PRIVATE AND CONFIDENTIAL

FINANCIAL VIABILITY ASSESSMENT

4 SCOTS HILL
CROXLEY GREEN
WD3 3AD

PLANNING REFERENCE:	TBA
PREPARED FOR:	MR GRISTWOOD
DATE:	SEPTEMBER 2022

1. Introduction

The information contained within this report is believed to be correct as at September 2022 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 Three Rivers District Council (TRDC).

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 @ 0.01 ha in area, comprises a hard stand parking area and part of the rear garden belonging to an existing ground floor commercial unit and first floor residential flat.

Mr Gristwood (the “applicant”) is submitting a planning application for:

“Construction of two bedroom detached dwelling to rear of 4 Scots Hill accessed via Windmill Drive as approved previously under LPA Ref: 20/1343/FUL with details previously approved under LPA Ref: 21/2224/DIS (Construction Management Plan)”.

A site location plan is attached - Appendix 1.

The planning application replicates lapsed planning consent 18/0970/FUL approved on Appeal on 5 June 2019 and subsequently modified/approved by subsequent planning applications 20/1343/FUL and 21/2224/DIS.

affordable housing 106 is retained by the applicant to carry out a Financial Viability Assessment (FVA) of the proposed redevelopment.

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 124 states:

Planning policies and decisions should support development that makes efficient use of land, taking into account:

a) the identified need for different types of housing and other forms of development, and the availability of land suitable for accommodating it;
b) local market conditions and viability;
c) the availability and capacity of infrastructure and services – both existing and proposed – as well as their potential for further improvement and the scope to promote sustainable travel modes that limit future care use;
d) the desirability of maintaining an area's prevailing character and setting (including residential gardens), or of promoting regeneration and change; and
e) the importance of securing well-designed, attractive and healthy places.

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. <u>Planning obligations can provide flexibility in ensuring planning permission responds to site and scheme specific circumstances.</u>
>
> 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<u>. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.</u>
>
> <u>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</u>; 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

The Three Rivers District Core Strategy (October 2011)

The Core Strategy states:

CP4 Affordable Housing
In order to increase the provision of affordable homes in the District and meet local housing need as informed by the Strategic Housing Market Assessment, the Council will:

a) In view of the identified and pressing need for affordable housing in the District, seek an overall provision of around 45% of all new housing as affordable housing, incorporating a mix of tenures. All new development resulting in a net gain of one or more dwellings will be expected to contribute to the provision of affordable housing

b) As a guide, seek 70% of the affordable housing provided to be social rented and 30% to be intermediate

c) Allocate specific sites, at higher or lower proportions of affordable housing depending on site circumstances, location and density of development. In some cases a target of 50% or above may be appropriate. Site specific targets will be set through the Site Allocations Development Plan Document

d) Require the affordable housing provided to reflect the mix of size and type required for future housing, as identified in the Strategic Housing Market Assessment and subsequent updates and Council priorities for provision which is currently for family sized dwellings to meet the most urgent housing needs in the District

e) In most cases require affordable housing provision to be made on site, but in relation to small sites delivering between one and nine dwellings, consider the use of commuted payments towards provision off site. Such payments will be broadly equivalent in value to on-site provision but may vary depending on site circumstances and viability

f) Permit small-scale affordable housing within and immediately adjacent to the village core areas of Sarratt and Bedmond on the basis of need through the release and allocation of Rural Exception Sites. Allocations will be made through the Site Allocations Development Plan Document.

<u>In assessing affordable housing requirements including the amount, type and tenure mix, the Council will treat each case on its merits, taking into account site circumstances and financial viability</u>. In calculating the percentage of affordable units to be provided as part of a development scheme, the affordable housing requirement will normally be 'rounded up' to the nearest whole number.

Underline my emphasis.

Supporting Paragraph 5.40 states:

The Council will produce further guidance on the provision of affordable housing in the District, in the form of an Affordable Housing Supplementary Planning Document. This will include guidance on the calculation of commuted payments from small sites and the role and use of such funds in the Council's wider housing strategy. It will be regularly updated, taking into account the findings from new research and monitoring information.

Three Rivers Affordable Housing SPD (June 2011)

The SPD sets out a formula for the contribution of a commuted sum in lieu of on site affordable housing on sites delivering 1- 9 units.

The commuted payment calculation will be expressed as a sum per square metre of the gross internal floor area of the market housing proposed, on the assumption that no affordable housing would be provided on site. The sum per square metre varies according to the location of the development. The table below sets out for each market area the sum required per square metre of the gross internal floor area of habitable accommodation of the market housing provided on site.

Oxhey and Watford Fringe £350 per sqm

Rickmansworth South and Maple Cross £550 per sqm

The Langleys and Croxley £750 per sqm

Rickmansworth and Hinterland £950 per sqm

Highest Value Three Rivers £1,250 per sqm

Three Rivers District Council Local Plan viability evidence

The Local Plan viability evidence which informs the Local Plan is the Three Rivers District Council Development Economics Study (TRDCDES), carried out by Three Dragons in February 2009.

The application site is a "windfall" site.

The TRDCDES 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 2009, for example:

The 2009 TRDCDES assumes build costs for flats @ £1,300/m^2. Since the TRDCDES dated 2009, the BCIS All in TPI indicate that build costs have increased by 71.7% (Q3 2009 "216" – Q3 2022 "371").

The TRDCDES makes no allowance for contingency build costs, whereas viability appraisals assume a contingency allowance.

There are no allowances in the TRDCDES for Community Infrastructure Levy contributions.

The TRDCDES adopts a developer's profit return of 15% of gross Development Value. Paragraph 018 of the PPG (2019) relating to Viability states:

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

Present day market conditions/difficulties such as Co-Vid 19, interest rate increases, inflation, product availability and supply delays etc, etc suggest a developer's profit rate of 20% of GDV would be an appropriate return reflecting the current risks/market.

Since the TRDCDES in 2009, BCIS All in TPI indicate build costs have increased by 71.7% and the LIBOR 3-month lending rate has increased from 0.868 (August 2009) to 2.149 (August 2022). The Bank of England base interest rate has risen from 0.5% (2009) to the current 1.75% (August 2022).

It is clear that the economy and housing market, and the assumptions adopted in the TRDCDES have changed significantly since 2009.

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 TRDCDES of 2009 where possible.

The Development Appraisal Inputs adopted in this FVA are:

Appraisal Input	AH106 (September 2022)	Three Rivers Local Plan Viability Study (2009)	Notes
Existing Use Value (EUV)	£100,000 Includes premium	N/A	HPI for detached houses increased from 2019 by 21.1% (from 125.2 to 151.7)
SDLT	SDLT		
Premium	Included	Not stated	PPG/GLA
Alternative Use Value (AUV)	N/A	N/A	N/A
Benchmark Land Value (BLV)	£100,000	Varies	PPG/GLA/LBM EUV + Premium.
Residual Land Value (RLV) Nil AH	Negative £44,822	Varies	See Appendix 3A
GDV Sales	£630,000	Varies	

Build Cost	£424,209 (£4,499/m^2)	Flats £1,300/m^2 includes externals	No differentiation for scale, type etc BCIS TPI Q3 2009 – 216 BCIS TPI Q3 2022 – 371 Increase @ 71.7%
Contingency	5% of Works	No allowance	
Professional Fees	10% of Works + Fees	12% of Works	
CIL	£26,967	No allowance	
S106 Contributions	N/A	N/A	
Sales and Marketing Fees	Total 2.5%	Total 3% (Includes Legal Fees)	
Legal Fees (Sales)	£3,000/unit	Included above	Minimum
Finance	7%	7%	BOE Base Rate: 2009 – 0.50% (August) 2022 – 1.75% (September) Libor 3m rate 2009 – 0.868 (August) 2022 – 2.61 (September)
Target Developer Profit (Private Sale)	20% of GDV	15% 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:

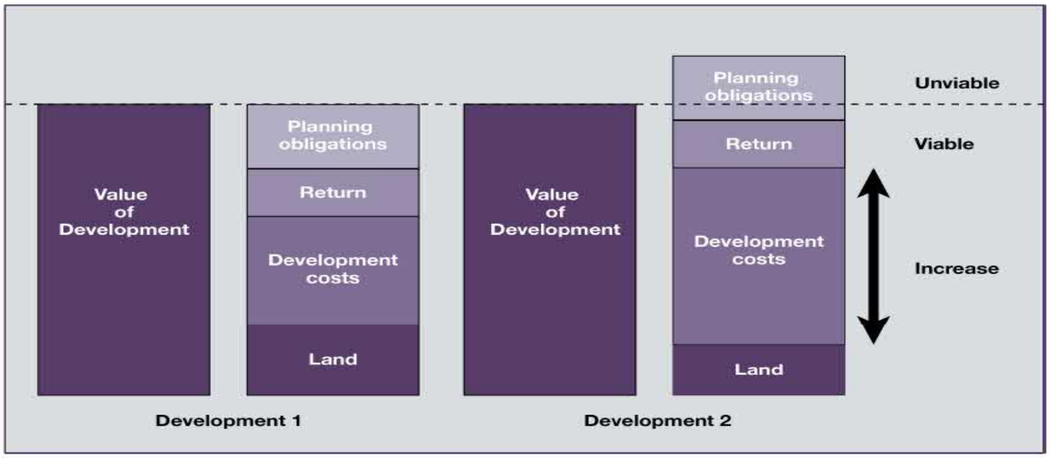
"The process of assessing viability at the decision-taking stage by looking at <u>whether the value generated by a development is more than the cost of developing it</u> (PPG paragraph 010)"

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 situated in the village of Croxley Green within the district of Three Rivers District Council.

The site is approximately 0.01 ha in area and comprises an existing hard stand parking area and part of the rear garden/yard to 4 Scots Hill.

4 Scots Hill is a 2-storey building comprising ground floor commercial unit with first floor residential flat.

The site is bordered to the north by The Sportsman public house, and by commercial premises to the south. The site is bordered to the west by Windmill Drive, which services a mix of commercial and residential premises.

Croxley London underground station (Metropolitan Line) is located approximately 1 km east of the site.

Junction 18 of the M25 London Orbital lies approximately 3 km to the north west of the site.

4.6 Development Proposal

The development proposes:

"Construction of two bedroom detached dwelling to rear of 4 Scots Hill accessed via Windmill Drive as approved previously under LPA Ref: 20/1343/FUL with details previously approved under LPA Ref: 21/2224/DIS (Construction Management Plan)".

<u>New build residential development</u>:

Floor	Unit	No	M^2 GIA	Ft^2 GIA
Ground/First	2b/4p House	1	94.3	1,015
Ground	Garage	1	18.5	199

<u>Other</u>

External works/landscaping

Plans of the existing and proposed development are attached – Appendix 2.

4.7 Appraisal Inputs

The inputs are recorded in the HCA DAT - Appendix 3.

The HCA with nil affordable housing contribution calculates a deficit of £3,526,024.

The residual land value is calculated by the Residual HCA DAT – Appendix 3A.

The HCA with nil affordable housing contribution calculates a Residual Land Value of negative £44,822.

4.7.1 Development Programme

We have assumed the following timetable:

September 2022	-	Planning application submission
November 2023	-	Planning consent
December 2022	-	Acquisition
December 2022	-	Issue tenders
January 2023	-	Select building contractor
February 2023	-	Prepare contract documents/negotiations/lead in
March 2023	-	Start on site
October 2023	-	Site practical completion
January 2024	-	Final Sales

We have adopted a building contract period of 8 months (36 weeks) and benchmarked this against the BCIS duration calculator for a new build one off housing development in the Three Rivers District Council administrative area of similar value.

The contract period of 36 weeks falls within the BCIS 90% prediction interval for individual projects - Appendix 4.

4.7.2 Income

i) Private Residential Units (1) - £630,000

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 no immediate direct new build comparables within 0.5 miles of the application site. There are still no direct new build comparables when the search is extended to 1 mile of the site. Even comparables for existing 2b detached houses are limited.

We have therefore considered sales transactions and marketing evidence for existing +2b houses within 1 mile of the application site– Appendix 5.

The comparable evidence for +2b houses ranges in value from £495,000 to £995,000 with asking/sales rates from £498/ft^2 to £732/ft^2.

In our opinion, the main factor for determining the sales value of the proposed property is the secondary location adjacent to the rear of commercial properties (including a public house) and the outlook/proximity to Windmill Drive.

Of note is an existing 2b mid terrace house in Windmill Drive, which is located approximately 130 metres from the application scheme. The property @ 74.0 m^2 (798 ft^2) GIA benefits from a large rear garden and garage en bloc. The house is currently being marketed at £495,000 and is sold STC. This would represent a sales value of £620/ft^2 if sold for the full asking price.

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	No	M^2 GIA	Ft^2 GIA	Sales Value	£/Ft^2
2b/4p House	1	94.3	1,015	£630,000	£621

4.7.3 Expenditure

i) Benchmark Land Value - £100,000

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.

We have evidenced/calculated the BLV or Existing Use Value (EUV) with premium as £100,0000.

ii) Existing Use Value plus premium (EUV Plus) - £100,000

The application site @ 0.01 ha in area is currently occupied by a concrete hard stand with parking for 3 cars, and part of the existing garden to 4 Scots Hill.

Local estate agents advise parking spaces sell for £10,000 to £20,000 per space depending on the location and the demand/proximity from prospective purchasers. Assuming 3 car parking spaces at an average value of £15,000 would compute @ £45,000

There are no immediate direct comparables for the sale of bare garden land, as they are normally purchased with the benefit of planning, or they are sold directly between adjoining land owners/developers.

Land values will also need to consider the diminution in the existing land value to the host property/owner when the land is sold.

Garden land has become more valuable since the Covid pandemic, as owners/purchasers realise the need/value for private amenity space.

We therefore estimate the sale of the garages and the garden land with premium i.e the BLV would not come forward for less than £100,000.

As a sense check, the general rule of thumb is that the land value normally approximates to 25% to 45% of the project scheme GDV.

A land value @ 25% of the project GDV of £630,000 would equate to £157,500.

We have adopted a BLV of £100,000 representing 15.8% of GDV.

iii) Premium - Included

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

Incentives for land owners 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.

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

<u>Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan.</u> 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 the Three Rivers District and the South East, especially sites in Northwood and Rickmansworth 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 <u>encourage</u> 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 rise in house prices 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/rising 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 land owner would therefore expect to secure a 20% - 50% incentive return above the current land use value in return for the sale of the site to a developer.

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 costed these Alternative Use schemes or an AUV for this report, however we reserve the right to do so.

v) Stamp Duty - £3,000

We have estimated an average SDLT rate of 3%.

vi) Legal Fees (Acquisition) - £3,000

0.75% of acquisition – Minimum £3,000

vii) Works – £424,209

We have calculated the works budget using a BCIS Order of Costs based on BCIS average prices for "one off" detached 2 storey new build houses rebased to Three Rivers. We have adopted the median rate of £2,879/m^2 and applied that to the proposed GIA of 94.3 m^2. As the BCIS rates do not include for external works/services/site prep we have allowed £10,000 for site preparation, 15 % of base costs for external works, £2,000/m^2 for the garage of 18.5m^2 GIA, and a further £65,000 for additional services/utilities costs based on estimates obtained by the client's architect. The BCIS Order of Costs is attached – Appendix 6.

A schedule of the utility quotations is attached - Appendix 7.

viii) Professional Fees – £44,542

10% of works and contingency.

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 10% of build cost within our appraisals reflecting the scale and complexity of the proposals, given the proposed work and the location adjacent to existing properties and highways.

The professional fees include Architect fees, Structural Engineer, M&E Engineer, Project Manager, Quantity Surveyor, CDM Co-ordinator, Planning Consultants, planning reports, planning fees, building regulation fees, building warranties etc.

ix) Contingency – £21,210

We consider that a contingency of 5% 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 - £26,967

The proposed scheme of a 2b house plus garage will have a total GIA of 112.8 m^2 which will be the net area liable for CIL.

The Three Rivers CIL Charging Schedule came into effect on 1 April 2015, and this set a CIL development rate of £180/m^2 for residential development in Area A where the application site is located

With indexing, we estimate the current CIL rate is £239/m^2, therefore the proposed scheme with a net area of 112.8 m^2 liable for CIL would generate a total CIL charge of £26,967.

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 – £15,750

2.5% of GDV

The disposal fees have been based upon industry standards. Provision and servicing of a show home will be required.

We have assumed the house is sold and completes within 4 months of practical completion.

We have based our opinion on our discussions with 2 local estate agents James and Gibbs Gillespie, who are actively marketing and selling a number of existing properties and new build developments in the Rickmansworth and Three Rivers district.

It is likely that sales/marketing will commence 4 - 6 months prior to practical completion.

The property will need to be dressed/staged for sale.

xii) Legal Fees (Sales) – £3,000

£3,000 + VAT/unit

xiii) Interest – £25,532

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.

Funders are concerned about the serious risks of the market/economy and the stability of the developer and their ability to pay back loans.

Lenders are currently charging up to 5% above LIBOR, with minimum rates of 7%.

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

<u>We note the Bank of England base interest rate has increased from 0.25% to 1.75% in the last 8 months and with inflation at 9.4%, interest rates are expected to rise further.</u>

The BBC website of 4/8/22 notes:

> "The Bank of England has warned the UK will fall into recession as it raised interest rates by the most in 27 years.
>
> The economy is forecast to shrink in the last three months of this year and keep shrinking until the end of 2023.
>
> Interest rates rose to 1.75% as the Bank battles to stem soaring prices, with inflation now set to hit over 13%.
>
> Governor Andrew Bailey said he knew the cost of living squeeze was difficult but if it didn't raise interest rates it would get "even worse"".

An interest rate of 7% (including fees) is therefore reasonable given the current residential market/UK economy and the Development Appraisal profile.

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.
>
> <u>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.</u> 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. <u>Alternative figures may also be appropriate for different development types.</u>

Underline my emphasis

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

Profit margins for developers typically range from 20% to 25% on Gross Development Value (GDV), roughly equating to 25% to 30% profit on cost.

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 trade deal is put into practice.

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.

The Bank of England MPC Summary of August 2022 notes:

"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 3 August 2022, the MPC voted by a majority of 8–1 to increase Bank Rate by 0.5 percentage points, to 1.75%. One member preferred to increase Bank Rate by 0.25 percentage points, to 1.5%.

Inflationary pressures in the United Kingdom and the rest of Europe have intensified significantly since the May Monetary Policy Report and the MPC's previous meeting. That largely reflects a near doubling in wholesale gas prices since May, owing to Russia's restriction of gas supplies to Europe and the risk of further curbs. As this feeds through to retail energy prices, it will exacerbate the fall in real incomes for UK households and further increase UK CPI inflation in the near term. CPI inflation is expected to rise more than forecast in the May Report, from 9.4% in June to just over 13% in 2022 Q4, and to remain at very elevated levels throughout much of 2023, before falling to the 2% target two years ahead.

GDP growth in the United Kingdom is slowing. The latest rise in gas prices has led to another significant deterioration in the outlook for activity in the United Kingdom and the rest of Europe. The United Kingdom is now projected to enter recession from the fourth quarter of this year. Real household post-tax income is projected to fall sharply in 2022 and 2023, while consumption growth turns negative.

Domestic inflationary pressures are projected to remain strong over the first half of the forecast period. Firms generally report that they expect to increase their selling prices markedly, reflecting the sharp rises in their costs. The labour market has remained tight, with the unemployment rate at 3.8% in the three months to May and vacancies at historically high levels. As a result, and consistent with the latest Agents' survey, underlying nominal wage growth is expected to be higher than in the May Report over the first half of the forecast period.

Inflationary pressures are nevertheless expected to dissipate over time. Global commodity prices are assumed to rise no further, and tradable goods price inflation is expected to fall back, the first signs of which may already be evident. Although the labour market may loosen only slowly in response to falling demand, unemployment is expected to rise from 2023. Domestic inflationary pressures are therefore expected to subside in the second half of the forecast period, as the increasing degree of economic slack and lower headline inflation reduce the pressure on wage growth. Monetary policy is also acting to ensure that longer-term inflation expectations are anchored at the 2% target.

The risks around the MPC's projections from both external and domestic factors are exceptionally large at present. There is a range of plausible paths for the economy, which have CPI inflation and medium-term activity significantly higher or lower than in the baseline projections in the August Monetary Policy Report. As a result, in coming to its assessment of the outlook and its implications for monetary policy, the Committee is currently putting less weight on the implications of any single set of conditioning assumptions and projections."

Underline my emphasis.

At the August MPC meeting, the Bank of England increased the interest rate from 1.25% to 1.75%.

Local agents and many political commentators say the Help to Buy scheme and Stamp Duty holiday are artificially propping up the market. The Stamp Duty holiday ended on 30 June 2021, the Help to Buy scheme is due to finish in 2023.

Present day market conditions/difficulties such as Co-Vid 19, inflation, product availability and supply delays etc, etc suggest a higher developer's profit rate of 20% of GDV would be an appropriate return reflecting the current risks/market and the higher sales point values of the proposed scheme.

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 generates an indicative deficit of £163,210.

5. Affordable Housing Viability

The Three Rivers Affordable Housing SPD sets out how to calculate off site commuted sum affordable housing contributions on small sites comprising 1- 9 units.

The application site is situated in the "The Langleys and Croxley" market area identified in the SPD.

The affordable housing contribution rate for this area was set in the SPD at £750/m^2 for the scheme habitable space.

We estimate the proposed habitable space to be 80% x 94.3 m^2 (NSA) = 75.44 m^2, which would generate a potential affordable housing contribution of £56,580 (subject to viability).

For completeness we have attached an HCA Development Appraisal showing a policy compliant scheme providing an affordable housing contribution of £56,580 – Appendix 8.

The Development Appraisal with a scheme compliant affordable housing contribution increases the scheme deficit to £223,410.

6. Sensitivity Analysis

In September 2022, Savills research published its UK Housing Market Update, which indicated a 6% rise in house prices in the South East in 2022, with a drop of 1.5% in 2023. The forecast is an overall rise in house prices of 7% between now and the scheduled practical completion and sales period (October 2024 - January 2025) – Appendix 9.

There are a number of similar forecasts by Knight Frank etc, however it must be noted that these are all very speculative and very generic, even so we have carried out a basic sensitivity analysis on the 100% private sales scheme with no affordable housing contribution by assuming all inputs values remain the same, save residential sales values increase by 10%. The scheme generates a deficit of £113,862, assuming a full profit of 20% is taken @ £138,600, or an effective profit of 3.5% of GDV – Appendix 10.

7. Conclusion

This FVA shows that is not viable for the applicant to provide any affordable housing within the proposed development or to make any financial affordable housing contribution to the Council.

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