ISLINGTON

Local Plan

Topic Paper

Viability Topic Paper Update

April 2021

1 Introduction

1.1 This viability topic paper update sets out the work completed by the Council's internal viability team who regularly assess the financial viability of a range of development types coming forward in Islington through the development management process, and further advise upon viability considerations in respect to planning policy formulation and development.

1.2 The purpose of this viability topic paper update is to serve a supplementary function to the Council's Draft Local Plan Viability Study, and to consider market changes and issues observed by the Council that have arisen since the undertaking of the Council's Draft Local Plan Viability Study in December 2018. For the avoidance of doubt, this viability topic paper update does not constitute an addendum to the Council's Draft Local Plan Viability Study (December 2018) undertaken by BNP Paribas Real Estate, which is an independent document.

1.3 Since the production of the Council's Draft Local Plan Viability Study (December 2018), the United Kingdom withdrew from the European Union on 31 January 2020 and discontinued participation in the European Customs Union and European Single Market following the end to the transition period on 31 December 2020. In early 2020, the emergence of the Covid-19 pandemic saw many national governments impose national lockdowns and restrictions on travel to contain the spread of the virus. The United Kingdom entered its first national lockdown in March 2020, following this a series of regionalised and national restrictions have been in place.

1.4 This viability topic paper update therefore provides an overview of market commentary in chapters 2 and 3, in respect to the London and Islington housing markets, as well as the commercial market in respect to the offices. It is however noted that despite the uncertainty and profound changes to how the economy of the United Kingdom functions under the restrictions arising from the Covid-19 pandemic, the Council has not witnessed any significant adverse viability implications when reviewing financial viability assessments as part of the development management process. The Council has observed that applicant financial viability assessments have generally been adopting input assumptions commensurate with values and costs seen prior to the Covid-19 pandemic.

1.5 Furthermore, since the publication of the Council's Draft Local Plan Viability Study in December 2018, there has been a number of new planning applications for office schemes which have been assessed through the development management process. These have been informative in considering the patterns and types of development likely to come forward over the lifetime of the new Local Plan.

1.6 The assessment of these planning applications were also considered in light of the Council's emerging affordable workspace planning policies, whilst also having regard to the points raised by the respondents to the Council's Regulation 18 and Regulation 19 Local Plan consultations.

1.7 From the Council's review of recent planning applications, it is considered that smaller scale new-build office schemes, and smaller scale office developments involving the refurbishment and reconfiguration of existing floorspace with additional floorspace created through extensions, are likely to play an important role in providing new office floorspace over the course of the plan period, particularly in the CAZ and CAZ Fringe areas. Given the above, and the extent of the representations received in respect of the affordable workspace policies during the 2018 and 2019 consultations, it is acknowledged that small new-build office developments and small-scale office schemes involving refurbishment and extensions warranted the viability testing of additional development typologies.

1.8 The Council has therefore sought to address this issue by adopting several new development typologies, each informed by recent planning applications, and testing the impact of the emerging planning policy requirement for 10% of office floorspace at a peppercorn rent for a period of twenty years as set out in draft Policy B4 of the Council Draft Local Plan. The assessment of these development typologies and their capacity to viably absorb the emerging affordable workspace policy of 10% of office floorspace at a peppercorn rent for a period of twenty years forms the central focus of this viability topic paper update.

1.9 The affordable workspace viability testing undertaken as part of this viability topic paper update has been based upon the approach and input assumptions adopted by BNP Paribas Real Estate in the Council's Draft Local Plan Viability Study (December 2018). Using the input assumptions adopted in the Council's Draft Local Plan Viability Study provides a level of consistency in the viability testing of emerging planning policies. The only input assumptions which have been updated relate to construction cost rates per square which reflect the latest BCIS data, and Community Infrastructure Levy contributions in the form of MCIL2 and Islington CIL to reflect changes in indexation.

1.10 The input assumptions adopted in the appraisals of the office typologies are outlined in appendices 1, 2 and 3.

1.11 The affordable workspace viability testing exercise undertaken in this viability topic paper update constitutes an area-wide financial viability assessment, which is markedly different from a site-specific financial viability assessment. The objective of an area-wide financial viability assessment is to assess the ability of development typologies to viably meet emerging planning policy requirements. This provides a high-level assessment and overview of viability across a geographic area. The residual land valuation approach is adopted to deduct the Gross Development Cost (which includes developer's profit) from the Gross Development Value to produce a residual land value. Where a residual land value exceeds the Benchmark Land Value, the development is viable; conversely, where the residual land value falls below the Benchmark Land Value, the development is unviable.

1.12 The results of the office typologies testing is set out in chapter 4 and summarised in chapter 5.

2 Housing Market Update

2.1 Whilst it is acknowledged that the impacts of the Covid-19 pandemic and the United Kingdom's departure from the European Union have created an uncertain macro-economic outlook, the Council through its own monitoring of market data and review of financial viability assessments submitted alongside planning applications has not witnessed any significant changes in private residential sales values or residential constructions costs, which would negatively impact upon development viability.

2.2 The BCIS All in Tender Price Index published by the RICS is a commonly accepted index for updating construction costs. It is noted that the BCIS All in Tender Price Index outlined an index figure of 330 for 4Q 2018, this compares with an index figure of 328 for 1Q 2021, thus providing for a minor decrease of -0.61%. This would indicate that construction costs have been broadly static between the undertaking of the Council's Draft Local Plan Viability Study in December 2018 and at the time of writing this report.

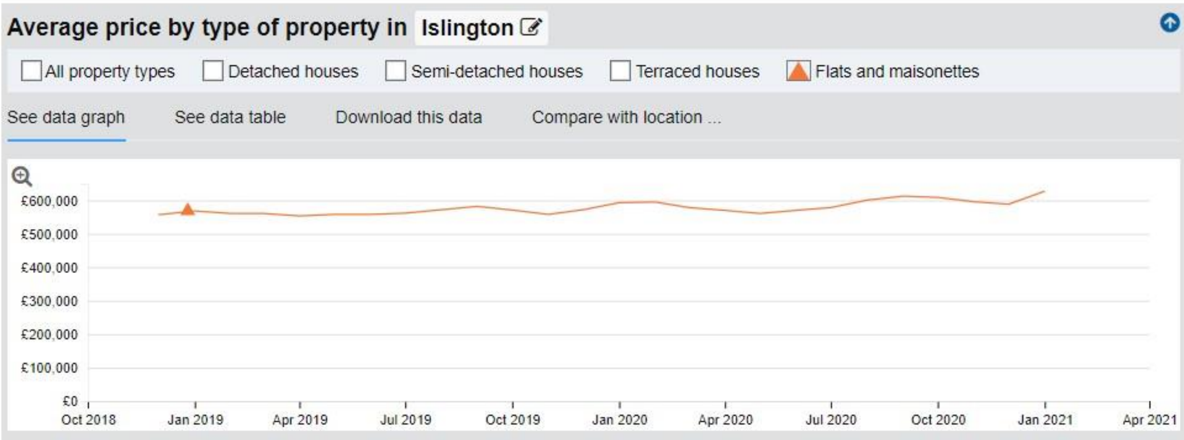
2.3 As outlined within this chapter of the topic paper, the available evidence demonstrates that Islington has witnessed a growth in residential sales values since the undertaking of the Council's Draft Local Plan Viability Study in December 2018.

2.4 It is therefore considered that the viability modelling and conclusions reached in the Council's Draft Local Plan Viability Study (December 2018) remain accurate.

UK House Price Index

2.5 The UK House Price Index outlines that the average price by type of property in Islington in respect to 'Flats and maisonettes' in December 2018 was £557,534. The UK House Price Index further outlines that the average price by type of property in Islington in respect to 'Flats and maisonettes' in January 2021 was £627,182. This therefore reflects an increase of 12.49% between December 2018 and January 2021.

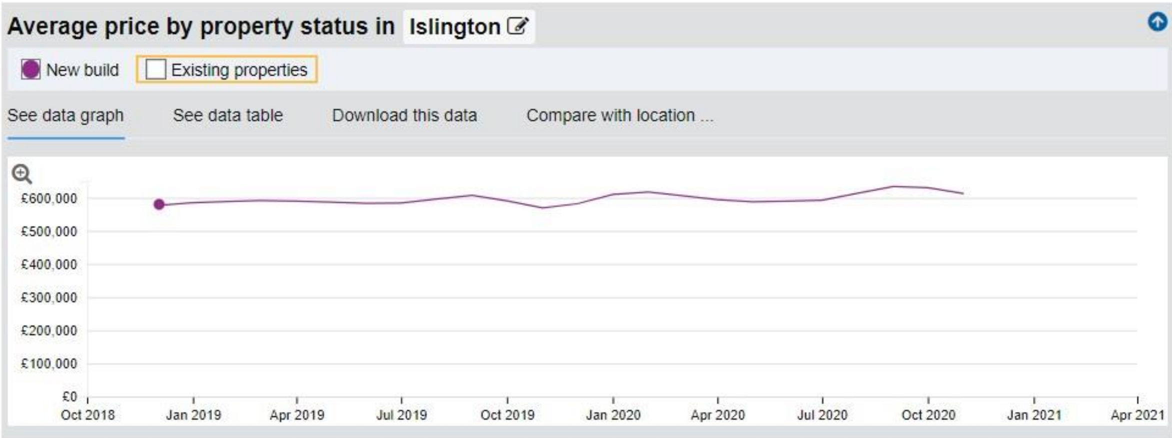
Figure 1 – Average Price by type of property in Islington. Source: Land Registry



2.6 In addition, the UK House Price Index provides the average price by property status in Islington in respect to 'new-build' status, and sets out data from December 2018 up to November 2020. The UK House Price Index outlines that the average price by property status in Islington in respect to 'new-build' status in December 2018 was £576,525. The UK House Price Index further outlines that the average price by property status in

Islington in respect to 'new-build' status in November 2020 was £612,774. This therefore reflects an increase of 6.29% between December 2018 and November 2020.

Figure 2 – Average Price by property status (new-build) in Islington. Source: Land Registry



2.7 Savills Mainstream Capital Values Forecast sets out five-year forecast values for UK regions. The Savills Mainstream Capital Values forecast for London is set out below in table 1.

Table 1: Savills' Mainstream Capital Values Forecast (London)

	2021	2022	2023	2024	2025	5 years to 2025
London	**2.5%**	**4.5%**	**2.0%**	**2.0%**	**1.0%**	**12.6%**

Source: Savills Research[1] (N.B. These forecasts apply to average prices in the second hand market. New Build values may not move at the same rate.)

2.8 In addition, Savills Capital Values Forecast for Prime Central London, Outer Prime London and All Prime London is set out below in table 2.

Table 2: Savills' Capital Values Forecast (Prime Central London, Outer Prime London and All Prime London)

	2021	2022	2023	2024	2025	5 year
Prime Central London	**3.0%**	**7.0%**	**4.0%**	**2.0%**	**4.0%**	**21.6%**
Outer Prime London	**2.0%**	**5.0%**	**3.0%**	**2.0%**	**2.0%**	**14.8%**
All Prime London	**2.5%**	**6.0%**	**3.5%**	**2.0%**	**3.0%**	**18.1%**

Source: Savills Research[2] (N.B. These forecasts apply to average prices in the second hand market. New Build values may not move at the same rate.)

[1] https://www.savills.co.uk/insight-and-opinion/research-consultancy/residential-market-forecasts.aspx
[2] https://www.savills.co.uk/insight-and-opinion/research-consultancy/residential-market-forecasts.aspx

3 Commercial Property Update

United Kingdom Commercial Market Overview

3.1 At a national level, the global Covid-19 pandemic has caused uncertainty around commercial assets over the course of 2020, with office leasing being subdued and a shift towards online retailing. The logistics sector however, saw record rents and levels of uptake being achieved during 2020[3]. Although the Covid-19 pandemic has caused uncertainty, the UK achieved investment volumes of £42.7bn across 2020.

3.2 In Q4 2020, £19.4bn was invested across the UK, an increase of 6% on Q4 2019 and 10% above the Q4 10-year average of £17.6bn. Industrial & Logistics sectors saw a huge increase due to the subsequent boom in demand for logistics space resulting in volumes of £8.4bn. However, the office sector remained comfortably the largest with £16.6bn traded in 2020, with Central London and South East office markets among the fastest to recover in recent months[4].

London Office Market Overview

3.3 London and the office market seized up in 2020, with most businesses postponing decision-making where possible. This was not unique just to London, with major cities like New York City, Paris and Sydney all experiencing record low leasing volumes last year[5].

3.4 In Q4 2020, London saw leasing activity stabilise, although it remained subdued with only 1.13m sqft leased, only marginally more than achieved in Q3 2020[6]. Office vacancy also crept above the long-term average for London to 7.4%, with 17.6m sqft of vacant office space being on the market. Of the stock released onto the market during 2020, almost 51% falls into the Grade B (or lower category), which Knight Frank note is poor quality, second-hand space which will be challenging to let and will likely experience diminished interest[7], and will therefore require rental discounts or refurbishment to a new modern standard[8].

3.5 The shortage of brand new Grade A stock has been further highlighted by various real estate market leading firms, with them noting that 56% of all stock under construction having been secured via pre-letting. At the start of the pandemic, approximately half of all stock under construction was already pre-let; at the end of 2020, that figure was unchanged[9]. Prime headline rental rates are still within touching distance of pre-pandemic record high levels, highlighting the resilience of rents for top-quality space. Although requirement levels have remained subdued, there is evidence that occupier demand is being deferred, rather than eliminated. In fact, during 2020 Knight Frank

[3] https://www.cbre.co.uk/research-and-reports/2021-UK-Real-Estate-Market-Outlook
[4] https://www.jll.co.uk/content/dam/jll-com/documents/pdf/research/emea/uk/jll-uk-capital-markets-2020-review-and-2021-outlook.pdf
[5] https://content.knightfrank.com/content/pdfs/global/the-london-report-2021.pdf
[6] https://content.knightfrank.com/research/104/documents/en/the-london-office-market-report-q4-2020-7863.pdf
[7] https://content.knightfrank.com/research/104/documents/en/the-london-office-market-report-q4-2020-7863.pdf
[8] https://content.knightfrank.com/content/pdfs/global/the-london-report-2021.pdf
[9] https://content.knightfrank.com/content/pdfs/global/the-london-report-2021.pdf

recorded a 32-fold increase in lease renewals, hinting towards delayed decision-making by businesses.

Islington Office Market Overview

3.6 At a local level, the Islington office market falls into various submarkets, with areas of Clerkenwell and Bunhill falling into the tech-belt and the city. The office take up in the tech-belt remained stable in Q4 2020, however the submarket total office take up fell 50% below the 10 year annual average[10]. The vacancy rate decreased during the quarter from 5.6% to 5.3%, with the amount of available space now under 2.2 million sqft. It is further noted that there continues to be limited supply of new build grade A office space, with 60% of the 2.5 million sqft currently under construction already pre-let. Rents remained stable over the year, with prime headline rents for Clerkenwell and Farringdon fetching £77.50psf[11], and Old street reporting rents of £67.50psf. Rent-free periods also remained flat, with rent-free periods remaining at 24 months on a 10-year term[12]. Avison Young reported that Clerkenwell is attracting yields of 4.5%[13].

3.7 In the city submarket, take up decreased from Q3 2020 to Q4 2020, finishing 68% below the 10-year quarterly average. However, Islington saw the largest deal across Central London for Q4 with City University taking 74,400 sqft at 33 Finsbury Square, EC2. The vacancy rate has increased from 6.7% to 8.6% over the quarter, and city submarket prime rents fell from £72.50 to £70 per sqft, with rent free periods being recorded at 27 months' on a 10-year term[14].

Commercial outlook

3.8 Whilst it is acknowledged that the impacts of the Covid-19 pandemic have created uncertainty, the UK and London have retained their global appeal through the global pandemic, with International investors accounting for 58% of all transaction volumes, rising to 83% in Central London, both record high shares. This is credited to high levels of transparency and liquidity, a strong pipeline of talent and culture of innovation, established strengths in the growing science and technology sectors, and generous returns relative to other asset classes and other global property markets. These will all ensure the UK continues to draw strong investment, both domestic and international[15]

3.9 JLL note that overall investment volumes are expected to increase significantly, as the recovery for the Covid-19 pandemic continues, with UK investment volumes expected to total between £50bn and £55bn in 2021. JLL also highlight that a key driver of growth will be the shift to more sustainable and responsible investing, with sustainability and social impact being areas of focus for many investors[16].

3.10 In London, the shortage of planned supply combined with expected growth in new businesses means that every London submarket will still see prime headline rents continue to rise. Prime headline rents in the City Core are expected to end 2021 at £68.50 per ft, before a recovery begins in 2022, lifting rents to £72.50 per sqft by the end of 2022. This equates to a rise of 5.8%. It is forecasted that rents in the City Core

[10] https://www.avisonyoung.co.uk/central-london-office-analysis/q4-2020
[11] https://content.knightfrank.com/research/104/documents/en/the-london-office-market-report-q4-2020-7863.pdf
[12] https://www.avisonyoung.co.uk/central-london-office-analysis/q4-2020
[13] https://www.avisonyoung.co.uk/central-london-office-analysis/q4-2020
[14] https://www.jll.co.uk/en/trends-and-insights/research/q4-2020-central-london-office-market-report
[15]https://www.cbre.co.uk/research-and-reports/2021-UK-Real-Estate-Market-Outlook
[16] https://www.jll.co.uk/content/dam/jll-com/documents/pdf/research/emea/uk/jll-uk-capital-markets-2020-review-and-2021-outlook.pdf

will end 2025 at £80 per sqft, which translates to an increase of 14.3% over the next five years. The 14.3% growth forecast for prime City Core rents over the next five years equates to an average increase of 2.7% per annum.

3.11 The Covid-19 pandemic has resulted in an increase in working from home and tenants reconsidering office requirements, which has led to a reduction in office take-up and increased vacancy rates, these are however short-term impacts of the pandemic. The long-term outlook remains positive for the prime London office market[17], due to the shortage of new build grade A office space. The Council subsequently note that the adopted commercial assumptions and conclusions adopted in the Council's Draft Local Plan Viability Study (December 2018) remain reasonable.

[17] https://content.knightfrank.com/content/pdfs/global/the-london-report-2021.pdf

4 Affordable Workspace Viability Testing Results

4.1 In this topic paper, the Council viability tested a further range of office typologies across the borough and set out the findings in the tables below.

4.2 The Green coloured cells indicate that a development is viable as the residual land value generated by the scheme is greater than the site's Benchmark Land Value. Red coloured cells indicate that a development is unviable as the residual land value falls below the site's Benchmark Land Value.

Table 3: New-Build Typologies in CAZ and CAZ Fringe tested for 10% of office floorspace as affordable workspace at a peppercorn rent for a period of 20 Years

Site	Area	Scenario	Existing Class E (Office) GIA (sqm)	Existing Class F1 GIA (sqm)	Proposed Class E (Office) GIA (sqm)	Proposed Class E (Retail) GIA (sqm)	Benchmark Land Value	10% Affordable Workspace for a peppercorn period of 20 Years
								Residual Land Value
Site A	N1	New-Build	**0**	2091	**6500**	0	£ 9,600,000	**£ 15,789,385**
Site B	EC1	New-Build	**0**	0	**3956**	94	£ 450,000	**£ 9,691,407**
Site C	N1	New-Build	**0**	236	**1196**	0	£ 338,600	**£ 3,587,267**
Site D	EC1R	New-Build	**2045**	0	**3020**	0	£ 8,580,000	**£ 7,538,482**
Site E	EC1Y	New-Build	**1657**	0	**2340**	0	£ 8,792,000	**£ 5,856,917**

4.3 The typologies outlined in table 3 reflect development scenarios involving the demolition of existing floorspace and the erection of a new building to provide office floorspace, and in the case of Site B, retail floorspace as a supporting land use.

4.4 The results of the testing show that Sites D and E are unviable when modelling 10% of office floorspace at a peppercorn rent for a period of 20 years as their respective residual land values fall below their respective benchmark land values. The predominant factor affecting the viability of sites D and E is their higher Existing Use Values arising as a result of the proportion of existing office floorspace, relative to the proportion of office floorspace within the proposed scheme. Where Existing Use Values are higher relative to the obtainable Gross Development Value, it serves to reduce the uplift in land value arising through redevelopment; and in the cases of Sites D and E, following the deduction of the Gross Development Cost from the Gross Development Value (reflecting 10% of office floorspace at a peppercorn rent for 20 years), it does not allow for the production of residual land values above the sites' benchmark land values.

4.5 Conversely, the results of the testing show that Sites A, B and C are viable with 10% of office floorspace at a peppercorn rent for a period of 20 years. Despite Sites B and C being small-scale office developments, both sites can viably provide 10% of office floorspace at a peppercorn rent for 20 years as a result of their lower Existing Use Values.

4.6 The results of the testing further show that Site A, which is a larger mid-sized office scheme, can viably provide 10% of office floorspace at a peppercorn rent for 20 years.

Site A has a lower Existing Use Value as a result of its existing social infrastructure use, and thus the redevelopment of the site for higher value office use provides a significant uplift in land value, which comfortably allows for the delivery of 10% of office floorspace at a peppercorn rent for 20 years.

Table 4: Refurbishment and New Build Typologies in CAZ and CAZ Fringe tested for 10% of office floorspace as affordable workspace at a peppercorn rent period of 20 Years

Site	Area	Scenario	Existing Class E (Office) GIA (sqm)	Existing Class F1 GIA (sqm)	Proposed Class E (Office) GIA (sqm)	Proposed Class E (Retail) GIA (sqm)	Benchmark Land Value	10% Affordable Workspace for a peppercorn period of 20 Years
								Residual Land Value
Site F	EC1M	Refurbishment and New-Build	**0**	2574	**3282**	0	£ 2,500,000	**£ 11,923,521**
Site G	EC2A	Refurbishment and New-Build	**1308**	0	**3592**	0	£ 7,935,000	**£ 11,991,321**
Site H	EC1V	Refurbishment and New-Build	**1617**	0	**2984**	0	£ 11,240,000	**£ 9,569,800**
Site I	EC1V	Refurbishment and New-Build	**3290**	0	**4543**	366	£ 14,650,000	**£ 17,288,989**

4.7 The typologies outlined in table 4 reflect development scenarios involving the retention and refurbishment of existing floorspace with the addition of extensions to provide new-build office floorspace.

4.8 The results of the viability testing for these typologies show sites F,G and I can viably meet the emerging policy requirement to provide 10% of office floorspace at a peppercorn rent for 20 years. However, Site H is rendered unviable.

4.9 Site H is rendered unviable, as the site possesses a high Existing Use Value generated by the large quantum of existing office floorspace, and due to the uplift in office floorspace generated through the redevelopment of the site not being sufficient to allow for the viable delivery of 10% of office floorspace at a peppercorn rent for 20 years.

4.10 The viability testing of Sites G and I demonstrate that the uplift in office floorspace is sufficient to enable the viable delivery of 10% of office floorspace at a peppercorn rent for a period of 20 years.

4.11 With regards to site F, the results of the viability testing demonstrate that where a site has a low Existing Use Value, such as a social infrastructure use, the redevelopment of the site and the change of use to office use provides a significant uplift in land value, that allows for the delivery of 10% of office floorspace at a peppercorn rent for 20 years.

4.12 The Council considers that viability constraints are likely to arise and prevent the delivery of 10% of office floorspace at a peppercorn rent for a 20 year period where a site has a high Existing Use Value due to existing office use, and the uplift in new-build office floorspace generated through the development of the site is relatively small, when compared to the existing proportion of office floorspace.

Table 5: Typologies in the CAZ tested for 10% of office floorspace as Affordable Workspace at a peppercorn rent into perpetuity

Site	Area	Scenario	Existing Class E (Office) GIA (sqm)	Existing Class F1 GIA (sqm)	Existing Class E (Retail) GIA (sqm)	Proposed Class E (Office) GIA (sqm)	Proposed Class E (Retail) GIA (sqm)	Proposed Class F1 GIA (sqm)	Benchmark Land Value	10% Affordable Workspace into perpetuity Residual Land Value
Site J	EC2Y	New-Build	**18339**	0	1298	**63520**	1222	0	£ 106,700,000	**£ 119,236,668**
Site K	EC1V	Refurbishment and New-Build	**0**	36359	0	**62408**	1639	516	£ 84,000,000	**£ 133,160,563**

4.13 The two development typologies outlined in table 5 reflect large-scale office schemes, which each present a significant uplift in office floorspace.

4.14 The viability testing shows that Sites J and K can viably provide 10% of office floorspace at a peppercorn rent into perpetuity. In both cases, the significant uplift in office floorspace presents a very large land value uplift, which allows for the viable delivery of 10% of office floorspace as affordable workspace at a peppercorn rent into perpetuity.

Table 6: New-Build Typologies north of the Borough tested for 10% of office floorspace as affordable workspace at a peppercorn rent for a period of 20 Years

Site	Area	Scenario	Existing Class E (Office) GIA (sqm)	Existing Class E (Retail) GIA (sqm)	Existing Use Class B2/B8 GIA (sqm)	Proposed Class E (Office) GIA (sqm)	Proposed Class E (Retail) GIA (sqm)	Benchmark Land Value	10% Affordable Workspace for a peppercorn period of 20 Years Residual Land Value
Site L	N4	New-Build	**0**	1328	0	**1732**	600	£ 3,720,000	**£ 2,075,841**
Site M	N4	New-Build	**0**	0	0	**2000**	300	£ 190,000	**£ 2,147,538**
Site N	N19	New-Build	**846**	0	568	**2722**	50	£ 3,070,000	**£ 2,746,028**

4.15 The development typologies outlined in table 6 reflect development scenarios located in the north of the borough, involving the demolition of existing floorspace and the erection of a new building to provide office floorspace and retail floorspace as a supporting land use.

4.16 The results of the viability testing show that delivering 10% of office floorspace at peppercorn rent for a 20-year period will be challenging for the small-scale office and small-scale office-led mixed-use commercial developments in the north of the borough. The results of the testing show Sites L and N are unviable when modelling 10% of office floorspace at a peppercorn rent or a period of 20 years, while Site M is shown to be viable as a result of the sites low Existing Use Value.

4.17 The predominant issue affecting the viability of the development typologies is the lower office values prevalent in the north of the borough. These lower office values when coupled with higher Existing Use Values serve to constrain viability of small-scale office and small-scale office-led mixed-use schemes to provide affordable workspace in line with draft Policy B4. However, it is considered that in circumstances where Existing Use Values are lower and there is a significant uplift in office floorspace arising through development, it would create a climate more conducive to attaining 10% of office floorspace at a peppercorn rent of a period of 20 years in the north of the borough.

5 Affordable Workspace Viability Testing Summary

5.1 The Council's viability testing of the additional office development typologies indicates that proposals are likely to suffer from viability constraints and an inability to provide 10% of office floorspace as affordable workspace for a peppercorn period of 20 years, where developments involve a small uplift of office floorspace relative to the existing office use floorspace.

5.2 In these cases, viability issues arise as a result of these sites possessing high Existing Use Values, due to the presence of large amounts of office floorspace, relative to the obtainable Gross Development Value of the development proposal. Put simply, the land value uplift arising from re-development in these cases is insufficient to support the policy impact of 10% of office floorspace as affordable workspace for a peppercorn period of 20 years. In light of this, the submission and assessment of site-specific financial viability assessments would be necessary for small-scale office schemes which are affected by the aforementioned circumstances in the CAZ and CAZ fringe areas.

5.3 Conversely however, the results of the viability testing demonstrate that where Existing Use Values are lower, due to smaller amounts of existing office floorspace or presence of lower value uses on site, and the uplift in land value is therefore greater due to a larger uplift in office floorspace, then 10% of office floorspace at a peppercorn rent for a period of 20 years can be viably provided.

5.4 In addition, the Council's further viability testing indicates that in circumstances where there is a very large uplift in office floorspace, generated through the development of a tall building or substantial new office building, 10% of office floorspace can be viably provided as affordable workspace at a peppercorn rent into perpetuity.

5.5 The results of the Council's viability testing further show that 10% office floorspace at a peppercorn rent for a period of 20 years as sought by Draft Policy B4 of the Council's Draft Local Plan will prove challenging for smaller office developments and small-scale mixed-use commercial developments outside of the CAZ and CAZ fringe areas. This is largely due to the lower office values prevalent in the north of the borough.

5.6 In view of this, site-specific financial viability assessments would be necessary for small-scale office and small-scale office led mixed-use commercial schemes coming forward outside of the CAZ to determine the level of affordable workspace that could be viably provided.

5.7 However, the role expected to be played by smaller office and smaller commercial led mixed-use developments outside of the CAZ and CAZ fringe areas, over the course of the new Local Plan will be to retain, enhance and intensify employment floorspace within PELs and Town Centre locations.

5.8 Following an analysis of the Council's Site Allocations and a number of pre-application discussions, it is considered that over the Plan period, affordable workspace in line with Draft Policy B4 of the Council's Draft Local Plan will likely come forward in the north of the borough as part of larger mixed-use developments in Town Centre locations. In these cases, the value of residential use and other supporting land uses can support the delivery of affordable workspace and affordable housing in line with emerging planning policy requirements. This was demonstrated by several of the development typologies within the Council's Draft Local Plan Viability Study (December 2018). Notwithstanding this, the Council is proposing an amendment to the supporting text to Policy B4 to align with Policy DF1 Part D of the London Plan (2021) to clarify that in exceptional cases, where viability issues prevent the delivery of both affordable housing and affordable workspace, the priority will be given to the delivery of affordable housing.

5.9 The results of the Council's viability testing of small-scale office schemes indicate that where sites possess a large amount of existing office floorspace, relative to the proportion of office floorspace in the proposed scheme, viability constraints are likely to emerge and prevent compliance with Draft Policy B4. However, the Local Housing Delivery Group's report 'Viability Testing Local Plans; advice for planning practitioners' (2012) notes that:

5.10 "*The approach to assessing plan viability should recognise that it can only provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability. It cannot guarantee that every development in the plan period will be viable, only that the plan policies will be viable for the sufficient number of sites upon which the plan relies in order to fulfil its objectively assessed needs*."[18]

5.11 In cases where genuine viability constraints exist, the submission of a site-specific financial viability assessment would be required to determine the viable level of affordable workspace which could be provided by the scheme. In some cases, a reduced amount of floorspace at a reduced peppercorn period, or a financial contribution towards offsite affordable workspace may be viable. The consideration of a site-specific financial viability assessment can assist in establishing the planning balance as part of the wider decision-making process.

[18] Viability Testing Local Plans: advice for planning practitioners (2012) p.10

6 Conclusion

6.1 This viability topic paper update has sought to consider market changes and issues observed by the Council since the undertaking of the Council's Draft Local Plan Viability Study in December 2018.

6.2 This viability topic paper update has reviewed market conditions and outlined that though the impacts of the Covid-19 pandemic have created an uncertain Macro-economic outlook, Islington has witnessed a growth in residential sales values since the undertaking of the Council's Draft Local Plan Viability Study and construction costs have remained broadly static. The commercial market has been subject to reductions in office take up and increased vacancy rates, however London has retained its global appeal to investors despite the pandemic, and the long-term outlook remains positive for the London office market, with prime headline rents predicted to rise. The Council therefore concludes that the input assumptions adopted within the Council's Draft Local Plan Viability Study (December 2018) remain reasonable.

6.3 This viability topic paper update has identified that since the publication of the Council's Draft Local Plan Viability Study in December 2018 a number of planning applications have been assessed. These applications provide an indication that smaller scale new-build office schemes and smaller scale office development involving the refurbishment and reconfiguration of existing floorspace with additional floorspace created through extensions, are likely to play an important role in providing new office floorspace over the lifetime of the plan. Therefore, the Council has addressed this issue through the testing of additional office development typologies.

6.4 This viability topic paper update identifies that some developments are likely to suffer from viability constraints, and an inability to provide 10% of office floorspace as affordable workspace for a peppercorn period of 20 years as per the draft Policy B4, where developments possess a high Existing Use Value and involve a small uplift of office floorspace relative to the existing office use floorspace. Therefore, in such cases, the submission and assessment of site-specific financial viability assessments would be necessary for small-scale office schemes which are affected by the aforementioned circumstances in the CAZ and CAZ fringe areas.

6.5 In addition, this viability topic paper update outlines that the provision of 10% office floorspace at a peppercorn rent for a period of 20 years as sought by Draft Policy B4 of the Council's Draft Local Plan, will prove challenging for some smaller office developments and small-scale mixed-use commercial developments outside of the CAZ and CAZ fringe areas. This is largely due to the lower office rental values prevalent in the north of the borough. Therefore, in view of this, site-specific financial viability assessments would be necessary for small-scale office and small-scale office led mixed-use commercial schemes coming forward outside of the CAZ to determine the level of affordable workspace that could be viably provided.

6.6 However, in circumstances where there is a very large uplift in office floorspace, generated through the development of a tall building or substantial new office building, 10% of office floorspace can be viably provided as affordable workspace at a peppercorn rent into perpetuity.

6.7 It is therefore concluded, that in cases where genuine viability constraints exist, the submission of a site-specific financial viability assessment would be required to determine the viable level of affordable workspace which could be provided by the scheme. In some cases, a reduced amount of floorspace at a reduced peppercorn period, or a financial contribution towards offsite affordable workspace may be viable. The consideration of a site-specific financial viability assessment can assist in establishing the planning balance as part of the wider decision-making process.

7 Appendicies

7.1 Adopted Input Assumptions

7.2 Benchmark Land Value Calculations

7.3 Typology Scheme Timings

7.4 Typology GIA/NIA Breakdown

Appendix 1: Adopted Inputs Assumptions

Commercial Rental values and Yield assumptions

The commercial values adopted in the Council's viability topic paper update reflect those adopted in the Draft Local Plan Viability Study (December 2018). The rental values, yields and rent-free periods adopted in respect to retail and office, which now fall within the Class E Use category; and education, art gallery, museum, public library, public exhibition hall and places of worship, which now fall within the F1 Use class category, are outlined in Table 4.12.1 in the Council's Draft Local Plan Viability Study.

Build costs

The Council's viability topic paper update sourced build costs from the RICS Building Cost Information Service (BCIS). The BCIS database provides build cost information based on tenders for actual schemes. The base build costs adopted by the Council reflect the type of development, storey height and use of the property.

Build Type	Base Build Cost Per Square Metre
Offices 3-5 Storeys (Mean) New Build	£2,348
Offices 6 Storeys and above (Mean) New Build	£2,854
Office Generally Refurbishment (Mean)	£1,698
Shops Generally New Build (Mean)	£1,913
Shops Generally Refurbishment (Mean)	£1,578

The Council adopted the mean average for the base build cost and in line the approach taken in the Council's Draft Local Plan Viability Study (December 2018) increased base costs by 15% to account for external works and by 2% to allow for the extra-over costs of achieving BREEAM 'excellent' standard.

Contingency

The Council's viability topic paper update adopted a build cost contingency of 5% in line with the Council's Draft Local Plan Viability Study (December 2018) (Appendix 4).

MCIL2, LBI CIL and S106 Contributions

The Council's viability topic paper update adopted the Council's current CIL charging schedule which took effect on 1 September 2014 and included the relevant indexation of 333 which was included at the time of undertaking of the topic paper. In addition, the Council's viability topic paper update adopted the Mayoral CIL rates set out in the MCIL2 charging schedule which took effect on 1 April 2019.

Professional fees

The Council's viability topic paper update adopted a professional fees allowance of 10% of construction costs, in line with the Council's Draft Local Plan Viability Study (December 2018) [see Para 4.20].

Marketing, letting and disposal fees

The Council's viability topic paper update adopts an allowance of 1.5% of GDV for the marketing of the commercial developments, 10% of annual rental income for the letting agent fees and 5% of annual rental income for the letting legal fees, which are in line with industry standards. An allowance of 2% of GDV for the sales agent and legal fees, and Purchaser's costs at 6.8% of capitalised commercial value have also been included in the appraisals.

Finance Cost

In line with the Council's Draft Local Plan Viability Study (December 2018) [see Para 4.21], it was assumed that development finance could be obtained at an interest rate of 6% inclusive of arrangement and exit fees.

Timescales

See Appendix 3.

Profit

In regards to the developer's profit assumption, the Council's viability topic paper update adopted a developer profit of 15% of Gross Development Value for the commercial development typologies in line with the developer profit assumption the Council's Draft Local Plan Viability Study (December 2018) [see Para 2.20].

Benchmark Land Value

In line with the approach taken in the Council's Draft Local Plan Viability Study (December 2018), in order to establish the Benchmark Land Values for the development typologies, the Council reviewed the relevant VOA Rateable Value data published for each site to come to a view of the likely existing use value for each site adopted within the study. In line with the approach taken in the Council's Draft Local Plan Viability Study (December 2018), the Council adopted a premium of 20% above EUV to establish the Benchmark Land Values adopted. Further information is provided in Appendix 2.

Appendix 2: Benchmark Land Value Calculations

Site	Rent Per Annum	Yield	Purchasers Costs	Existing Use Value	EUV Uplift	Benchmark Land Value
Site A	£515,000	6.00%	6.80%	£7,999,667	20%	£9,599,600
Site B	£24,000	6.00%	6.80%	£372,800	20%	£447,360
Site C	£21,194	7.00%	6.80%	£282,183	20%	£338,620
Site D	£402,694	5.25%	6.80%	£7,148,777	20%	£8,578,533
Site E	£412,683	5.25%	6.80%	£7,326,106	20%	£8,791,327
Site F	£156,526	7.00%	6.80%	£2,084,032	20%	£2,500,838
Site G	£372,500	5.25%	6.80%	£6,612,762	20%	£7,935,314
Site H	£527,676	5.25%	6.80%	£9,367,505	20%	£11,241,006
Site I	£687,750	5.25%	6.80%	£12,209,200	20%	£14,651,040
Site J	£5,008,650	5.25%	6.80%	£88,915,463	20%	£106,698,555
Site K	/	/	/	£70,000,000	20%	£84,000,000
Site L	£199,559	6.00%	6.80%	£3,099,820	20%	£3,719,783
Site M	£10,000	6.00%	6.80%	£155,333	20%	£186,400
Site N	£143,925	5.25%	6.80%	£2,555,011	20%	£3,066,014

Appendix 3: Typology Scheme Timings

Site	Lead in Period	Construction Period	Sale Period	Total Scheme Timings
Site A	6	24	1	31
Site B	6	24	1	31
Site C	6	24	1	31
Site D	6	24	1	31
Site E	6	24	1	31
Site F	6	24	1	31
Site G	6	24	1	31
Site H	6	24	1	31
Site I	6	24	1	31
Site J	6	42	1	49
Site K	6	42	1	49
Site L	6	24	1	31
Site M	6	24	1	31
Site N	6	24	1	31

Appendix 4: Typology GIA/NIA Breakdown

	Proposed Class E (Office) GIA (sqm)	Proposed Class E (Office) NIA (sqm)	Proposed Class E (Retail) GIA (sqm)	Proposed Class E (Retail) NIA (sqm)	Proposed Class F1 GIA (sqm)	Proposed Class F1 NIA (sqm)
Site A	6500	5200	0	0	0	0
Site B	3956	3165	94	75	0	0
Site C	1196	957	0	0	0	0
Site D	3020	2416	0	0	0	0
Site E	2340	1872	0	0	0	0
Site F	3282	2626	0	0	0	0
Site G	3592	2874	0	0	0	0
Site H	2984	2387	0	0	0	0
Site I	4543	3634	366	293	0	0
Site J	63520	50816	1222	978	0	0
Site K	62408	44204	964	771	516	413
Site L	1732	1386	600	480	0	0
Site M	2000	1600	300	240	0	0
Site N	2722	2178	50	40	0	0