FINANCIAL VIABILITY ASSESSMENT

THE WOODYARD
THE GREEN
SARRATT
HERTS
WD3 6BH

PLANNING REFERENCE: TBA

PREPARED FOR: MR & MRS C MANNING

DATE: JANUARY 2024

1. Introduction

The information contained within this report is believed to be correct as at January 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 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 measures @ 0.072 ha in area and comprises an existing two-storey 3b end of terrace dwelling set in mature gardens.

Mr & Mrs C Manning (the "applicants") are submitting a planning application on the application site for subdivision of the existing plot and the erection of a 3b detached cottage, with off street parking for 2 cars and revised off street parking for 2 cars for the existing property.

A site location plan is attached - Appendix 1.

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 <u>reasonably</u> and <u>viably</u> 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

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 74% (Q1 2009 “223” – Q1 2024 ”389”).

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 74% and the LIBOR 3-month lending rate has increased from 2.16188% (February 2009) to 5.32300% (5 January 2024). The Bank of England base interest rate has risen from 1% (February 2009) to the current 5.25% (January 2024).

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 (January 2024)	Three Rivers Local Plan Viability Study (February 2009)	Notes
Existing Use Value (EUV)	£870,000	N/A	Exiting 3b EOT house on large plot
Premium	10%	Not stated	PPG/GLA

Appraisal Input	AH106 (January 2024)	Three Rivers Local Plan Viability Study (February 2009)	Notes
Alternative Use Value (AUV)	N/A	N/A	N/A
Benchmark Land Value (BLV)	£957,000	Varies	PPG/GLA/LBM EUV + Premium.
SDLT	SDLT		
Residual Land Value (RLV) with £58,355 AH	£642,000	Varies	See Appendix 3
GDV Sales	£1,959,400	Varies	
Build Cost	£525,960	Houses > 75m2 £950/m^2 includes externals	No differentiation for scale, type etc BCIS TPI Q1 2009 – 223 BCIS TPI Q1 2024 – 389 Increase @ 74%
Contingency	5% of Works	No allowance	
Professional Fees	10% of Works + Fees	12% of Works	
CIL	£46,785	No allowance	
S106 Contributions	N/A	N/A	
Sales and Marketing Fees	Total 2.5%	Total 3% (Includes Legal Fees)	
Legal Fees (Sales)	£2,000/unit	Included above	Minimum
Finance	10%	7%	BOE Base Rate: 2009 – 1.00% (February) 2024 – 5.25% (January) Libor 3m rate 2009 – 2.16188% (February) 2024 – 5.32300% (January)
Target Developer Profit (Private Sale)	20% of GDV	15% of GDV	

4.3 Definition of Viability

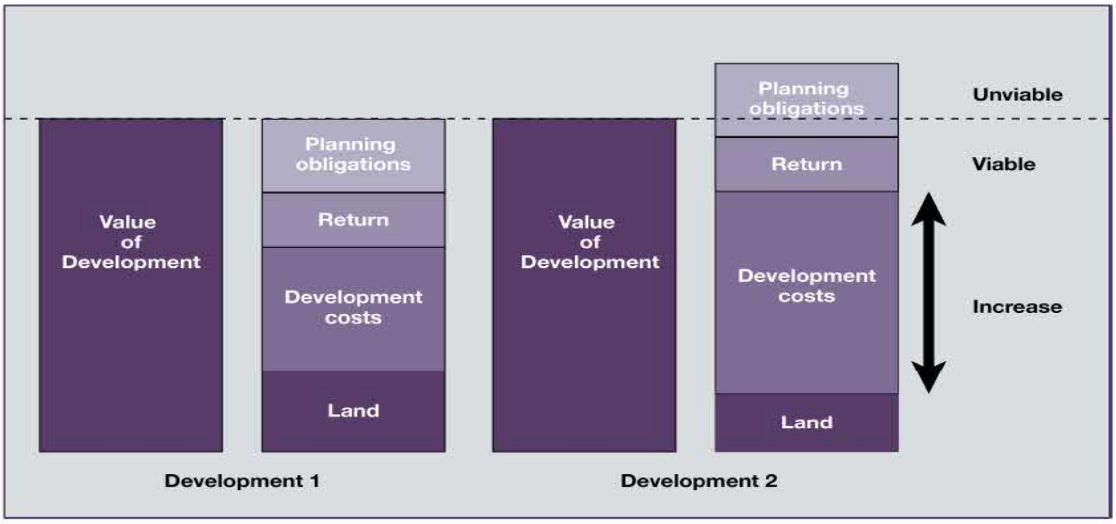
RICS professional Guidance Note "Assessing viability in planning under the National Planning Policy Framework 2019 for England" (March 2021) defines Viability in decision making as:

"The process of assessing viability at the decision-taking stage by looking at 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 approximately 0.072 ha in area and situated in the village of Sarratt within the local authority administration area of Three Rivers District Council.

The site is occupied by a 2 storey 3b end of terrace house @ 125.3 m^2 (1,349 ft^2) GIA, with off street parking for 2 cars.

The site is bordered to the north by “The Green” road, which overlooks the village green.

The site is bordered to the north by a private road/track, and to the south by a 2-storey mid terrace cottage.

Watford town centre and Watford Junction overland railway station are located approximately 7.0 km to the south east of the site.

Junction 18 of the M25 London Orbital lies approximately 3.3 km to the south of the site.

4.6 Development Proposal

The development proposes the subdivision of the site to erect a detached 2 storey 3b cottage and reconfigure the existing/proposed parking to provide 4 x off street parking spaces.

The completed development will comprise:

Unit	No	M^2 GIA	Ft^2 GIA
3b End of Terrace House (Existing)	1	125.3	1,349
3b Detached House (New Build)	1	176.7	1,902

<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.

For the purposes of calculating an affordable housing commuted sum in accordance with the TRDC Affordable Housing Supplementary Planning Document (2011), the application site is deemed to be part of the Rickmansworth & Hinterland market area in Three Rivers, paying a commuted sum of £550 per sqm of gross internal area habitable room space – subject to viability

The application scheme proposes a new build 3b property with a GIA of 176.7 m^2 GIA, with a habitable room area 106.1 m^2 GIA.

The affordable housing commuted sum calculation is therefore £550 x 106.1 m^2 = £58,355.

The RLV of the proposed scheme including a policy compliant affordable housing contribution of £58,355 is £642,000 – Appendix 3.

The RLV of £642,000 is significantly lower than the BLV of £957,000. This indicates that it is unviable to provide any affordable housing contribution.

4.7.1 Development Programme

We have assumed the following timetable:

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

We have adopted a building contract period of 7 months (34 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 34 weeks falls within the BCIS 90% prediction interval for individual projects - Appendix 4.

4.7.2 Income

i) Private Residential Units (2) - £1,959,400

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 comparable sales evidence within 1 mile of the application site, therefore we have considered sales transactions and marketing evidence for existing +3b houses within 1 miles of the application site– Appendix 5/Appendix 6.

The comparable evidence for the existing 3b house @ 125.3 m^2 GIA ranges in value from £630,000 to £800,000 with asking/sales rates from £595/ft^2 to £616/ft^2 – Appendix 5.

In our opinion, the best comparable evidence is the sale of the 3b end of terrace house, Camelia Cottage, which sold for £630,000 (£616ft^2) in August 2023. We consider the application site to be superior to the comparable, as it is situated in a more attractive location.

The comparable evidence for the proposed new build 3b house @ 176.7 m^2 GIA ranges in value from £630,000 to £1,500,000 with asking/sales rates from £553/ft^2 to £863/ft^2 – Appendix 6.

In our opinion, the best comparable evidence is an existing 4b detached house in Church Lane. The property @ 162.7 m^2 GIA sold in February 2023 for £1,050,000 (£600/ft^2). The property benefits from an additional garage and larger plot than the proposed detached house.

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
3b EOT House (Existing)	1	125.3	1,349	£809,400	£600
3b Detached House (New Build)	1	176.7	1,902	£1,150,000	£605

4.7.3 Expenditure

i) Benchmark Land Value - £957,000

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.

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. <u>Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV</u>.

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. <u>Valuation based on AUV includes the premium to the landowner</u>. 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 £870,000 and added a premium of 10% @ £87,000.

The BLV is therefore EUV "plus" i.e. £957,000

ii) Existing Use Value (EUV) - £870,000

For the application valuation, we have valued the existing property with a reduced land area and parking to the front as £809,400 (£600/ft^2) – Appendix 5.

With a larger plot and parking to the side, we have estimated the value of the existing property to be £870,000 (£645/ft^2)

iii) Premium - £87,000

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, 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 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/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), for example, the curent house could be extended to the side/rear. We have 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 6.86%.

vi) Legal Fees (Acquisition)

0.75% of acquisition

vii) Works – £525,960

We have carried out a BCIS Order of costs to estimate the residential build costs for the project using the BCIS Median rates of £2,539/m^2 for one off 1-2 storey houses rebased to Three Rivers.

We have multiplied the median rate of £2,539/m^2 by the works GIA of 176.6 m^2 to compute a base build cost of £448,661.

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 £10,000.

We therefore estimate the works costs to be £525,960 – Appendix 7.

viii) Professional Fees – £55,226

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 – £26,298

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 - £46,785

The site is currently occupied by an existing 3b house @ 125.3 m^2 GIA.

The application scheme proposes the existing house with reduced plot and new build house @ 176.7 m^2 GIA.

This computes a proposed GIA of 176.7 m^2 GIA liable for CIL.

The CIL charge for Three Rivers Zone A was originally set at £180/m^2 in April 2015, which we have indexed to £264/m^2. The proposed scheme therefore generates a CIL liability @ £46,785.

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 – £48,985

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 sales are completed within 3 months of practical completion.

We have based our opinion on our discussions with 2 local estate agents Robsons and Proffitt & Holt who are actively marketing in the Sarratt and Three Rivers district.

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

xii) Legal Fees (Sales) – £4,000

£2,000 + VAT/unit

xiii) Interest

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 2009 TRDCES, the adopted finance rate was 7%.

Since then, the Bank of England base interest rate has increased from 1% to 5.25%, an increase of 4.25%. Interest rates are expected to remain at this level in the short/medium term.

Libor 3-month rates have increased from 2.16188% to 5.32300% (1/24), an increase of 3.16112%.

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

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

We note the current inflation rate @ 3.9%, interest rates are expected to rise further.

We note from developers that development finance is currently being offered by Close Brothers at 5% above the Bank of England base rate.

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 new build / 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 the Gaza strip, with supporting factions now 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 November 2023 MPC meeting, the Bank of England maintained the base interest rate at 5.25%.

The MPC minutes state:

At its meeting ending on 1 November 2023, the MPC voted by a majority of 6–3 to maintain Bank Rate at 5.25%. Three members preferred to increase Bank Rate by 0.25 percentage points, to 5.5%.

Underline my emphasis.

And

The Committee's updated projections for activity and inflation are set out in the accompanying November Monetary Policy Report. These are conditioned on a market implied path for Bank Rate that remains around 5¼% until 2024 Q3 and then declines gradually to 4¼% by the end of 2026, a lower profile than underpinned the August projections.

Underline my emphasis.

And

The Committee discussed the factors behind a slowing in GDP growth, including the impact of the significant tightening in monetary policy since the end of 2021. The clearest signs of weakness continued to be in the housing sector, with housing investment and most measures of house prices falling somewhat, alongside a low level of property transactions.

Underline my emphasis

And

UK GDP is expected to have been flat in 2023 Q3, weaker than projected in the August Report. Some business surveys are pointing to a slight contraction of output in Q4 but others are less pessimistic. GDP is expected to grow by 0.1% in Q4, also weaker than projected previously

And

There had been increasing signs of some impact of tighter monetary policy on momentum in the real economy. This was perhaps clearest in weaker housing investment, for which the impact of tighter policy was likely to have come through most quickly. Contacts of the Bank's Agents were reporting that higher financing costs, along with greater economic uncertainty, had also been inhibiting business investment, although companies with strong cash positions were continuing to invest

Underline my emphasis.

Local agents and many political commentators say the Help to Buy scheme and Stamp Duty holiday had until recently been artificially propping up the market. The Help to Buy scheme has now finished with final sale completions in 31 March 2023.

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 @ 4.4% up to Q34 2025 when practical completion occurs. See BCIS TPI forecasts below:

BCIS All-in TPI **Base date:** 1985 mean

Base date: **1985 mean = 100** Updated: **Dec-2023** Series number: **#101** Percentage ch

Recent changes			Perce	
Date	**Index**	**Equivalent sample**	**On year**	**On quarter**
1Q 2024	389	Forecast	2.6%	0.3%
2Q 2024	391	Forecast	2.1%	0.5%
3Q 2024	393	Forecast	1.8%	0.5%
4Q 2024	396	Forecast	2.1%	0.8%
1Q 2025	399	Forecast	2.6%	0.8%
2Q 2025	404	Forecast	3.3%	1.3%
3Q 2025	406	Forecast	3.3%	0.5%
4Q 2025	412	Forecast	4.0%	1.5%

<u>It is reasonable for the developer to consider the LBHVA October 2018 adopted profit rate of 18% and to reflect how the development risks including current interest rates, inflation rates, and economy/housing market have deteriorated significantly since then.</u>

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 an affordable housing contribution of £58,355 generates an RLV of £642,000. This is significantly below the BLV of £957,000 – Appendix 3.

5. Sensitivity Analysis

In January 2024 Savills research published its UK Housing Market Update and Housing Forecasts, which indicated falling house prices in the South East for the current year with small rises thereafter – Appendix 8.

The RICS BCIS All-in TPI provides an index of building costs. Building costs are predicted to increase from by 4.4% between now and practical completion next year (Q1 2024 – Q3 2025).

We have carried out a basic sensitivity analysis on the 100% private sales scheme with an affordable housing contribution of £58,355, by assuming all inputs values remain the same, save build costs increase by 4.4%. This generates an RLV of £620,000, which is below the BLV of £957,000 – Appendix 9.

6. 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.

Prepared by:

[redacted]

Mark Smith
Director
For and on behalf of affordable housing 106

Appendices

Appendix 1	Site location plan
Appendix 2	Existing and proposed plans
Appendix 3	RLV_HCA DAT Model - 2 private sale unit AH £58,355
Appendix 4	BCIS contract duration calculator
Appendix 5	Existing comparables residential sales/availability
Appendix 6	Proposed comparables residential sales/availability
Appendix 7	BCIS Order of costs
Appendix 8	Savills UK Housing Market Update January 2024
Appendix 9	Sensitivity Analysis (100% works + 4.4%) AH £58,355

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