DEVELOPMENT VIABILITY ASSESSMENT FOR RESIDENTIAL DEVELOPMENT AT 7 TORRIANO MEWS, KENTISH TOWN, LONDON, NW5 2RZ.

On behalf of NTA Planning

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S106 Affordable Housing

Contents

Appendices

1.0 Introduction and Instructions

1.1 S106 Affordable Housing (Hampshire) Ltd has been instructed by NTA Planning Ltd to prepare a development viability assessment for the development at 7 Torriano Mews, London NW5 providing 3no apartments.

1.2 The report has been prepared by Simon Corp, I have a BSc (Hons) in Residential Development from Nottingham Trent University and 30 years experience in affordable housing development, most of this time was spent working for Registered Providers developing affordable housing projects including Aldwyck Housing Group, Raglan Housing Group now Stonewater and Origin Housing Group . I am a Director of S106 Affordable Housing (Hampshire) Ltd a specialist practice providing viability, development and affordable housing consultancy services.

1.3 The purpose of the assessment is to establish the viability of the development and assess if the development can support the policy compliant level of affordable housing provision.

1.4 The appraisal has been carried out using the HCA (now Homes England) Economic Appraisal Toolkit (EAT), where information is not available or defined in the first viability assessment any assumptions made are either in line with industry norms or the default settings of the toolkit.

1.5 This assessment has been undertaken with objectivity, impartiality, without interference and this instruction does not result in any conflict of interest. This instruction is on a fixed fee basis, in preparing this report no performance related fees nor have any contingent fees have been agreed.

2.0 Executive Summary

2.1 The application building is current a B1 office (now class E) which we understand has a gross internal floor area at 230.2m^2. The proposal is to convert the building to provide 3no apartments comprising 2no two bedroom and 1no one bedroom apartments.

2.2 The Camden Local Plan was adopted in July 2017 and policy H4 states the maximum reasonable level of affordable housing should be provided on all new developments based on a tenure mix of 60% affordable/social rented and 40% intermediate forms of tenure. For sites of less than 25 dwellings this should be based on a sliding scale based on 2% provision per dwellings and for sites of less than 10 dwellings this can be provided as a contribution towards offsite affordable housing provision. We have calculated the policy compliant level of affordable housing contribution will be £69,060.

2.3 To assess the viability of the site we have prepared a residual valuation for the proposed scheme and will compare the resultant residual land value with the benchmark land value based on an existing use plus premium valuation of the site to establish if the development generates a viability surplus.

2.4 The results of the assessment are set out below:

Appraisal Scenario	Residual land value (£)	Benchmark land value (£)	Surplus/deficit (£)
Open market 3 units with no s106 costs	£931,822	£922,042	+£9,780

2.5 The assessment shows on an all open market basis allowing for a developers return at 17.5% of GDV which is at the mid point of the range set out in the Planning Practice Guidance at 15-20% of GDV, the development shows a deficit and therefore no surplus is generated to fund any affordable housing contribution or additional s106 costs.

2.6 We have summarised below the assumptions used to populate the appraisal:

	Assumption
Gross Sales Values	£1,905,000
Construction costs	BCIS median rate
Contingency	5%
Professional fees	10%
Sales costs	2% of GDV
Finance costs	7.5%
Developers profit	17.5% of GDV
Benchmark land value	£922,042

2.7 In summary the viability assessment shows a surplus at £9,780 and this represents the maximum viable level of affordable housing contribution.

3.0 Viability Assessment

3.1 The application building is current a B1 office (now class E) which we understand has a gross internal floor area at 230.2m^2. The proposal is to convert the building to provide 3no apartments comprising of the following accommodation:

Apartment Type	Area (m^2)
2b4p	74.8
2b4p	79.1
1b2p	58.7
Total	**212.6**

3.2 The Camden Local Plan was adopted in July 2017 and policy H4 states the maximum reasonable level of affordable housing should be provided on all new developments based on a tenure mix of 60% affordable/social rented and 40% intermediate forms of tenure. For sites of less than 25 dwellings this should be based on a sliding scale based on 2% provision per dwellings and for sites of less than 10 dwellings this can be provided as a contribution towards offsite affordable housing provision.

3.3 Using the calculation methodology set out in the Camden Housing SPD 2021 the calculation will be as follows:

2% per unit x 3 units= 6%
230.2m^2 GIA x 6%= 13.81m^2
13.81m^2 x £5,000= £69,050

3.4 S106 Affordable Housing (Hampshire) Ltd has been instructed to assess if an affordable housing contribution can be viably funded from the proposed development. A development is deemed to be viable if the residual land value derived by the scheme is above the existing land value assessed on an existing use plus premium basis, the surplus providing the subsidy available to support an affordable housing contribution. Our methodology is therefore to assess the residual land value derived by the scheme and compare this with the benchmark existing land value to calculate if a development surplus is generated.

3.5 An EAT appraisal constructed on a residual valuation basis shows a residual value at £931,822. This is based on a developers profit at 17.5% of GDV which is at the mid point of the range set out in the Planning Practice Guidance at 15-20% of GDV.

3.6 To fully assess the viability of the scheme we need to compare the resultant level of residual value derived from the proposed scheme with the existing benchmark land value. The Planning Practice Guidance and London

Affordable Housing Viability SPD both recommend that benchmark land value is based on an existing use plus premium valuation or a reasonable alternative use valuation. The EUV plus premium method is essentially valuing the property on an existing use value taking account of its current lawful planning use and allowing for an additional landowner's incentive to encourage the landowner to bring the site forward to the market. The Planning Practice Guidance also states that an Alternative Use Valuation (AUV) can be used if that alternative use complies with local plan policies but an AUV valuation is deemed to be inclusive of any landowner's premium.

3.7 The land is currently occupied by a three storey office building with a gross floor area at 230.2m^2 and a net lettable area at 201.59m^2 (2,170ft^2) and the most appropriate valuation methodology will be to value the existing property on an investment valuation basis. We understand the building was marketed for letting at £32.50/ft^2 but there was little interest and so we have based the rental income on a lower rent at £28.50/ft^2 which represents a discount of 12%. We have capitalised the income on a 7% yield and allowed for a six month rent free period and buyers costs which shows an EUV at £801,776.

3.8 It is standard practice and integral to the EUV plus premium valuation method to allow for an additional landowners premium on the EUV to provide the landowner with an incentive to bring the site forward for development. The usual range is 15-30% and in this case we consider a 15% premium would provide sufficient incentive resulting in a benchmark land value at £922,042.

3.9 We understand the applicants paid £1,040,000 for the building so it could be argued the incentive level should be higher, but the Planning Practice Guidance is clear that benchmark land value should not be based on purchase price and it should be based on a current valuation based on market evidence. It does however put the applicants actual financial position into context.

3.10 In summary the appraisal results are set out below:

Appraisal Scenario	**Residual land value (£)**	**Benchmark land value (£)**	**Surplus/deficit (£)**
Open market 3 units with no s106 costs	£931,822	£922,042	+£9,780

3.11 The appraisal shows a surplus at £9,780 and this represents the maximum viable level of affordable housing contribution.

3.12 The viability guidance also states that we should test the sensitivity of the appraisal results to changes in appraisal inputs, these are set out below:

Appraisal Scenario	Residual land value (£)	Benchmark land value (£)	Surplus/deficit (£)
Sales values +5%	999,086	922,042	+77,044
Sales values -5%	864,358	922,042	-57,684
Finance rate 7%	937,102	922,042	+15,060

In the current environment of increased mortgage rates and pressure on household budgets an increase in sales values is considered unlikely, so this really just demonstrates the potential uplift that could be generated from a late stage review if market values continued to increase.

3.13 In summary the viability assessment on an all open market development basis shows a surplus at £9,780 and this represents the maximum viable affordable housing contribution.

4. Policy Background

Local Plan Policies

4.1 The Camden Local Plan was adopted in 2017 and policy H4 states that maximum reasonable level of affordable housing will be required by every development in the borough providing one or more dwellings. It goes on to say the provision should be based on a tenure split of 60% social or affordable rent and 40% intermediate forms of tenure. For sites of less than 25 dwellings the requirement will be based on a sliding scale with provision at 2% per dwelling which is capped at 50% provision for developments of 25 or more dwellings.

4.2 The policy states that for developments of less than 10 dwellings the council will accept a contribution towards offsite affordable housing.

4.3 There is a recognition of the role of viability in decision making, the policy states the council will take into account the economics and financial viability of provision.

4.4. To provide supporting information on the implementation of the policy and guidance for applicants the council published a Housing SPD in January 2021. The document sets out how the requirements for affordable housing contributions on smaller developments and worked examples on how the contribution should be calculated.

National Planning Policy Framework July 2021

4.5 Following a consultation period the revised NPPF was issued on 24th July 2018 and was last updated in July 2021, the main sections which effect s106 viability are outlined below.

4.6 Section 34 states that Local Plans should set out the obligations that are expected from developments including affordable housing, however it says that such plans should not undermine the deliverability of the plan.

4.7 As set out in the 2012 framework planning obligations should only be sought where they meet the following tests:

- Necessary to make the development acceptable in planning terms.
- Directly related to the development
- Fairly and reasonably related in scale and kind to the development

4.8 Section 57 of the framework sets out one of the keys changes around viability, this states that where policies around contributions have been set out in the plan, schemes that comply with them will be deemed to be viable. It is up to the applicant to demonstrate that circumstances differ from the

Local Plan assumptions which require a viability assessment. Such examples would be particular existing use that was not modelled at plan making stage, abnormal costs or movement in the market since the plan was adopted.

4.9 It is expected that 10% of homes should be made available as starter homes a form of discounted market sale apart from some specified exceptions.

4.10 Section 63 states that affordable housing should only be sought from major developments defined as scheme of 10 or more units.

Planning Practice Guidance Updated May 2019

4.11 The viability section of the Planning Practice Guidance has also been updated and there have been some changes introduced in the recommended assumptions for constructing a viability assessment. The key change being land value should be based on an EUV plus premium valuation method. The guidance now also states that a viability assessment should refer back to the viability assumptions which backed up the Local Plan and should evidence how circumstances have changed to justify the need for a viability assessment.

4.12 The guidance now specifically states the EUV plus premium method should be adopted where as before a range of options were set out including the market value approach. This is a clear change of direction to provide more clarity on how to set a benchmark land value in a viability assessment.

4.13 The guidance also states that the use of an alternative use value is allowed if it is a reasonable alternative use and a planning consent on the site exists for that use.

4.14 The guidance states that developer's return in the range of 15-20% of gross development value is appropriate for plan making purposes but alternative levels can be utilised where it is justified by the scale and complexity of the development.

4.15 The guidance also states methodologies for assessing gross development value and build costs but these are broadly unchanged since the previous version of the guidance.

4.16 The guidance states that a viability assessment should be presented in a clear way so the assumptions for GDV, costs and developers profit are clear.

Statement In Response to Covid 19

4.17 On the 13th May 2020 the government issued additional guidance to councils in response to the Covid 19 Crisis, under the heading of s106 agreements the following statement has been made;

There are greater flexibilities within s106 planning obligations than CIL. Where the delivery of a planning obligation, such as a financial contribution, is triggered during this period, local authorities are encouraged to consider whether it would be appropriate to allow the developer to defer delivery. Deferral periods could be time-limited, or linked to the government's wider legislative approach and the lifting of CIL easements (although in this case we would encourage the use of a back-stop date). Deeds of variation can be used to agree these changes. Local authorities should take a pragmatic and proportionate approach to the enforcement of section 106 planning obligations during this period. This should help remove barriers for developers and minimise the stalling of sites.

5. Cost and Values

Benchmark Land Value

5.1 The Planning Practice Guidance and London Affordable Housing Viability SPD both recommend that benchmark land value is based on an existing use plus premium valuation or a reasonable alternative use valuation. The EUV plus premium method is essentially valuing the property on an existing use value taking account of its current lawful planning use and allowing for an additional landowner's incentive to encourage the landowner to bring the site forward to the market. The Planning Practice Guidance also states that an Alternative Use Valuation (AUV) can be used if that alternative use complies with local plan policies but an AUV valuation is deemed to be inclusive of any landowner's premium.

5.2 The land is currently occupied by a three storey office building with a gross floor area at 230.2m^2 and a net lettable area at 201.59m^2 (2,170ft^2) and the most appropriate valuation methodology will be to value the existing property on an investment valuation basis. We understand the building was marketed for letting at £32.50/ft^2 but there was little interest and so we have based the rental income on a lower rent at £28.50/ft^2 which represents a discount of 12%. We have capitalised the income on a 7% yield which is in line with the Knight Frank Yield Guide January 2023 which states office should be in the range of 6.5-7%. For comparison 1 Torriano Mews a 4940ft2 unit is currently available to let at a rent equating to £52.50/ft2. The EUV assessment is set out below:

Rental income 2,170ft^2 x £28.50/ft^2=	£61,845pa
Capitalise 7% yield	£883,500
Six months rent free	£30,923
Buyers costs	£50,801
EUV	£801,776

5.3 It is standard practice and integral to the EUV plus premium valuation method to allow for an additional landowner's premium on the EUV to provide the landowner with an incentive to bring the site forward for development. The usual range is 15-30% and in this case we consider a 15% premium would provide sufficient incentive resulting in a benchmark land value at £922,042.

5.4 We understand the applicants paid £1,040,000 for the building so it could be argued the incentive level should be higher, but the Planning Practice Guidance is clear that benchmark land value should not be based on purchase price and it should be based on a current valuation based on market evidence. It does however put the applicants actual financial position into context.

Sales values

5.5 To inform the sales value we have undertaken an internet based market research assessment of achievable values within a quarter mile radius of the site, looking at properties on the market, sale agreed and recently completed.

5.6 Looking at second hand one bedroom properties currently on the market we identified a property on Torriano Avenue on the market at £395,000 but we don't have any floor area information to enable further analysis. We also identified a one bedroom property in Ivy Court with a floor area at 38.46m^2 on the market at £380,000 which equates to £9,880/m^2 and Willingham Terrace a 41.1m^2 property on the market at £370,000 which equates to £9,002/m^2.

5.7 For the two bedroom properties we identified a property on Torriano Avenue with a floor area at 71.28m^2 on the market at £700,000 which equates to £9,820/m^2 and a further property also on Torriano Avenue with a floor area at 71.83m^2 on the market at £650,000 which equates to £9,049/m^2. We also identified a two bedroom duplex apartment on Leighton Avenue with a floor area at 82.7m^2 on the market at £725,000 which equates to £8,766/m^2.

5.8 We do need to be cautious relying on properties on the market as the listed values will be asking prices and can be subject to offers and asking price reductions. A more reliable evidence base will be sold values taken from Land Registry records from which we have identified the following comparable sales:

Property Address	**Floor Area (m^2)**	**Sale Price (£)**	**Sale Date**	**£/m^2**
95a Torriano Mews	45	£500,000	Aug 2022	£11,111
Flat 3, 122 Leighton Road	52	£445,000	May 2022	£8,557
Flat B, 128 Torriano Avenue	60	£449,999	May 2022	£7,499
Flat 3, 56 Leighton Road	58	£550,000	July 2022	£9,482
8 Tanhouse Field	68	£535,000	July 2022	£7,867
Flat 2, 46 Hilldrop Crescent	84	£500,000	June 2022	£5,952
37 Montpellier Grove	55	£480,000	June 2022	£8,727

5.9 Taking the range of evidence into account we have valued the properties as follows:

Plot Number	Type	Floor Area (m^2)	Value (£)
1	2b4p	74.8	£725,000
2	2b4p	79.1	£730,000
3	1b2p	58.7	£450,000
Total			£1,905,000

5.10 The actual price achieved will be dependent on market conditions at the time of marketing, competitor developments and the completed specification and finishes.

Construction Costs

5.11 In line with standard practice and the Planning Practice Guidance on standardised inputs we have used the BCIS rates rebased to Camden to inform the construction costs. We have used the median refurbishment rate which is currently £1,712/m^2.

5.12 The BCIS rates exclude allowances in connection with external works but in this case the extent of external works will be limited and so we have assumed this can be funded from the overall BCIS rate.

5.13 We have not been made aware of any abnormal cost allowances.

5.14 We have separately allowed for design and professional fees at 10% and contingency at 5% which are both in line with the assumptions adopted in the BNP Paribas Local Plan Viability Assessment.

Developers Profit

5.15 The revised Planning Practice Guidance recommends a developers profit allowance in the range of 15-20% of GDV and the developer's profit should reflect their risk profile. The BNP Local Plan Viability Assessment uses an assumption at 20% of GDV.

5.16 Over the last few years we have agreed a 17.5-18% of GDV profit level as a default position but with a backdrop of a strong economy and a rising market. Coming out of the Covid 19 pandemic and with the effects of leaving the EU starting to show with supply chain issues and increasing inflation, which is putting significant pressure on interest rates. The growth forecasts for the economy are also being downgraded so the economic picture is now looking more gloomy and lenders may require a higher level of return to offset the perceived market risk.

5.17 Although a case can be made for a higher level of return to offset the increased market risk, in line with other similar viability assessments we have agreed we have adopted a mid point assumption for open market housing at 17.5% of GDV and the standard allowance for affordable housing at 6%.

6 Other Model Assumptions and Inputs

6.1 The basis for assumptions on sales values, construction costs and profit are set out in section 5.

Programme

6.2 The EAT assumes a 3 month lead in to site start for detail design, building regulations approval, clearing pre-start planning conditions and site set up. The contract period is 8 months with a sales period of 3 months.

S106 and CIL Contributions

6.3 We have assumed as there is not net increase in floor area there will be no CIL payment and we have not factored in any other s106 costs so we can observe the total surplus available to fund all planning obligations.

Interest Rates

6.4 Over the last few years we have agreed a standard finance rate at 6.5-7% but during that time base lending rates have been set at 0.5-0.75% which equates to a lending margin in excess of 5.75 points. The base rate has increased significantly to 4% and it would be reasonable to now adopt a higher finance cost assumption. We have therefore adopted an increased finance rate at 7.5%.

Sales and marketing costs

6.5 We have allowed for an allowance of 2% of gross sales value for sales and marketing this will cover a sales agent of 1-1.5% and additional allowances for production of marketing material, advertising and promotion.

6.6 The Local Plan viability also uses a 3% of GDV assumption but this is intended to cover a range of types of development.

7 Conclusion

7.1 The proposed development will provide 3no dwellings and Camden Local Plan policy H4 will require a contribution towards offsite affordable housing at £69,060.

7.2 To establish if the requirement can be viably delivered we have appraised the development on an all open market basis to establish if a surplus is generated over the existing land value based on an existing use plus premium valuation. This approach is in line with the Planning Practice Guidance and accepted standard practice.

7.3 The appraisal shows a surplus at £9,780 and this represents the maximum viable level of affordable housing contribution.