

FINANCIAL VIABILITY ASSESSMENT



**81 LONDON STREET
READING
RG1 4QA**

PLANNING REFERENCE: TBA

PREPARED FOR: BINYOMIN LIPSCHITZ

DATE: JUNE 2024

1. Introduction

The information contained within this report is believed to be correct as at 17 June 2024 but affordable housing 106 give notice that:

all statements contained within this report are made without acceptance of any liability in negligence or otherwise by affordable housing 106.

the information contained in this report has not been independently verified by affordable housing 106;

none of the statements contained within this report are to be relied upon as statements or representations of fact or warranty whatsoever without referring to affordable housing 106 in the first instance and taking appropriate legal advice;

references to national and local government legislation and regulations should be verified with affordable housing 106 and legal opinion sought as appropriate;

affordable housing 106 does not accept any liability, nor should any of the statements or representations be relied upon, in respect of intending lenders or otherwise providing or raising finance to which this report as a whole or in part may be referred to;

any estimates of values or similar, other than specifically referred to otherwise, are subject to and for the purposes of discussion and are therefore only draft and excluded from the provisions of the RICS Valuation - Professional Standards (January 2020).

We confirm that no known conflict of interest exists between AH106 and Reading Borough Council (RBC).

We confirm our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

2. Background

The application site comprises a mid terrace 3 storey building let to multiple tenants for commercial use.

Binyomin Lipschitz (the “applicant”) is submitting a planning application on the application site for:

“The Change of Use of the third floor from office space to residential; the creation of two flats and the removal of existing modern partitions and the addition of new partitions”.

affordable housing 106 is retained by the applicant to carry out a Financial Viability Assessment (FVA) for the planning application.

The purpose of this FVA is to determine what level of affordable housing contribution can be reasonably and viably provided within the development proposals, this accords with National, Regional and Local affordable housing planning policy and guidance.

3. Planning Policy

The most relevant affordable housing planning policies and guidance are noted as follows:

3.1 National Planning Policy

- The National Planning Policy Framework (NPPF)

The NPPF sets out the relevant Government's planning policies for England and how these are expected to be applied.

NPPF Paragraph 2 states:

Planning law requires that applications for planning permission be determined in accordance with the development plan, unless material considerations indicate otherwise.

The National Planning Policy Framework must be taken into account in preparing the development plan and is a material consideration in planning decisions. Planning policies and decisions must also reflect relevant international obligations and statutory requirements

Underline and bold my emphasis.

The requirement to provide affordable housing is a planning obligation.

NPPF Paragraph 57 states:

Planning obligations must only be sought where they meet all of the following tests:

- (a) necessary to make the development acceptable in planning terms;
- (b) directly related to the development; and
- (c) fairly and reasonably related in scale and kind to the development

Underline my emphasis.

The tests are set out in regulation 122(2) of the Community Infrastructure Levy Regulations 2010.

NPPF Paragraph 58 states:

Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force

All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

Underline my emphasis.

This FVA follows the recommended approach of viability assessments required by National, Regional and Local planning policy and guidance, including standardised inputs.

At the heart of the NPPF is a presumption in favour of sustainable development.

With regard to making effective use of land, NPPF Paragraph 123 states:

Planning policies and decisions should promote an effective use of land in meeting the need for homes and other uses, while safeguarding and improving the environment and ensuring safe and healthy living conditions. Strategic policies should set out a clear strategy for accommodating objectively assessed needs, in a way that makes as much use as possible of previously-developed or 'brownfield' land

Underline my emphasis.

- **Planning Practice Guidance (PPG)**

The PPG is a web-based resource which indicates the Secretary of State's views. It is managed by the Department for Levelling Up, Housing and Communities (DLUHC).

Paragraph 010 of the PPG relating to Planning obligations states:

Are planning obligations negotiable?

Yes. Plans should set out the contributions expected from development towards infrastructure and affordable housing.

Where up to date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. Planning obligations can provide flexibility in ensuring planning permission responds to site and scheme specific circumstances.

Where planning obligations are negotiated on the grounds of viability it is up to the applicant to demonstrate whether particular circumstances justify the need for viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker.

Underline my emphasis.

Paragraph 007 of the PPG relating to Viability states:

Should viability be assessed in decision-taking?

Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.

Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.

Underline my emphasis.

3.2 Local Planning Policy

- Reading Borough Council Local Plan (November 2019)

The Local Plan states:

H3: AFFORDABLE HOUSING

Residential development will make appropriate contribution towards affordable housing to meet the needs of Reading

- *on sites of 10 or more dwellings, 30% of the total dwellings will be in the form of affordable housing;*
- *on sites of 5 – 9 dwellings, a financial contribution will be made that will enable the equivalent of 20% of the housing to be provided as affordable housing elsewhere in the Borough; and*
- *on sites of 1 – 4 dwellings, a financial contribution will be made that will enable the equivalent of 10% of the housing to be provided as affordable housing elsewhere in the Borough.*

For sites of 10 or more dwellings, provision should be made on site in the first instance with a financial contribution being negotiated to make up the full requirement as appropriate.

In all cases where proposals fall short of the policy target as a result of viability considerations, an open-book approach will be taken and the onus will be on the developer/landowner to clearly demonstrate the circumstances justifying a lower affordable housing contribution.

In determining residential applications the Council will assess the site size, suitability and type of units to be delivered in relation to the current evidence of identified needs. The Council will seek an appropriate tenure mix of affordable housing to include social rented,

affordable rent, intermediate rent and shared ownership affordable units. The affordable units provided should be integrated into the development.

Priority needs are currently for housing with two or more bedrooms that can house families. The Council will regularly monitor and review the need for, and delivery of, affordable housing.

The following types of residential development will be exempt from the requirement to provide affordable housing:

- *Replacement of a single dwelling with another single dwelling; and*
- *Conversion of a dwelling to self-contained flats where there is no new floorspace.*

Underline my emphasis.

- **Reading Borough Council Local Plan viability evidence**

The Local Plan viability evidence which informs the Local Plan is the Affordable Housing Viability Testing Report (AHVTR), carried out by BPS in March 2018

The application site is a “windfall” site.

The AHVTR did not test the viability of this particular site.

We note that there are significant differences between a number of current viability appraisal inputs and those adopted in 2018.

Since the AHVTR in 2018, BCIS All in TPI indicate build costs have increased by 20%, the Bank of England base interest rate has risen from 0.5% to the current 5.25%, and the LIBOR 3-month lending rate has increased from 0.57944% to a SONIA 3 – month compounded rate of 5.22942% (12 June 2024).

LIBOR rates have been replaced by the reporting of Sterling Overnight Index Average (SONIA) risk free rates, which is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

It is clear that the economy and housing market, and the assumptions adopted in the AHVTRs have changed significantly since 2018.

Planning policy and guidance at all levels, reinforced in planning appeal decisions, advocates that local planning authorities should be flexible in their requirements when considering the scale of planning obligations and policy burdens and that these can be assessed and determined by carrying out a site-specific Financial Viability Assessment of the application scheme.

4. Financial Viability Assessment

4.1 Introduction

Paragraph 010 of the PPG on Viability states:

Standardised inputs to viability assessment

What are the principles for carrying out a viability assessment?

Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.

Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available.

Underline my emphasis.

This FVA reports the key elements of a viability assessment, including the gross development value, costs, land value, landowner premium, and developer return.

4.2 Executive Summary

Paragraph 010 of the PPG on Viability states:

Practitioners should ensure that the findings of a viability assessment are presented clearly. An executive summary should be used to set out key findings of a viability assessment in a clear way.

This FVA demonstrates that it is not viable for the scheme to provide any affordable housing contribution as the Residual Land Value (RLV) of the proposed scheme is lower than the Benchmark Land Value (BLV) with and without any affordable housing contribution.

We have evidenced the viability inputs and assumptions used in this FVA to establish whether it is viable or not for the scheme to provide an affordable housing contribution. These inputs/assumptions have been compared to the AHVTR where possible.

The Development Appraisal Inputs adopted in this FVA are:

Appraisal Input	AH106 (June 2024)	Reading AHVTR (March 2018)	Notes
Existing Use Value (EUV)	£314,875	Not stated	Offices.
Premium	10%	Not stated	PPG/GLA
Alternative Use Value (AUV)	N/A	Not stated	N/A
Benchmark Land Value (BLV)	£346,363	Not stated	PPG/GLA/LBM EUV + Premium.
SDLT	SDLT	Not stated	
Scheme Surplus/deficit	Deficit £346,363	Varies	See Appendix 2
GDV Sales	£700,0000	£361,250 (3b flat)	
Build Cost	£424,957	New build rates only	No differentiation for scale, type etc BCIS TPI Q2 2018 – 326 BCIS TPI Q2 2024 – 392 Increase @ 20%
Contingency	10% of Works	5% of Works	
Professional Fees	12% of Works + Fees	10% of Works	
CIL	Nil	No allowance	
S106 Contributions	N/A	N/A	
Sales and Marketing Fees	Total 2.5%	Total 3%	
Legal Fees (Sales)	£2,000/unit	0.5% of GDV	Minimum
Finance	10%	6.57%	BOE Base Rate: 2018 – 0.5% (March) 2024 – 5.25% (June) Libor 3m rate 2018– 0.57944% (February) SONIA 2024 – 5.22942% (June)
Target Developer Profit (Private Sale)	20% of GDV	20% of GDV	

4.3 Definition of Viability

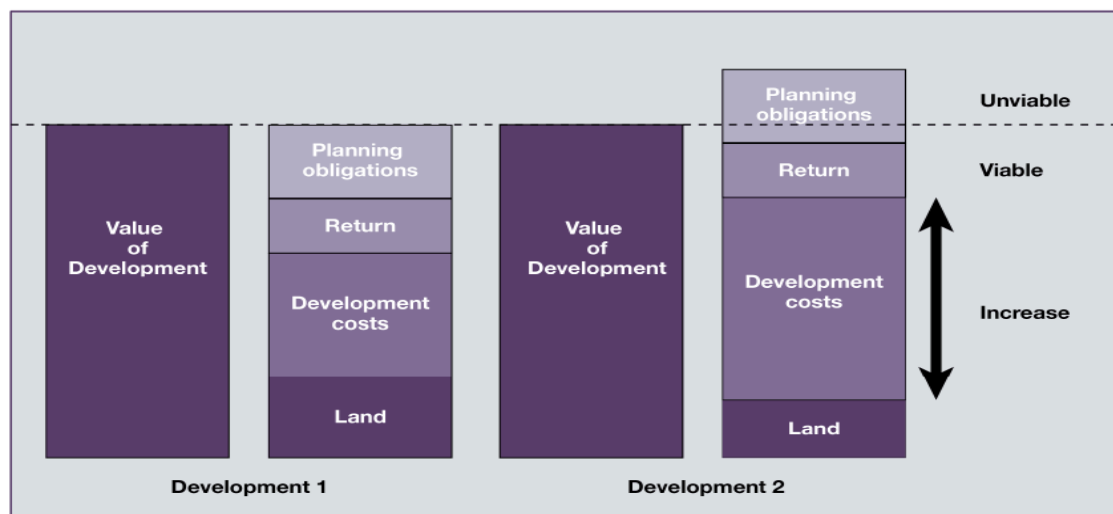
RICS professional Guidance Note “Assessing viability in planning under the National Planning Policy Framework 2019 for England” (March 2021) defines Viability in decision making as:

“The process of assessing viability at the decision-taking stage by looking at whether the value generated by a development is more than the cost of developing it (PPG paragraph 010)”

Underline my emphasis.

Although the RICS Financial Viability in Planning (2012) has now been superseded by RICS professional Guidance Note “Assessing viability in planning under the National Planning Policy Framework 2019 for England” (March 2021), Figure 2 – Comparative development viability in FVIP (2012) shows the difference between a viable and a non-viable development scheme.

Figure 2



Paragraph 2.1.1 of FVIP states:

As can be seen, the development economics of Scenario 1 is such that policy can be met in delivering all planning obligations while meeting a Site Value for the land, all other development costs and a market risk adjusted return for the development. In this case it is unlikely a financial viability assessment would be required. Under Scenario 2, costs have increased, while development values have remained static. In arriving at Site Value, the development return, and the ability to meet the planning obligations, a financial viability assessment would be required to objectively resolve what could viably deliver the development while meeting the viability definition

Underline my emphasis.

4.4 Methodology

This FVA has been compiled giving full consideration to the NPPF, National Planning Guidance, Regional and Local planning policies.

In particular, this FVA complies with RICS professional Guidance Note “Assessing viability in planning under the National Planning Policy Framework 2019 for England” (March 2021) which states:

“This and other RICS guidance notes are intended to assist practitioners in applying the government’s required approach and should be referenced as appropriate.”

The financial viability of a development can be assessed in principle by producing a Development Appraisal (DA) and associated Discounted Cash Flow (DCF) noting the income and expenditure of a particular scheme; we have employed the HCA Development Appraisal Tool (HCA DAT) to model this.

In undertaking this viability assessment, we have disregarded the nature of the applicant, and assessed values on a current day basis.

4.5 Site

4.5.1 Site Location/Description

The subject site is a Grade ii listed building and comprises a 3 storey mid terrace property in multiple commercial use arranged over 4 floors, and let to a number of different occupiers/users, with surface car parking to the rear.

The ground floor is in retail use and the upper floors are in office use.

The application scheme comprises ground floor bike/refuse storage and communal stairwells to a third floor office which is currently vacant.

The site is bordered to the north and south and opposite (west) by similar 3 storey commercial properties, and to the east by East Street and Kendrick School.

Reading’s central shopping/retail area (Broad Street Mall) is located approximately 550 m to the north west, and Reading main line railway station is located approximately 800 m to the north west.

Junction 11 of the M4 motorway running from west London to south Wales.

4.6 Development Proposal

The development proposes the conversion of an existing office within an existing building, and the provision of bike storage and waste storage.

The completed development will comprise:

Unit	M ² GIA (Ave)	Ft ² GIA (Ave)
2 x 3b Flats	103.23	1,111

Other

- External works/landscaping
- Bike/refuse storage

Total Area - 234 m² (2,519 ft²) GIA (Advised by agent)

A site location plan and existing/proposed development plans are attached – Appendix 1.

4.7 Appraisal Inputs

The inputs are recorded in the HCA DAT, a development appraisal toolkit used by Homes England, and accepted by Local Planning Authorities and the Planning Inspectorate.

The Development Appraisal shows the surplus/deficit for the private sale scheme with nil affordable housing contribution.

The Development Appraisal computes a deficit of 217,000 - Appendix 2.

4.7.1 Development Programme

We have assumed the following timetable:

June 2024	-	Planning application submission
October 2024	-	Planning consent
November 2024	-	Acquisition
November – December 2024	-	Issue tenders
January 2025	-	Select building contractor
February 2025	-	Prepare contract documents/negotiations/lead in
March 2025	-	Start on site
August 2025	-	Site practical completion
December 2025	-	Final Sales

We have adopted a building contract period of 6 months (26 weeks) and benchmarked this against the BCIS duration calculator for a conversion scheme in the Reading Council administrative area of similar value.

The contract period of 26 weeks falls within the BCIS 90% prediction interval for individual projects - Appendix 3.

4.7.2 Income

i) Private Residential Unit (2) - £700,000

We have visited site; reviewed property web sites including right move, Prime Location and On The Market, and discussed the site with a number of local active estate agents.

There are very limited 3b flat comparable sales evidence within 1/4 mile of the application site, in particular there are none that are located in mixed use developments over commercial premises, therefore we have considered sales transactions and marketing evidence for houses as well – Appendix 4.

The comparable evidence for the proposed 3b flats range in value from £350,000 to £462,000 with asking/sales rates from £291/ft² to £416/ft².

In our opinion, the best comparable evidence is 2 Dartmouth Terrace, a purpose built 3b flat @ 97.0 m² (1,044 ft²) GIA, which sold in September 2023 for £355,555, representing a sales value of £341/ft². This comparable is superior to the proposed 3b flats as it is not located in a mixed use development, and it benefits from parking.

Taking all the comparable evidence available to us, and making allowances and adjustments for asking/sold prices, age, location, parking, amenities, competition from other properties etc, we consider the proposed sales values for the application scheme to be as follows:

Unit	M ² GIA (Ave)	Ft ² GIA (Ave)	OMV (Ave)	Sale Value (Ft ²) (Ave)
3b Flat	103.2	1,111	£350,000	£315

4.7.3 Expenditure

i) Benchmark Land Value - £346,363

Paragraph 13 of Planning Guidance – Viability states:

How should land value be defined for the purpose of viability assessment?

To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner.

The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.

Underline my emphasis.

Paragraph 017 of Planning Guidance – Viability states:

“Can alternative uses be used in establishing benchmark land value?”

For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up-to-date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.

Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up-to-date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted”.

Underline my emphasis

To establish the BLV, we have considered the EUV and AUV of the site.

We have valued the EUV as £314,875 and added a premium of 10% @ £31,488.

The BLV is therefore EUV “plus” i.e. £346,363

ii) Existing Use Value (EUV) – £314,875 (Gross)

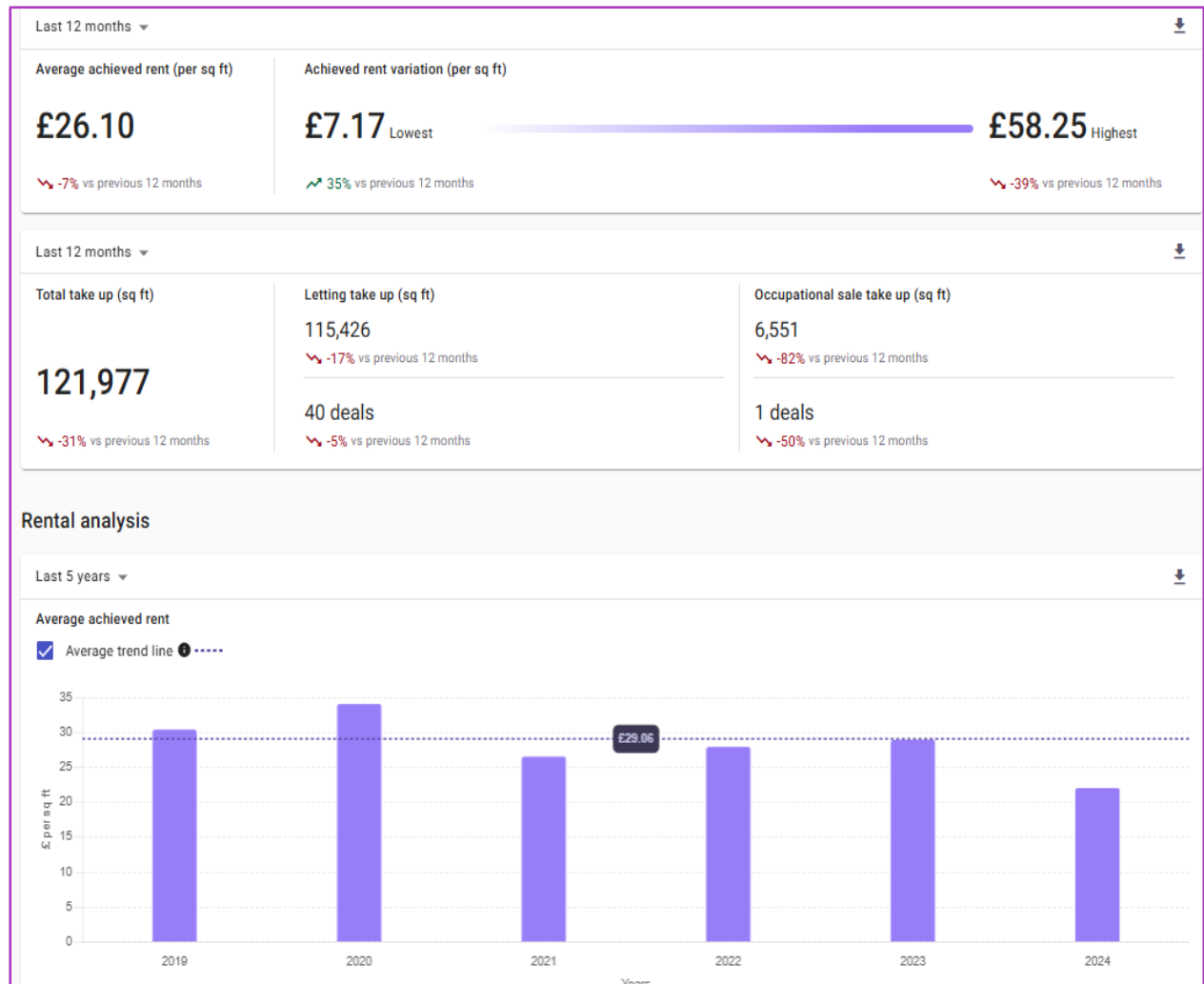
The existing area comprises 1 vacant office unit on the third floor @ 234 m² (2,519 ft²) GIA

The unit benefits from Class E planning use class which contains a wide variety of uses relating to commercial, business and service.

We have reviewed comparable evidence from the Estates Gazette EG Radius database and local commercial agent websites.

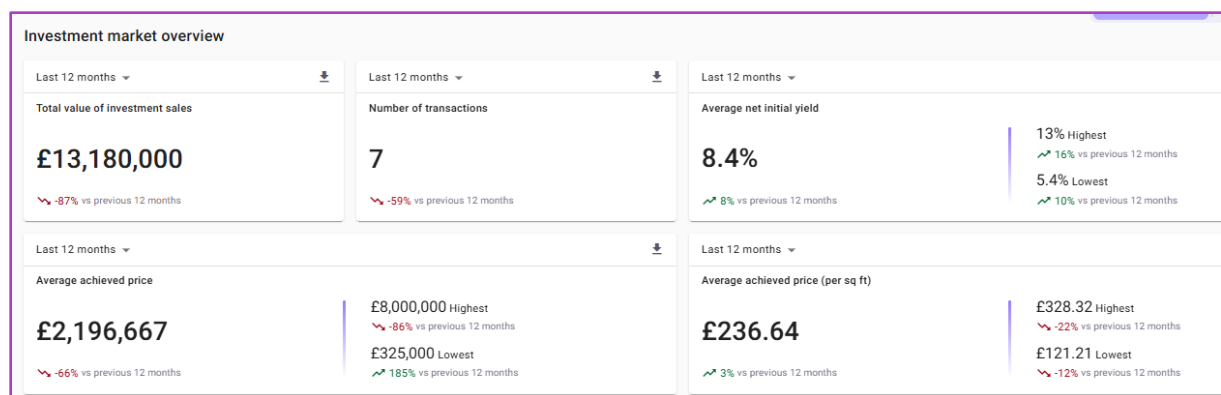
Analytics from the EG Radius database for office occupational and the investment market in the post code of RG1 4QA + 1/4 mile indicates rents in the last 12 months ranged from £7.17 - £58.25/ft², with an average rent of £26.10/ft² in the last 12 months and an average rent of £29.06/ft² over the last 5 years.

A screen shot of the analytics is noted below:



The average investment net initial yield in the last 12 months was 8.4% at an average capital value of 3236.64/ft².

A screen shot of the analytics is noted below:



Commercial Capital Values/Yield Comparables

We note offices at 90 London Street @ 2,900 ft² and let at £23,000 pax (Rent @ £7.93/ft²), sold in December 2022 for £401,000 representing a NIY of 5.51%.

We note offices at 92 London Street @ 3,315 ft² and let at £20,000 pax (Rent @ £6.03/ft²), sold in December 2022 for £331,000 representing a NIY of 5.83%.

Letting/Rent Comparables

We note a 2nd floor office at 118 London Street @ 1,668 ft² (IPMS3) was let in November 2023 @ £27,500 per annum FRI. This would equate to £16.49/ft². The property benefits from air conditioning and 2 parking spaces.

Market Value

The existing commercial property can be let for a variety of uses within the same planning use class E, therefore it is difficult to assess the Market Value unless it is marketed on the open market.

The existing plans/layout are indicative.

We are advised the existing 3rd floor office units has a GIA of @ 234 m² (2,519 ft²).

Based on the comparable evidence available to us and taking into account the location of the property, we have calculated the capital value of the proposed commercial unit by averaging a cautious rent of £10/ft² over the whole GIA of 2,519 ft². This computes an indicative rent of £25,190 pax

We have allowed for conventional letting agent/legal fees of 15% of annual rent and sales fees of agent/legal of 1.5% of the sale price. We have made no specific allowance for voids and have assume this is incorporated within a GIY of 8%.

We therefore assess the Existing Use Value for the commercial unit as £314,875 (Gross).

iii) Premium - £31,488

Paragraph 014 of the PPG relating to Viability states the Benchmark Land Value should allow for a premium to landowners.

Incentives for landowners to bring sites forward will vary depending on a number of factors including comparison with other options available for the landowner, the demand for the existing use and the demand for the proposed alternative uses, and the potential to increase the existing use land value.

Paragraph 016 of the PPG relating to Viability notes:

How should the premium to the landowner be defined for viability assessment?

The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner.

The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration.

Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners.

Policy compliance means that the development complies fully with up-to-date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

Underline my emphasis.

The Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance 2017 states:

"Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/costs, a lower or no premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary".

There is a strong demand for development sites in Reading, which has seen a significant number of planning applications and residential redevelopments in recent years.

One way of looking at incentives is to consider what amount of money would it take to encourage the current landowners to find an alternative property on a like for like basis in the same location.

To incentivise the existing landowner, the developer would need to allow for a change in land values over the period of the Option Agreement (normally 1 year) and to cover the possibility and risk of taking the property off the market for a year, and then there being no sale as planning consent has not been secured.

On top of "costs/changing values" it would be reasonable for the owner to require a minimum 10% profit return on the EUV to act as an incentive.

A willing landowner would therefore expect to secure a 10% - 50% incentive return above the current land use value in return for the sale of the site to a developer.

We have adopted a premium of 10%.

iv) **Alternative Use Value – N/A**

There are numerous permutations and combinations for Alternative Use schemes on the application site which would generate an Alternative Use Value (AUV). We have not considered these at the present time as the application scheme existing use value plus incentive generates a scheme deficit.

For the purposes of this FVA, we have therefore not calculated an AUV but reserve the right to do so.

v) **Stamp Duty**

We have assumed an SDLT rate of 4%.

vi) **Legal Fees (Acquisition)**

0.75% of acquisition

vii) **Works – £424,957**

The works are being carried in a building which is part occupied, with shared stairwells/entrances.

We have carried out a BCIS Order of costs to estimate the residential build costs for the project using the BCIS median rate of £1,576/m² for general flat conversions rebased to Reading.

We have assumed this rate as minor works are being carried out on the ground floor and the third floor, and not the other floors.

We have multiplied the median rate of £1,576/m² by the works GIA of 234 m² to compute a base build cost of £365,180.

As the BCIS rates do not include external works/services costs, we have added an additional 15% of base costs to cover these works.

We have also made an allowance for site clearance/preparation costs of £5,000.

We therefore estimate the works costs to be £424,957 – Appendix 5.

viii) Professional Fees – £56,094

12% of works and contingency are standard assumptions for conversion schemes.

Our appraisals take account of professional fees and on costs that are likely to be incurred as part of the development process.

We have applied a professional fees allowance of 12% of build cost within our appraisals reflecting the scale and complexity of the proposals, given the proposed work and the occupied property, shared entrances/access.

ix) Contingency – £42,496

We consider that a contingency of 10% of construction costs would be required on this project. This reflects the current level and detail of information/design to date and the scale and complexity of the proposals.

x) S106/CIL Contributions - Nil

The application scheme creates no additional floor area. The building as a whole is currently occupied, therefore there will be no CIL liability created by the proposed development.

We have made no allowance for financial contributions for any S106 planning obligations, however the FVA can be reviewed/updated after the Council has assessed the planning application and advised of the planning obligations (if any) that it seeks.

Planning contributions must be considered on a site by site and scheme proposal basis and meet the tests set out in regulation 122 and 123 of the Community Infrastructure Levy Regulations 2010 as amended.

The 3 tests are:

1. necessary to make the development acceptable in planning terms
2. directly related to the development; and
3. fairly and reasonably related in scale and kind to the development.

xi) Sales & Marketing – £17,500

We have assumed 2.5% of GDV.

The disposal fees have been based upon industry standards. Provision to furnish and “stage” the properties will be required.

We have assumed a 4-month sales period from practical completion based on our discussions with local selling agents, including NEA and Winkworth.

In June 2024 Savills published its UK Housing Market Update, which is headlined with:

“Modest house price growth shows market resilience as activity continues to recover”.

The update states Nationwide reporting a total change in UK house prices of plus 1.3% in May year on year, with house prices in the South East of England falling by 1% during the same period – Appendix 6.

The ONS reported a fall of 1.3% in the South East of England up to March 2024, year on year.

The update also states the Savills annual property forecasts for the housing market from May 2024 onwards. This assumes rising prices for mainstream properties in the South East of England @1%, with small rises thereafter.

xii) **Legal Fees (Sales) – £4,000**

£2,000 + VAT/unit

xiii) **Interest - £62,885**

In considering the appropriate level of finance and interest costs we have considered the HCA EAT, RICS GN and market practice.

HCA EAT recognises that finance costs would include an arrangement fee payable to a bank for arranging finance for the scheme, interest payable on the loan typically around 3-5% above 3-month LIBOR rate and miscellaneous fees such as monitoring surveyors.

RICS GN confirms that, as most appraisals assume 100% financing, it is usual for the interest rate to reflect the total cost of finance and funding of a property, i.e., the combination of both equity and debt in applying a single rate.

HCA DAT identifies that finance costs for a development scheme would typically include the following key elements:

- a. Arrangement Fee - This will vary depending on the type of lender, the borrower risk profile and the scheme risk profile.
- b. Interest on the loan - This represents the bank's margin over its costs of borrowing and the cost of holding capital under the Basel III banking code.

Funding packages are therefore unique reflecting as they do not only the risks associated with the particular scheme but also the experience of the borrower and the extent of equity being provided by the borrower.

A well-funded and experienced developer should therefore be able to secure a more advantageous finance package than a less experienced more poorly funded borrower. RICS GN reflects the market approach to the calculation of finance costs by disregarding the nature of the applicant.

In the AHVTR (2018), the adopted finance rate was 6.57%.

Since then, the Bank of England base interest rate has increased from 0.5% to 5.25%, an increase of 4.75%. Interest rates are expected to remain at this level in the short/medium term.

Libor 3-month rates have increased from 0.57944% to 5.22942% (SONIA 12/6/24), an increase of 4.64998%.

Lenders are currently charging up to 5% above LIBOR/SONIA, with minimum rates of 9-10%.

There are also arrangement fees (1%-3%), monitoring fees (2%-5%) and exit fees (1%).

It is clear from loan facilities from companies such as Close Brothers, that lenders are currently charging 5% above LIBOR, plus fees.

Screenshots from a recent Close Brothers agreement confirms such:

5. Interest

Interest will accrue daily on the total balance outstanding on your Loan Account at the rate of 5% (the "Margin") per annum above the Bank of England Base Rate (the "Base Rate"). Such rate shall be re-fixed in line with increases and decreases in the Base Rate.

Notwithstanding the above, but subject to the provisions of clause 6. below, the minimum effective rate of interest payable to us shall be 6% per annum.

7. Fees

- a) A non-refundable commitment fee of £55,510 is payable on your acceptance of this Facility Letter. You must remit £5,000 of this fee on acceptance and the balance of £50,510 on first drawdown of the Facility, or upon legal completion of the security, whichever is the earlier.
- b) A release fee of 1.25%, calculated on the full amount of the Facility, will be payable by you (and which we may debit to your Loan Account) upon the sale or letting of the Property or upon the repayment in full or expiry of the Facility, or if, at any time, the Facility goes into default or is called in by us whichever shall first occur, subject to a minimum release fee of £69,387.

An interest rate of 10% (including fees) is therefore reasonable given the current residential market/UK economy

xiv) Profit

Paragraph 018 of the PPG relating to Viability notes:

How should a return to developers be defined for the purpose of viability assessment?

Potential risk is accounted for in the assumed return for developers at the plan making stage.

It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.

For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies.

Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.

Underline my emphasis

The profit range noted in the PGG has not been updated since 2019, and therefore it does not reflect the increased risks of the current market conditions and the loan requirements of lenders.

For redevelopment projects developer's profit margins are typically 20% of Gross Development Value (GDV).

Paragraph 004 of the PPG on Planning obligations states:

Where should policy on seeking planning obligations be set out?

Policies for planning obligations should be set out in plans and examined in public. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land.

Underline my emphasis.

In the current economic climate, lenders and developers are requiring significant returns on their investment in respect of housing development due to the broader market risks associated with the construction market, as well as residential sales.

In January 2021, the United Kingdom (UK) left the European Union (EU), a decision known as "Brexit".

It is not known what the medium to long term effect of Brexit will be until it has bedded in, however there will be immediate disruptions/risks whilst the UK/EU and other trade deals are put into practice.

Russia is currently at war with Ukraine, which has resulted in UK and global inflation, rising prices and shortfalls in goods and materials.

Tension in the Middle East is rising due to armed conflict in Israel and surrounding areas such as Lebanon, Syria and Iran. Anti-Israel sentiment is resulting in disruption the passage of shipping goods/materials in the Red Sea/Suez Canal area. This could significantly increase supply times and costs.

This application is being progressed and potentially completed during this period of uncertainty and these risks must be accounted for.

Market analysts and economists vary on their opinions and forecasts as to what is going to happen in the future, but all are agreed that there is great uncertainty.

At the 8 May 2024 MPC meeting, the Bank of England maintained the base interest rate at 5.25%.

The MPC minutes state:

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 8 May 2024, the MPC voted by a majority of 7–2 to maintain Bank Rate at 5.25%. Two members preferred to reduce Bank Rate by 0.25 percentage points, to 5%.

And

Following modest weakness last year, UK GDP is expected to have risen by 0.4% in 2024 Q1 and to grow by 0.2% in Q2. Despite picking up during the forecast period, demand growth is expected to remain weaker than potential supply growth throughout most of that period. A margin of economic slack is projected to emerge during 2024 and 2025 and to remain thereafter, in part reflecting the continued restrictive stance of monetary policy.

Underline my emphasis.

The fiscal measures in Spring Budget 2024 are likely to increase the level of GDP by around ¼% over coming years. As the measures will probably also boost potential supply to some extent, the implications for the output gap, and hence inflationary pressures in the economy, are likely to be smaller

Underline my emphasis.

And

Twelve-month CPI inflation fell to 3.2% in March from 3.4% in February. CPI inflation is expected to return to close to the 2% target in the near term, but to increase slightly in the second half of this year, to around 2½%, owing to the unwinding of energy-related base effects. There continue to be upside risks to the near-term inflation outlook from geopolitical factors, although developments in the Middle East have had a limited impact on oil prices so far.

Underline my emphasis.

And

At this meeting, the Committee voted to maintain Bank Rate at 5.25%. Headline CPI inflation has continued to fall back, in part owing to base effects and external effects from goods prices. The restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures. Key indicators of inflation persistence are moderating broadly as expected, although they remain elevated

And

The Committee discussed the risks around the near-term outlook for consumer spending. House price inflation had held up by more than had been expected, which could suggest upside risks to the outlook for spending. One potential explanation for this would be that higher interest rates had weighed on house prices by less than had been expected. Set against that, a modest expected rise in unemployment could pose downside risks to consumption, for example if those households not directly affected nevertheless chose to save more for precautionary reasons

Development risk factors include a number of variables such as:

- Additional planning reports at planning and planning condition stages which cause delays and increase work and build costs
- Delays to obtaining planning consent
- Delays and additional costs going to appeal
- Delays to pre commencement planning obligations consent
- Risk of no contractor tender returns
- Risk of tender returns higher than budget
- Securing a contractor for the right budget, right quality and agreeing commencement date
- Delays through party wall award negotiations
- Delays caused by restricted working conditions in occupied properties
- Falling house prices
- Interest rates/Libor rates increasing
- Viability assessments based on current values and not permitting inflation allowance in build costs or projected changes in interest rates and sales values

- Build costs increasing @ 3.3% up to Q3 2025 when practical completion occurs. See BCIS TPI forecasts below:

BCIS All-in TPI ?			
Base date: 1985 mean = 100		Updated: Mar-2024	Series number: #101
Recent changes			
Date	Index	Equivalent sample	On year
1Q 2024	390	Provisional	2.9%
2Q 2024	391	Forecast	2.1%
3Q 2024	392	Forecast	1.6%
4Q 2024	394	Forecast	1.5%
1Q 2025	398	Forecast	2.1%
2Q 2025	402	Forecast	2.8%
3Q 2025	404	Forecast	3.1%
4Q 2025	408	Forecast	3.6%

It is reasonable for the developer to consider the AHVTR March 2018 adopted profit rate of 20% and to reflect how the development risks including current interest rates, inflation rates, and economy/housing market have deteriorated significantly since then.

Accordingly, we have factored in a 20% Profit on Gross Development Value allowance to reflect the requirements of bank funding, and to provide a competitive return to the developer for the delivery of the proposed scheme given the current market. The proposed scheme providing nil affordable housing contribution generates a scheme deficit of £370,621 – Appendix 2.

5. Sensitivity Analysis

In June 2024 Savills research published its UK Housing Market Update and Housing Forecasts, which indicated rising mainstream house prices of 4.5% between now and the end of 2025 in the South East of England – Appendix 6.

The RICS BCIS All-in TPI provides an index of building costs. Building costs are predicted to increase from by 3.3% in the next year when the project starts/ends (Q2 2024 – Q3 2025).

We have carried out a basic sensitivity analysis on the 100% private sales scheme with nil affordable housing contribution, by assuming all inputs values remain the same, save build costs increase by 3.3% and sales values increase by 4.5%. This generates a scheme deficit of £364,701 – Appendix 7.

6. Conclusion

This FVA shows that is not viable for the applicant make any financial affordable housing contribution to the Council.

Prepared by:

A handwritten signature in black ink, appearing to read 'M. Smith', with a horizontal line underneath.

Mark Smith

Director

For and on behalf of affordable housing 106

Appendices

Appendix 1	Site location plan, proposed plans
Appendix 2	HCA DAT Model - 2 private sale units. Nil AH
Appendix 3	BCIS contract duration calculator
Appendix 4	Proposed comparables residential sales/availability
Appendix 5	BCIS Order of costs
Appendix 6	Savills UK Housing Market Update June 2024
Appendix 7	Sensitivity Analysis (Works + 3.3%, sales + 4.5%)

Mark Smith BSc
affordable housing 106
33 Granville Road
Sevenoaks
Kent TN13 1EZ

(T) 01732 457699
(M) 0780 1231381
mark@affordablehousing106.com
www.affordablehousing106.com

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