to a specific project and therefore can vary significantly depending on the approach to implementation. For example assuming a traditional approach to development, typically a developer's profit ranges from 17.5% to 25% on value whereas a contractor's profit margin can be significantly lower often between 8% and 12% on value.
- 4.43 For the purpose of our initial viability assessment we have used a single blended profit margin (applied to all uses i.e. including both affordable and private residential) to reflect the complexity of the schemes proposed and the mix of residential and commercial accommodation.

5 SITE CONTEXT AND VIABILITY ANALYSIS

5.1 For all sites an approach has been taken to provide a ‘traffic light’ summary of the viability of development which provides an indication of how the residual land value compares to the benchmark EUV with green indicating a viable scenario, amber a marginal scenario and red an unviable scenario. This is a consistent approach to all sites tested.

Newcombe House / Kensington Church Street

5.2 This site is approximately 1 acre and comprises Newcombe House, a 14-storey office building that includes surface parking for 55 cars, as well as 13 retail units. The site is located in a prominent position at the corner of Notting Hill Gate and Kensington Church Street. Waterstones Ltd occupy a large ground floor unit at the corner of Notting Hill Gate and Kensington Church Street with the remaining retail parade along Kensington Church Street comprising largely independent retailers as well as restaurant operators. Key occupiers include Black and Blue (restaurant) and The Place (restaurant). The frontage along Kensington Church Street is predominantly 2 storeys in height but towards the end of the terrace the heights increase to 4 storeys with the upper floors comprises 20 residential units.

Development Scenario

5.3 A single development scenario is proposed for Newcombe House / Kensington Church Street. Fronting Notting Hill Gate ground floor retail is proposed with 4 storeys of residential above and a further 20 storeys of residential replacing the existing Newcombe House Tower. Along Kensington Church Street retail use is proposed at ground and first floors with a further 4 storeys of commercial offices above. It is noted that there are possible ‘rights of light’ issues in relation to the new buildings along Kensington Church Street. It is possible that property owners may wish to assert their rights, and thus reduce the height of the development that can in practice be built. However, for the purposes of this viability study, a building height that is acceptable in townscape terms has been used. For ease of reference the table below provides a summary of quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	1,858	19,999	
Offices	5,536	59,589	
Residential	11,646	125,356	145

Basement	8,174	87,984	
Total	27,214	292,928	145

5.4 It should be noted that, as per our comments at 4.26 above, whilst we have shown basement floorspace in the table above (and in the equivalent tables in the following sections) this has not been taken into account within our financial appraisals and analysis.

Viability Summary: Amber

15-35 Notting Hill Gate (Astley House)

5.5 The site is situated between Kensington Palace Gardens and Kensington Church Street fronting Notting Hill Gate. The site comprises a 4 storey development with retail at ground floor and offices above. Key occupiers include Barclays Bank, HSBC, Seventeen (Restaurant) and Anscombe and Ringland estate agents.

Development Scenario 1 – Gateways (Tall Buildings Cluster)

5.6 Two development scenarios have been produced. Development Scenario 1 comprises 2 floors of retail with 3 storeys of offices above. In addition there are a further 4 storeys of residential with an 11 storey residential tower located at the eastern end of the proposed development. The table below provides a summary of quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	1,956	21,054	
Offices	2,934	31,581	
Residential	2,115	22,766	26
Basement	1,955	21,043	
Total	8,959	96,433	26

Viability Summary: red

Development Scenario 2 – Tower (Single Tall Building)

5.7 Scenario 2 is a lower density scheme comprising 5 storeys of development with retail at ground and first floor and 3 storeys of office accommodation above. In addition two basement levels are proposed comprising circa 1,955 sq m of floor space. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	1,956	21,054	
Offices	2,934	31,581	
Basement	1,955	21,043	
Total	8,959	96,433	n/a

Viability Summary: red

66-74 Notting Hill Gate 'Book Warehouse'

5.8 The subject property comprises a mixture of retail and residential accommodation and is arranged in two distinct blocks, 66-70 Notting Hill Gate, understood to have been built in circa 1880, and 72-74 Notting Hill Gate, constructed around 1934.

5.9 The property comprises of four retail units arranged over basement and ground floor, together with a betting shop and one office suite on the first floor. The upper storeys consist of ten self-contained apartments, the majority of which are separately accessed off Pembridge Garden Ground floor retail units are occupied by The Book Warehouse, Forever London, Ryman Stationary and EE Telephones.

Development Scenario

5.10 A single development Scenario has been tested which comprises 5 storeys of development with retail at ground floor and 4 storeys of residential accommodation. In addition to the above a single storey basement is proposed of circa 534 sq m. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	534	5,748	
Residential	2,582	27,792	32
Basement	534	5,748	
Total	3,649	61,871	32

Viability Summary: red

78 – 90 Notting Hill Gate

- 5.11 The site is located between Pembridge Gardens and Pembridge Road fronting Notting Hill Gate. The existing structure is 3 storeys and is occupied by Foxtons estate agents, Santander Bank and Royal Bank of Scotland. We understand that the unit occupied by Foxtons was recently refurbished to accommodate their requirement.

Development Scenario 1 – Gateways (Tall Buildings Cluster)

- 5.12 Development Scenario 1 comprises a single storey of retail, 4 storeys of office and a further 5 storey tower of office use located at the corner of Pembridge Road and Notting Hill Gate as well as a single basement level. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	405	4,359	
Commercial	2,344	25,231	
Basement	724	7,793	
Total	3,153	33,939	n/a

Viability Summary: red

Development Scenario 2 – (Single Tall Building)

5.13 Development Scenario is the same as Scenario 1 with the exception of the additional 5 storey office tower at the corner of Pembridge Road and Notting Hill Gate. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	405	4,359	
Commercial	1620	17,438	
Basement	405	4,359	
Total	2,429	26,146	n/a

Viability Summary: red

92-98 Notting Hill Gate (United House)

5.14 The site is located at the corner of Notting Hill Gate and Pembridge Road and comprises 2 retail units with 3 levels of office accommodation above. The retail units are occupied by Jamie Oliver's (Recipease) who occupy a double height unit and Boots. The upper floor tenants include Go Native, Pitman and the David Game College (who also occupy David Game House).

Development Scenario 1 – Gateways (Tall Buildings Cluster)

5.15 Development Scenario 1 comprises retail accommodation at ground and first floor with three floor of office use and a further 7 storey residential tower. In addition a single basement level is planned. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	1,454	15,650	
Office	1,762	18,966	
Residential	910	9,795	11

Basement	1,396	15,026	
Total	5,521	59,428	11

Viability Summary: red

Development Scenario 2 – (Single Tall Building)

- 5.16 Development scenario 2 comprises retail at ground and first floor with 3 floors of office accommodation above and a single basement level.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	1,454	15,650	
Office	1,762	18,966	
Basement	1,396	15,026	
Total	4,612	49,642	n/a

Viability Summary: red

146-152 Notting Hill Gate 'West Block'

- 5.17 The site comprises a 1970's retail parade comprising 6 retail units with 6 residential units above. The retail parade is occupied by Phase Eight (ladies fashion), Kensington Dry Cleaners, Blade Runners (Hair Design) and a double vacant unit, which is being actively marketed.

Development Scenario 1 – Gateways (Tall Buildings Cluster)

- 5.18 Development Scenario 1 comprises retail accommodation at ground and first floor with three floor of office use and a further 7 storey residential tower. In addition a single basement level is planned. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	320	3,444	
Office	479	5,156	
Residential	1,718	18,492	21
Basement	491	5,285	
Total	3,008	32,378	21

Viability Summary: red

Development Scenario 2 – (Single Tall Building)

- 5.19 Development Scenario 2 comprises retail accommodation at ground and first floor with three floor of office use above. In addition a single basement level is planned. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	320	3,444	
Office	479	5,156	
Basement	491	5,285	
Total	1,291	13,896	n/a

Viability Summary: red

154-164 Notting Hill Gate

- 5.20 154 – 164 directly adjoins 146-152 Notting Hill Gate 'West Block' and comprises a standalone double height retail units occupied by M&S Food. We understand the store benefits from basement levels and also has a small car park located to the rear of the site.

Development Scenario

5.21 A single development scenario is proposed for 154 – 164 Notting Hill Gate comprises retail at ground floor and 4 storeys of office accommodation above and 2 basement levels. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	505	5,436	
Office	2020	21,743	
Basement	1010	10,872	
Total	3,535	38,050	n/a

Viability Summary: red

47-69 Notting Hill Gate (David Game House)

5.22 The site is located between Hobson House and Newcombe House fronting Notting Hill Gate. The site comprises 8 retail units (arranged over two floors) and a further 2 floors occupied by the David Game College. The ground floor retail units are occupied by a range of independent and national operators. Key tenants include Pret a Manger, Eat and Café Nero.

Development Scenario

5.23 A single development option has been produced for the site comprising retail at ground and first floors with three floors of office accommodation above. The table below provides a summary of the quantum of floor space proposed.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	1,523	16,393	
Office	2,745	29,547	
Total	4,268	54,940	n/a

Viability Summary: red

83 Notting Hill Gate (Hobson House)

5.24 The site is located at the corner of Farmer Street and Notting Gate Hill and comprises retail at ground and first floor with a single storey of residential above. The retail accommodation is occupied by Pain Quotidien (café) and we understand there to be 4 residential units above.

Development Scenario 1 – Gateways (Tall Buildings Cluster)

5.25 Development Scenario 1 comprises retail at ground floor and 4 storeys of office accommodation with a further 7 storeys of residential accommodation.

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	187	2,013	
Office	746	8,030	
Residential	1,306	14,058	16
Total	2,239	24,100	16

Viability Summary: green

Development Scenario 2 – (Single Tall Building)

5.26 Development Scenario 2 comprises

Proposed Use	Floorspace Sq m (GEA)	Floorspace Sq ft (GEA)	Estimated Residential units
Retail	374	4,026	
Office	560	6,028	
Total	934	10,053	n/a

Viability Summary: red

Baseline Viability Tables

Site Name	Scenario 1 Assessment of Viability	Scenario 2 Assessment of Viability
Newcombe House / Kensington Church Street	Amber	Amber
15 – 35 Notting Hill Gate / Astley House	Red	Red
66 -74 Notting Hill Gate 'Book Warehouse'	Red	Red
78 – 90 Notting Hill Gate	Red	Red
92 – 98 Notting Hill Gate (United House)	Red	Red
146 -152 Notting Hill Gate 'West Block'	Red	Red
154 -164 Notting Hill Gate	Red	Red
47 – 69 Notting Hill Gate (Game House)	Red	Red
83 Notting Hill Gate / Hobson House	Green	Red

(This table is a collation of the outputs set out in the previous sections).

Sensitivity Analysis Viability Tables

5.27 In addition to the base scenarios we have undertaken sensitivity analysis on the basis of 100% private residential use (i.e. 0% affordable housing) as part of the mix of uses proposed. The majority of residential proposed in at upper levels within Scenario 1 and therefore there has been little impact on overall viability picture in respect of Scenario 2.

Site Name	Scenario 1 Assessment of Viability	Scenario 2 Assessment of Viability
Newcombe House / Kensington Church Street	Green	Green
15 – 35 Notting Hill Gate / Astley House	Green	N/A (no residential proposed)
66 -74 Notting Hill Gate 'Book Warehouse'	Green	Green
78 – 90 Notting Hill Gate	N/A (no residential proposed)	N/A (no residential proposed)
92 – 98 Notting Hill Gate (United House)	Red	N/A (no residential proposed)
146 -152 Notting Hill Gate 'West Block'	Green	N/A (no residential proposed)
154 -164 Notting Hill Gate	N/A (no residential proposed)	N/A (no residential proposed)
47 – 69 Notting Hill Gate (Game House)	N/A (no residential proposed)	N/A (no residential proposed)
83 Notting Hill Gate / (Hobson House)	Green	N/A (no residential proposed)

Viability Summary tables

5.28 For ease of reference the following table summarises the base line viability and sensitivity analysis on a side by side basis.

Site Name	Scenario 1	Scenario 2	Sensitivity Analysis (100% Private residential)
Newcombe House / Kensington Church Street	AMBER	AMBER	GREEN
15 – 35 Notting Hill Gate / Astley House	RED	RED	GREEN
66 -74 Notting Hill Gate 'Book Warehouse'	RED	RED	GREEN
78 – 90 Notting Hill Gate	RED	RED	N/A (no residential proposed)
92 – 98 Notting Hill Gate (United House)	RED	RED	RED
146 -152 Notting Hill Gate 'West Block'	RED	RED	GREEN
154 -164 Notting Hill Gate	RED	RED	N/A (no residential proposed)
47 – 69 Notting Hill Gate (Game House)	RED	RED	N/A (no residential proposed)
83 Notting Hill Gate / (Hobson House)	GREEN	RED	GREEN

Viability Summary

5.29 The above tables indicates that the residual land values created by the completed developments (assuming a 50% affordable housing provision) are less than existing use values in the large proportion of schemes and therefore it is unlikely that landowners will bring them forward development.

- 5.30 It is clear from the analysis that the schemes which do not include a residential component have the largest viability issues. This is not surprising given the relatively small uplift in rental values from secondary office space to new space in the locality coupled with the cost of acquiring the land (i.e. loss of existing value) and the construction cost for new office space.
- 5.31 As you would expect, the level of viability varies widely. For example the largest development at Newcombe House is close to viability, as opposed United House where the gap between existing use value and redevelopment values is quite sizeable.
- 5.32 The sensitivity analysis indicates that affordable housing plays a key impact on viability and where a reduced affordable housing requirement to be applied a number of the schemes move from being an unviable to viable development propositions.
- 5.33 In the instance of Newcombe House the analysis suggests that only a small adjustment to the affordable housing requirement would result in a clearly viable scheme and on the basis of 100% private residential would result in a significant surplus, which would be more than capable of supporting the development of a cultural facility of the nature and cost proposed.

6 DELIVERY OF INFRASTRUCTURE AND CULTURAL FACILITIES

- 6.1 The introduction of the Community Infrastructure Levy does potentially broaden the options open to Councils in the delivery of 'infrastructure items'. It enables them to draw on funds generated by new development across a much wider area and which therefore does not need to relate to the specific viability of individual schemes. However, it does put the burden of delivery on the Charging Authority which is not necessarily either welcome or appropriate in all cases.
- 6.2 As far as this study is concerned, there are two main items under consideration. One is in respect of public realm works (including improvements to tube access) and the other is in respect of the provision of a new cultural facility.
- 6.3 Looking at the public realm works first, once the Council has implemented its CIL charge, it will have the option of using CIL monies to fund these. However, as indicated at para 4.7, appraisals has been carried out assuming s.106 will be used. S.106 remains an option even once the CIL charge is in place.
- 6.4 There are clearly a number of advantages to using s.106 rather than CIL – most importantly that unlike CIL, with s106 there is a direct relationship between development and the works it is funding, thus giving developers the confidence that they will see the benefit arising from the works funded by their contributions.
- 6.5 However, if the Council is minded to take this approach it must give careful consideration to three points:
- That its planning policy is sufficiently robust as to ensure that it is able to secure the anticipated s106 contributions;
 - That it will not be reliant on more than 5 contributions due to the CIL Regulations restricting the pooling of more than five for the delivery of infrastructure items.
 - That there is sufficient viability/surplus across developments in the area to meet the total cost of the infrastructure works given that unlike CIL s106 is negotiable and based on viability.
- 6.6 Should either of the first two not be the case, there would be a risk to the Council that it would be unable to collect either from s106 or from CIL (assuming it was set at a reduced/zero rate) which would result in it needing to fund the works either from other sources or from CIL collected elsewhere in the Borough.
- 6.7 Delivery of the cultural facility is more complex. As we understand it, we are not looking at provision of an off-site standalone building, but probably something provided at basement level as part of a wider development. That being the case, for the Council to successfully secure delivery it is likely that the Council will need to be able to secure this through s106 agreement in respect of a single development – most likely Newcombe House where the greatest volume of development is

proposed. This will of course need to be underpinned by Planning Policy if it is to be successfully secured.

- 6.8 As you will see from our financial modelling, there are issues around viability and it is quite likely that concessions will need to be given on other aspects of the planning consent, most likely affordable housing, to enable development to proceed. The need for this will of course be exacerbated if a significant cost is put on the scheme to provide the cultural facility. An alternative which the Council could give consideration to is a requirement that the applicant provide the 'physical space' for the facility but with the cost of the fitting out to be borne by s106 contributions or CIL.
- 6.9 We are not in a position to comment on the impact that this would have on cost – a detailed technical study would be required to reach a full understanding of the cost of the facility within a redevelopment of Newcombe House. However, we can assume that this would be considerably less costly than a requirement to provide a turnkey facility.
- 6.10 As will be seen from the table at 5.21, our appraisal of the Newcombe House development with 0% affordable housing shows a substantial surplus. This provides a strong indication that it will be possible to arrive at viable scenario which would incorporate the full cost of the cultural facility, albeit at a considerably reduced affordable housing contribution.

7 CONCLUSIONS

- 7.1 As can be seen from the outputs summarised in Section 5, it appears that the majority of the development scenarios examined fall short of viability based on a “full policy” requirement for affordable housing. On the surface this might seem surprising given the strong values for residential, and to a lesser extent for offices, that are being achieved in Notting Hill. However, there are a number of principal reasons for this.
- 7.2 The main one is land assembly. All the sites under consideration are in use and, even allowing for the poorer quality of some of the existing buildings, still have high levels of value attached to them. This is effectively a cost on development which has a very significant impact on viability. In contrast there is no doubt that a cleared site in this location ready for development would be extremely viable – it is not the build cost vs achievable value equation which creates the problems. A number of the options, in particular Newcombe House, require the acquisition of existing high value residential units which will always have a significantly adverse effect on viability.
- 7.3 Closely related to this is the level of ‘intensification’ which the options are providing. Existing buildings are largely over 3 - 4 storeys so it appears that the level of additional floorspace, whilst not insignificant, is not enormous. Even in the case of Newcombe House, whilst the tower option goes to 20 storeys, there is an existing 12-storey building on the site. In a high value location like this, viability will be particularly sensitive to the level of intensification of sites.
- 7.4 Finally, the value benefit arising from the new residential development provided is heavily impacted upon by the Council’s affordable housing requirements. In particular, the requirement for 85% social rented accommodation at target rents means that almost half of the new residential accommodation is being built at a loss. As our sensitivity analysis shows, a wholly private residential content would result in viable development for most of the scenarios examined. (All of those without residential content are not viable and clearly cannot benefit for a more relaxed application of affordable policy).
- 7.5 The land use distribution used for this model was indicative. There may be scope to alter the distribution to aid viability of specific sites which are not shown to be viable in this study. It is also possible that developers will be able to improve the viability situation through more detailed design and value engineering work. They may also wish to explore higher density development more weighted towards residential although we would anticipate that the Council would resist a move away from the currently suggested office content due to the need to retain employment floorspace within this important strategic location.

- 7.6 In any event, it is likely that the Council will need to take a pragmatic approach to negotiation of affordable housing requirements if it is to enable viable development and to secure the planning contributions which it requires for its infrastructure proposals. Policy does refer to the 'maximum reasonable amount' of affordable housing which does provide some flexibility.
- 7.7 We have examined the Council's preferred approach to this in the previous section and indicated some key areas which it needs to have regard to if it elects to pursue a s106-based approach to delivery of these items.



GL Hearn

Notting Hill Gate – Viability Update Summary

**Royal Borough of Kensington &
Chelsea**

August 2013

Prepared by

GL Hearn Limited
20 Soho Square
London W1D 3QW

T +44 (0)20 7851 4900
F +44 (0)20 7851 4910
glhearn.com

Contents

Section		Page
1	INTRODUCTION	4
2	OFFICE REFURBISHMENT	5
3	NEWCOMBE HOUSE – MIXED USE OPTIONS	8
4	PEMBRIDGE CAMPANILE	9

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.

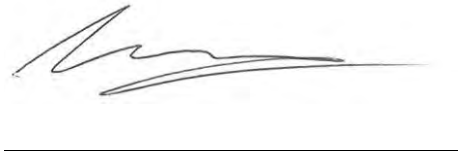
ORIGINATORS

Guy Ingham
Associate



APPROVED

George Barnes
Director



Limitations

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of GL Hearn; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

1 INTRODUCTION

- 1.1 In July 2013 GL Hearn produced a report for Royal Borough of Kensington & Chelsea analysing the viability of a number of conceptual schemes proposed for the Notting Hill Gate area. This also examined the affordability of potential streetscape improvements and a new cultural facility.
- 1.2 The outputs of this work have raised a number of further questions which the Council has now instructed GL Hearn to examine, as follows:
 - 1.2.1 Office refurbishment – whilst the Council is looking to maintain substantial quantities of office space within the area, the initial work shows that office development is not viable without considerable cross subsidy. We therefore look at the viability of office refurbishment;
 - 1.2.2 Newcombe House – the initial piece of work looked at mixed uses across the whole site, but with the replacement Newcombe Tower being wholly residential. We now examine a more mixed use option for the tower.
 - 1.2.3 Pembridge Campanile – in light of feasibility work on relocation of entrances to the tube station, we look at the potential building heights required to generate sufficient receipts to fund a relocation to the Pembridge Road junction.
- 1.3 Where required our financial analysis is based on sketch models and floor areas which have been provided by the Council. We have largely used the same financial assumptions (i.e. values, build costs, profit margin, fees etc) as in the original viability study. Accordingly these have not been repeated in this report other than where they have a particular impact on outputs or where we have altered them for the purposes of the new modelling.
- 1.4 As previously, our appraisals have arrived at existing use value of buildings through use of rateable values rather than a more detailed 'valuation' approach. Whilst this is an appropriate rule of thumb for a high level study such as this, it does come with a margin for error and does not take into account actual purchase prices which in some cases may be inflated based on redevelopment assumptions rather than the intrinsic value of the existing floorspace.

2 OFFICE REFURBISHMENT

- 2.1 Our initial piece of work established that new residential development on Notting Hill Gate has the potential to generate significant levels of value and is therefore likely to be the preferred redevelopment option for landowners if unconstrained through planning policy.
- 2.2 However, an important part of the Council's planning and economic strategy is to maintain employment uses at this important strategic location.
- 2.3 Accordingly the Council is looking to assess the viability implications of maintaining office space through refurbishment rather than redevelopment, looking particularly at David Game House, Astley House and Newcombe House.
- 2.4 The starting point for this is to understand the question "what does viable mean" in the context of a refurbishment. This is not straightforward not only because refurbishment can come forward in a number of guises but also because viability in itself is a concept that can have a number of meanings.
- 2.5 In its most straightforward sense we can seek to understand viability by looking at whether expending money on works will result in at least a commensurate uplift in value.
- 2.6 At its most basic level, this could be as straightforward as needing to carry out a limited 'refurbishment' of an individual office which is vacant to enable the landlord to attract a new tenant. Clearly if the space is failing to let in its existing condition then offering to refurbish (which may actually be little more than redecoration) as part of an overall letting package can be considered viable.
- 2.7 However, what we probably need to consider here is a more substantial refurbishment exercise for these buildings, potentially including the stripping out of the existing building, substantially upgrading reception, common parts and the quality of the actual office space which, given the age of the buildings is probably not of an appropriate quality for top-end office occupiers.
- 2.8 We must also bear in mind that one of the key benefits to any development would be to the external appearance, which is at present unattractive. To secure upgrades to building facades which, in of itself will have limited impact on achievable rents, does come at significant costs.
- 2.9 It is of course extremely difficult to cost refurbishments without full surveys of the buildings in question. There may also be difficulties arising from the age of the buildings and limitations arising from floor-to-ceiling heights etc.

- 2.10 In the case of David Game House and Astley House, these buildings both have small ‘walk-in’ reception areas and there would be little scope for substantially enhancing these without buying in adjacent retail units which we would certainly not expect to be a viable proposition given likely retail rents passing.
- 2.11 Whilst without undertaking specific costing of this sort of major refurbishment, we can draw some conclusions through looking at rents being achieved in the general area for various standards of accommodation.
- 2.12 There is a distinct lack of modern Grade A accommodation in the immediate vicinity of Notting Hill Gate – most of the larger office stock was constructed in the 1960s. It is predominantly let floor-by-floor or in individual office suites. Whilst vacancy rates are very low, rents are only being achieved in the region of £30 per sq ft.
- 2.13 So to assess rental potential we do need to look further afield. The Office Market Assessment recently prepared for the Council by Frost Meadowcroft shows that more recent office developments in Kensington High Street offering Grade A specification are achieving rents in the region of £45-50 per sq ft.
- 2.14 In Holland Park/Notting Dale which bounds Notting Hill Gate to the west, whilst high specification offices have attracted larger companies such as Monsoon Accessorize and Talk Talk, prime rents are only in the region of £30-35 per sq ft.
- 2.15 In light of the limitations of the buildings in question, it is probably not unreasonable to anticipate that whilst a full scale refurbishment would increase rental potential, this is unlikely to be even as high as £40 per sq ft.
- 2.16 When we take into account the fact that such a major refurbishment would require vacation of premises and resultant rental voids, we consider it unlikely that such an exercise would be viable – the differential in rents compared to what is currently being achieved for second hand space is unlikely to justify the cost and disruption, particularly when site values are taken into account (see main report).
- 2.17 In conclusion, it is likely that the Council can expect in the short term to see ‘minor refurbishment’ of vacant space in Newcombe House and Astley House to secure lettings of vacant space. If David Game were to be vacated and the landowners sought occupiers on an office basis, similarly we would expect to see some form of refurbishment. However, we would expect this to be limited in scope.

- 2.18 If the Council does wish to secure major improvement to the visual amenity of these buildings, we would expect there to be a need to permit a change in the balance of land uses, or a significant increase in floor area (or a combination of the two) to generate value sufficient to justify the associated cost.

3 NEWCOMBE HOUSE – MIXED USE OPTIONS

3.1 The Council’s brief for the original viability study involved appraising the replacement tower in Newcombe House as 100% residential. However, it is likely that this building will actually need to be a mix of uses with the lower floors comprising offices to replace the existing space and residential above.

3.2 It is also likely that rights of light issues will result in a restriction on the height of any building on Kensington Church Street.

3.3 Accordingly, we have examined two new scenarios:

- A mixed use ‘full height’ Newcombe House tower with the lower floors maintaining the existing level of office space (excluding Kensington Church Street and the area to the rear from the calculation);
- A second scenario as above but with a shorter Newcombe House tower.

3.4 The Council has provided us with floor area schedules for these two options. It is important to note that the shorter (12 storey) tower has a larger footprint which makes a considerable difference to its viability.

Financial Appraisals

3.5 As outlined in our introduction, the assumptions which we have used for appraising these options are exactly as per our original viability report.

3.6 Our base appraisal assumes 50% affordable housing. However we have also undertaken sensitivity using 25% affordable housing. The results of our appraisals are summarised below.

	50% Affordable Housing	25% Affordable Housing
20 Storeys	Amber	Green
12 Storeys	Amber	Green

3.7 As can be seen from the outputs, even at 50% affordable housing, both of these schemes are marginal i.e. close to being viable. A reduction in affordable housing to 25% produces a significant surplus.

4 PEMBRIDGE CAMPANILE

- 4.1 Since the original viability report was prepared, the Council has received the results of feasibility work carried out on amendments to the tube station access. This has indicated a cost of £12-16m for the relocation of the tube entrances to reduce pavement congestion.
- 4.2 Council officers have provisionally concluded that the cheaper of the options examined are unlikely to produce sufficient change to justify the cost. At this stage, therefore, it is the costs of the option which relocates the tube entrances to the Pembridge Road junction that is being considered, because of the greater benefits of the tube location being on the corner of Pembridge Road.
- 4.3 It has further been concluded that whilst the ‘cluster of campanile’ at Pembridge Road junction shown on one of the scenarios modelled for the previous viability report is heavily dependent on the building design as to whether they are acceptable from a townscape perspective, they might generate sufficient value to fund the tube relocation or some other significant public benefit, so are worth further consideration.
- 4.4 Under such circumstances, the proposal would be for the tube to come up only on the north side of the street with an entrance in the ground floor of 78-90 Notting Hill Gate.
- 4.5 Accordingly, we have considered a scenario which excludes the ground floor retail space within 78-90 Notting Hill Gate to accommodate the tube entrance but retains ground floor retail at both United House and Hobson House. All three sites have 100% residential at upper levels. We have then produced a series of appraisals to assess what scale of development is required to generate the required surplus. In respect of the required surplus we have assumed £16m, which is the upper level of the cost range provided.

Base Case

- 4.6 The Council has provided us with a number of development scenarios. Our starting point is the tallest of these which includes the following building heights:
- 78-90 Notting Hill Gate – 10 storeys
 - United House – 12 storeys
 - Hobson House – 8 storeys
- 4.7 Allowing for 50% affordable housing, these developments do not produce a Residual Land Value approaching our assessment of the existing use value of the buildings.
- 4.8 Our analysis of the figures indicates that at 50% affordable housing, adding additional storeys to this option will not enhance the residual land value to a significant degree.

- 4.9 We have re-appraised this scenario using a wholly private residential mix (i.e. 0% affordable housing). On this basis the individual development plots become viable but do not collectively create the surplus required.

Height Sensitivity

- 4.10 We have then added additional floors to the base case, using the same floorplate assumptions as in the option provided by the Council and appraised again at 0% affordable housing.
- 4.11 Initially we make an increase of 2 storeys, i.e.
- 78-90 Notting Hill Gate – 12 storeys
 - United House – 14 storeys
 - Hobson House – 10 storeys
- 4.12 This produces a residual development value which is broadly equal to the existing use value of the three development plots and the £16m required for the tube works.

Conclusions

- 4.13 The combined cost of the proposed tube works along with the loss of ground floor retail value from 78-90 Notting Hill Gate is such that even the tallest of the options provided to us by the Council is not viable.
- 4.14 We have undertaken sensitivity analysis on height and concluded that the building heights would need to be increased by 2 storeys above the previous tallest option on each site to reach a viable position, assuming 0% affordable housing. Clearly if the Council does need to maintain some element of affordable the building heights would need to be increased further still.

Our ref: J029958/letters/7.11.13(RBKC)GB

Penelope Tollitt
Head of Policy and Design
The Royal Borough of Kensington and Chelsea
Kensington Town Hall
London
W8 7NX

7th November 2013

Dear Penelope

Additional Viability Work in Relation to the Notting Hill Gate Emerging SPD

In your email dated 3rd October you asked GL Hearn to provide further viability advice following feedback to the recent public exhibition in September in relation to the emerging strategy for the Notting Hill Gate area of the Borough. The additional advice required related to:

- 1) An indicative cost of creating a new public square north of Notting Hill Gate.
- 2) A further iteration of the proposals for Newcombe House reflecting any costs associated with rights of light.

We consider both of these in turn below:-

1. Public Square

An emerging theme from the public exhibition was the desire to create a new focal point for Notting Hill Gate in the form of a new public square. A number of possible locations have been identified.

In order to inform the Council's overall strategy for the area it requires a broad assessment of cost.

As with our previous reports the approach we have adopted is to use rateable value as a proxy for rental value using published information from the Valuation Office. Where units have been let or sold in the last 12 months we have used this as a more accurate source of rental value. The latest revaluation was in 2010 based on a valuation date of April 2008. We have therefore increased the rateable values by 10% to better reflect market movements from 2008 to 2013. In addition to the 10% adjustment we have also included a further 10% for loss payment and 20% for disturbance to reflect the possible need for CPO to assemble the individual interests for development.

Whilst the Council may make all efforts to acquire the necessary interests by agreement, it is likely that the Council will need to progress a compulsory purchase order to ensure that the site can be assembled comprehensively. In this regard the justification for a CPO needs to be very robust and show a clear and compelling case in the public interest. The Secretary of State will particularly need to be convinced that the taking of land in current retail / employment use for the development of a public square provides a public benefit which will outweigh the private loss.

After the square is delivered, there may be scope to recoup some of the cost through sale or development of land around it. But when such value is compared to the estimated cost there is a deficit which is effectively the opportunity cost for creating a new public square – it is estimated that this will be in excess of £5m. There will of course be an additional cost to the Council in respect of the laying out of the square.

It is important to emphasise that this is a very high level calculation and some element of design input would be required to refine this further.

2. Newcombe House

We have previously examined a number of development options for Newcombe House. The recent public consultation on these suggested that there was a need to examine an alternative to the tall building options which have been analysed to date. Accordingly the Council has drawn up a new option which comprises a total of circa 25,000 sq m of floor space providing a range of uses as detailed in the table below.

Site	GF Footprint (sqm)	Storeys (inc. GF)	Gross External Area (sqm)	Land Use
Newcombe House NHG Frontage Ground Floor	667.71	1	668	Retail
Newcombe House NHG Frontage Storey 01-06	968.61	5	4,843	Commercial
Newcombe House NHG Frontage Storey 07-08	968.61	2	1,937	Residential
Mews Blocks	742.10	3	2,226	Residential
Kensington Church Street GF	1,202.32	1	1,202	Retail
Kensington Church Street Storey 01-06	1,202.32	5	6,012	Residential
Newcombe House Basement	4,086.84	2	8,174	TBC
			25,062	
			TOTAL (SQM)	25,062
			TOTAL (SQFT)	269,773

Our financial modelling of this option has been undertaken on the same basis as per our previous reports on this building. However one additional cost has been added into the equation.

Given the potential impact of development in this form on daylighting for surrounding buildings, the Council considered it appropriate to instruct GL Hearn to carry out an analysis of impact on Rights of Light and from this to assess potential compensation that would arise from developing a building in this form. These costs have been allowed for within our development appraisals which produce the following outputs:

	50% Affordable Housing	25% Affordable Housing
Viability (Colour Code)	RED	GREEN

I trust this provides the advice you require but please let me know if you need anything further.

Yours sincerely



George Barnes
Director

Our ref: Notting Hill Gate SPD/Viability/25/11/2013

 T +44 (0)20 7851 4900
 F +44 (0)20 7851 4910
 glhearn.com

 Elizabeth Hunger
 The Royal Borough of Kensington and Chelsea
 Kensington Town Hall
 London W8 7NX

 25th November 2013

Dear Elizabeth

Additional Viability Work in Relation to the Notting Hill Gate Emerging SPD

GL Hearn is pleased to set out our findings in respect of the additional viability work undertaken to inform the emerging Supplementary Planning Document (SPD) for the Notting Hill Gate area. Specifically the Council asked GL Hearn to investigate the viability of comprehensive mixed use development on land which includes Newcombe House and the adjoining David Game and Hobson House.

The combined three development parcels are diverse in nature, cross land ownerships and are already intensely developed resulting in a complex development proposition. The table below provides an indication of the extent of these interests and the range of occupiers present across each of the three development parcels.

Building Name	Address	Use	Occupier
Newcombe House			
	235 - 237 Kensington Church High Street	Retail	Waterstones
	45 Notting Hill Gate (Newcombe House)	Offices	Various
201 - 229 Kensington Church Street			
	201 - 207 Kensington Church Street	Restaurant	Kensington Place Restaurant
	209 - 211 Kensington Church Street	Retail	Lea and Sandeman Wine
	213 Kensington Church Street	Retail	The Print House
	215 - 217 Kensington Church Street	Restaurant	Black and Blue Restaurant
	219 Kensington Church Street	Retail	Sinai & Sons Antiques
	221 Kensington Church Street	Retail	Chegworth Farm Shop
	223 Kensington Church Street	Retail	De Winter limited (Fabrics)
	225 Kensington Church Street	Retail	Daggett Gallery
	227 Kensington Church Street	Retail	American Dry Cleaning
	229 Kensington Church Street	Retail	Trendco Hair
	20 Residential Units - Upper Floors	Residential	Residential
47-69 Notting Hill Gate David Game House			
	47 Notting Hill Gate	Retail	Frae Ice Cream Palour
	49 - 51 Notting Hill Gate	Retail	Crispins Convenience Store
	53 Notting Hill Gate	Café	Café Nero
	55 - 57 Notting Hill Gate	Retail	Calder Pharmacy
	59 Notting Hill Gate	Retail	Crush Fruit Juice
	61 Notting Hill Gate	Retail	Cards Galore
	63 Notting Hill Gate	Café	Eat
	65 - 67 Notting Hill Gate	Café	Pret A Manger Sandwich Bar
	69 Notting Hill Gate	Educational	David Game College
83 Notting Hill Gate Hobson House			
	83 Notting Hill Gate	Café	Le Pain Quotidien Baker
	4 Residential Units Above	Residential	

Development Potential

GL Hearn has been provided with a massing plan and floorspace schedule produced by the Council to illustrate the development potential of the opportunity. The total development floorspace equates to circa 36,500 sq m (393,000 sq ft) comprising a range of retail, offices, residential and car parking. For ease of reference the table below provides the quantum and use proposed within of the development parcels. The illustrative massing plan is appended to this report.

Land Use Proposal				
Site	GF Footprint (sqm)	Storeys (inc. GF)	Gross External Area (sqm)	Land Use
Newcomber House				
Block A Ground Floor	516	1	516	Retail
Block A 01	516	1	516	Retail
Block A 02-05	942	4	3768	Commercial
Block A 06-07	942	2	1884	Residential
Block B Ground Floor	1285	1	1285	Retail
Block B 01-05	1285	5	6425	Residential
Block C Ground Floor	792	1	792	Retail
Block C 01-02	792	2	1584	Residential
David Game House				
Block D Ground Floor	1309	1	730	Retail
Block D 01-05	1309	5	5966	Commercial
Block E 06-07	671	2	1342	Residential
Block F GF-02	179	3	537	Residential
Block G Ground Floor	297	1	297	Retail
Block G 01-05	297	5	1485	Residential
Hobson House				
Block H Ground Floor, Hobson House	202	1	202	Retail
Block H 01-05	202	5	1010	Residential
B1 Basement	4087	1	4087	Service Yard
B2 Basement	4087	1	4087	Car Park
Total			36513	sq m
			393019	sq ft

Benchmark Land Value

Our financial modelling has been undertaken on the same basis as per our previous reports on this building i.e. we have undertaken a residual appraisal of the new development option and then benchmarked it against land value which has been arrived at using a compulsory purchase basis of compensation using rateable values with appropriate adjustment as a proxy for rental value.

Given that the comprehensive development scenario straddles a number of land ownerships we have separated out our viability analysis between the three development parcels namely Newcombe House, David Game House and Hobson House. The reasons for this approach is that development may be shown to be viable on an overall basis but this may mask viability issues attached with a single development plot i.e. one development parcel may be cross subsidising another. In reality development is only likely to come forward if there is sufficient financial incentive / profit margin for each of the landowners unless the Council is willing and able to intervene through brokering an equalisation agreement or using compulsory purchase powers.

Viability Analysis

Again for consistency with our previous approach to the viability analysis we have tested a number of viability scenarios on the basis of a depreciating affordable housing provision, namely:-

- 50% affordable housing provision
- 25% affordable housing provision
- 100% private residential scheme

Based upon the floorspace schedule provided, we have calculated the gross development value of the completed scheme, the total development costs (including developer's profit) and the residual land value.

All development scenarios produce a positive value. However, this does not reflect the value of the existing property interests. We have therefore considered the residual land value alongside the benchmark land value to provide a true indication of scheme viability.

Our analysis indicates that the all scenarios on the basis of a 50% affordable housing provision are not viable development propositions. As you would expect a reduction in affordable housing requirement from 50% to 25% results in a much improved viability picture. On this basis Newcombe House and David Game House produce project surpluses. However Hobson House even on the basis of a reduced 25% affordable housing provision does not produce a sufficient return.

Across the three parcels there is a project surplus. Therefore it would theoretically be possible to deliver the overall scheme based on a planning consent showing 25% affordable housing. However, this would be dependent on some form of cross-funding agreement between the landowners (or assembly into a single parcel).

However, the surplus is only at such a level that relatively small increases in build cost or decreases in rental / sales values could reduce the viability beyond breakeven, and given the high level nature of the financial modelling, this scenario should be considered relatively marginal.

Our final scenario considers the extreme position where affordable housing requirement is removed. This has a significant impact on both the gross development value and residual land value from the three development parcels. On a comprehensive basis this results in a substantial project surplus which in theory the developer could afford to share with the Council to bring forward infrastructure projects i.e. cultural facility, improved tube access, health surgery etc and public realm improvements as well as making a payment for off-site affordable housing provision.

I trust this provides the advice you require but please let me know if you need anything further.

Yours sincerely



George Barnes
Director