FINANCIAL VIABILITY ASSESSMENT

141 AND 143 FORTESS ROAD
LONDON
NW5 2HR

PLANNING REFERENCE: TBA

PREPARED FOR: MR NAGHDI AND MR KESTENBAUM

DATE: JUNE 2023

1. Introduction

The information contained within this report is believed to be correct as at June 2023 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;

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 the London Borough of Camden (LBC).

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

Mr Baron and Mr Kestenbaum (the "applicants") are submitting a planning application to LBC for:

"Erection of an additional storey to Nos. 141 and 143 Fortess Road (following granted prior approvals 2021/0268 and 2021/1071/P) including rear dormer in new roofslope to each property, to create 2x 1-bedroom-2-storey flats. Provision of cycle storage".

The application site is 141 and 143 Fortess Road, London NW5 2HR (the "site").

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.

A site location plan and the existing/proposed schemes are attached – Appendix 1.

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. **<u>The National Planning Policy Framework</u>** <u>must be taken into account in preparing the development plan and</u> **<u>is a material consideration in planning decisions</u>**. 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:

<u>Planning obligations must only be sought where they meet all of the following tests</u>:

(a) necessary to make the development acceptable in planning terms;

(b) <u>directly related to the development</u>; and

(c) <u>fairly and reasonably related in scale and kind to the development</u>

Underline my emphasis.

The tests are set out 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

<u>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.</u>

Underline my emphasis.

This site is a "windfall" site.

<u>The viability of this site has not been previously assessed by the LBC.</u>

<u>It was not assessed by LBC as part of any Local Plan viability evidence.</u>

Camden's Development Plan documents includes the Local Plan which was adopted in July 2017.

Viability evidence supporting the Local Plan affordable housing policies was provided in the form of a report by BNP Paribas (BNPP) dated October 2015 and titled "London Borough of Camden Local Plan Review Evidence Base: Financial Viability Study" (the "FVS2015").

The viability report is now 8 years old and we consider the study to be out of date and in need of updating to reflect the current market/economy.

We note that BNPP provided an additional report in July 2019 titled "London Borough of Camden Review of Payment – in-lieu Rates for Housing and Affordable Housing in Connection with Policies H2 and H4 in the Camden Local Plan 2017 and Camden Planning Guidance" (the "PILR2019").

Where applicable, we have noted assumptions/changes in the Local Plan viability evidence assumptions as stated by BNPP in the PILR2019.

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:

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

a) the identified need for different types of housing and other forms of development, and the availability of land suitable for accommodating it;
b) <u>local market conditions and viability</u>;
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.

The PILR2019 has not previously tested the viability of this particular site.

The UK has been in the grip of the Co-Vid 19 pandemic since 2020; since then there have been undeniable shifts in the housing market with flatted sales softening, and house sales firming up.

Since the PILR2019, BCIS All in TPI indicate build costs have increased by 14.3%, the LIBOR 3-month lending rate has increased by 4.2351% and the Bank of England base rate has increased by 3.75%.

3.2 Regional Planning Policy

The London Plan 2021 was adopted in March 2021 and is the Spatial Development Strategy for Greater London.

Regarding affordable housing, Policy H5 Threshold approach to applications states:

A *The threshold approach applies to major development proposals which trigger affordable housing requirements (see paragraph 4.5.15 for scheme types with bespoke approaches).*

B *The threshold level of affordable housing on gross residential development is initially set at:*

1) *a minimum of 35 per cent; or*

2) *50 per cent for public sector land where there is no portfolio agreement with the Mayor; or*

3) *50 per cent for Strategic Industrial Locations, Locally Significant Industrial Sites and Non-Designated Industrial Sites appropriate for residential uses in accordance with Policy E7 Industrial intensification, co-location and substitution where the scheme would result in a net loss of industrial capacity.*

C *To follow the Fast Track Route of the threshold approach, applications must meet all the following criteria:*

1) *meet or exceed the relevant threshold level of affordable housing on site without public subsidy*

2) *be consistent with the relevant tenure split (see Policy H6 Affordable housing tenure)*

3) *meet other relevant policy requirements and obligations to the satisfaction of the borough and the Mayor where relevant*

4) *demonstrate that they have taken account of the strategic 50 per cent target in Policy H4 Delivering affordable housing and have sought grant to increase the level of affordable housing.*

D *Developments which provide 75 per cent or more affordable housing may follow the Fast Track Route where the tenure mix is acceptable to the borough or the Mayor where relevant.*

E *Fast tracked applications are not required to provide a viability assessment at application stage. To ensure an applicant fully intends to build out the permission, the requirement for an Early Stage Viability Review will be triggered if an agreed level of progress on implementation is not made within two years of the permission being granted (or a period agreed by the borough).*

F *Where an application does not meet the requirements set out in Part C it must follow the Viability Tested Route. This requires detailed supporting viability evidence to be submitted in a standardised and accessible format as part of the application:*

1) *the borough, and where relevant the Mayor, should scrutinise the viability information to ascertain the maximum level of affordable housing using the methodology and assumptions set out in this Plan and the Affordable Housing and Viability SPG*

2) *viability tested schemes will be subject to:*

   a) *an Early Stage Viability Review if an agreed level of progress on implementation is not made within two years of the permission being granted (or a period agreed by the borough)*

   b) *a Late Stage Viability Review which is triggered when 75 per cent of the units in a scheme are sold or let (or a period agreed by the borough)*

   c) *Mid Term Reviews prior to implementation of phases for larger phased schemes.*

G *Where a viability assessment is required to ascertain the maximum level of affordable housing deliverable on a scheme, the assessment should be treated transparently and undertaken in line with the Mayor's Affordable Housing and Viability SPG.*

Scheme amendments – Section 73 applications and deeds of variations

H *For schemes that were approved under the Fast Track Route, and schemes determined before the threshold approach that would have qualified for the Fast Track Route, any subsequent applications to vary the consent will not be required to submit viability information, providing the resultant development continues to meet the relevant threshold and the criteria in Part C.*

I *For schemes where the original permission did not meet the threshold or required tenure split, including schemes determined before the threshold approach that would not have qualified for the Fast Track Route, viability information will be required where an application is submitted to vary the consent, and the borough or the Mayor where relevant, consider this would materially alter the economic circumstances of the scheme. Such cases will be assessed under the Viability Tested Route*

J *Any proposed amendments that result in a reduction in affordable housing, affordability or other obligations or requirements of the original permission should be rigorously assessed under the Viability Tested Route. In such instances, a full viability review should be undertaken that reconsiders the value, costs, profit requirements and land value of the scheme.*

K *The Mayor should be consulted on any proposed amendments on referable schemes that change the level of affordable housing from that which was secured through the original planning*

Underline my emphasis.

3.3 Local Planning Policy

The London Borough of Camden Local Plan 2017 was adopted in July 2017.

Policy H4 Maximising the supply of affordable housing states:

The Council will aim to maximise the supply of affordable housing and exceed a borough wide strategic target of 5,300 additional affordable homes from 2016/17 - 2030/31, and aim for an appropriate mix of affordable housing types to meet the needs of households unable to access market housing. We will expect a contribution to affordable housing from all developments that provide one or more additional homes and involve a total addition to residential floorspace of 100sqm GIA or more. The Council will seek to negotiate the maximum reasonable amount of affordable housing on the following basis:

A. the guideline mix of affordable housing types is 60% social-affordable rented housing and 40% intermediate housing;

B. targets are based on an assessment of development capacity whereby 100sqm (GIA) of housing floorspace is generally considered to create capacity for one home;

C. targets are applied to additional housing floorspace proposed, not to existing housing floorspace or replacement floorspace;

D. a sliding scale target applies to developments that provide one or more additional homes and have capacity for fewer than 25 additional homes, starting at 2% for one home and increasing by 2% of for each home added to capacity;

E. an affordable housing target of 50% applies to developments with capacity for 25 or more additional dwellings;

F. for developments with capacity for 25 or more additional homes, the Council may seek affordable housing for older people or vulnerable people as part or all of the affordable housing contribution;

G. <u>where developments have capacity for fewer than 10 additional dwellings, the Council will accept a payment-in-lieu of affordable housing;</u>

H. for developments with capacity for 10 or more additional dwellings, the affordable housing should be provided on site; and

I where affordable housing cannot practically be provided on site, or offsite provision would create a better contribution (in terms quantity and/ or quality), the Council may accept provision of affordable housing offsite in the same area, or exceptionally a payment-in-lieu.

We will seek to ensure that where development sites are split or separate proposals are brought forward for closely related sites, the appropriate affordable housing contribution is comprehensively assessed for all the sites together. The Council will seek to use planning obligations to ensure that all parts or phases of split or related sites make an appropriate affordable housing contribution.

In considering whether affordable housing provision should be sought, whether provision should be made on site, and the scale and nature of the provision that would be appropriate, the Council will also take into account:

J. *the character of the development, the site and the area;*

K. *site size and any constraints on developing the site for a mix of housing including market and affordable housing, and the particular types of affordable provision sought;*

L. *access to public transport, workplaces, shops, services and community facilities;*

M. *the impact on creation of mixed, inclusive and sustainable communities;*

N. *the impact of the mix of housing types sought on the efficiency and overall quantum of development;*

O. *the economics and financial viability of the development including any particular costs associated with it, having regard to any distinctive viability characteristics of particular sectors such as build-to-let housing; and*

P. *whether an alternative approach could better meet the objectives of this policy and the Local Plan.*

Where the development's contribution to affordable housing falls significantly short of the Council's targets due to financial viability, and there is a prospect of viability improving prior to completion, the Council will seek a deferred contingent contribution, based on the initial shortfall and an updated assessment of viability when costs and receipts are known as far as possible.

Underline my emphasis.

Supporting paragraph 3.110 states:

On the basis of the Camden Local Plan Viability Study, the Council will apply a target of 50% affordable housing to development proposals that include housing and have capacity for 25 or more additional homes. However, we have set a sliding scale target for smaller schemes involving one or more additional homes. The sliding scale starts from a target of 2% where there is capacity for one additional home and increases on a 'straight-line' basis. Capacity for each further additional dwelling (or each 100sqm GIA additional floorspace) increases the target by 2%. Thus the target for a scheme with capacity for an additional 12 dwellings is 24%, at 18 additional dwellings the target is 36%, and at 24 additional dwellings that target is 48%

In January 2021 LBC published Camden Planning Guidance titled "Housing".

LBC advises this document is a Supplementary Planning Document ("SPD") which is a material consideration in planning decisions.

Section 6 of the SPD states:

Payments in lieu of housing and affordable housing

KEY MESSAGES

- *Payments-in-lieu of affordable housing are accepted for developments with capacity for fewer than 10 additional dwellings*
- *Payments-in-lieu of housing/ affordable housing will only be considered in other circumstances where options for on-site and offsite delivery have been fully explored*
- *Our payment-in-lieu rates are informed by 2019 research*
- *A rate of £1,500 per sq m GIA will generally apply to shortfalls in the provision of market or affordable housing for primarily non-residential developments*
- <u>*A rate of £5,000 per sq m GIA will generally apply to shortfalls in the provision of affordable housing for residential developments*</u>
- *For residential developments with capacity for fewer than 10 additional dwellings, the payment-in-lieu of affordable housing will generally vary from £10,000 to £850,000, depending on floorspace*
- *For primarily non-residential developments, payments-in-lieu of market housing and affordable housing will be considered separately*
- *We may prioritise delivery of affordable housing within such developments where the full housing requirement cannot be met*
- *We may reinvest a proportion of the payment-in-lieu within such developments to enhance the affordable housing provision*
- *Payment should generally be made upon implementation of the development*
- <u>*Applicants will need to submit a financial viability assessment to justify making a lower payment than required by this guidance*</u>

Underline my emphasis.

The SPD provides information on calculating payments in lieu of affordable housing (residential development).

Figure 9 provides worked examples:

Figure 9. Calculating payments in lieu of affordable housing

Additional residential floorspace (GIA)	**Capacity** (rounded floorspace addition/ 100 sq m)	**Affordable housing %ge target** (capacity x 2%)	**Affordable housing floorspace target** (%ge target x GIA)	**Payment in lieu required** (floorspace target x £5,000)
105 sq m GIA	1 additional home	2%	2% x 105 = 2.1	2.1 x £5,000 = £10,500
259 sq m GIA	3 additional homes	6%	6% x 259 = 15.54	15.54 x £5,000 = £77,700
578 sq m GIA	6 additional homes	12%	12% x 578 = 69.36	69.36 x £5,000 = £346,800
941 sq m GIA	9 additional homes	18%	18% x 941 = 169.38	169.38 x £5,000 = £846,900

The application scheme proposes 2 additional 1b flats:

Unit	M² GIA Unit	M² NSA Unit	M² GIA Building
141 Fortess Road 1b Flat	75.32	61.84	
143 Fortess Road 1b Flat	80.65	66.57	
Total	**156.0**	**128.4**	**210.0**
Average	**78.0**	**64.2**	

The additional residential unit floorspace is 156 m^2 GIA which generates an affordable housing contribution of £31,200 subject to viability.

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.

Paragraph 1.2 of the FVS2015 used to evidence the Local Plan affordable housing policies etc, states:

If a development incorporating the emerging draft Local Plan policy requirements generates a higher residual land value than the benchmark land value, then it can be judged that these policy requirements will not adversely impact upon viability.

It follows that the opposite is true.

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 PILR2019.

The Development Appraisal Inputs adopted in this FVA are:

Appraisal Input	AH106	PILR2019	Notes
Existing Use Value (EUV)	N/A	Varies	
Premium	N/A	20%	PPG/GLA “Allow for a premium to landowners”
Alternative Use Value (AUV)		N/A	
Benchmark Land Value (BLV)	£120,000	Varies	Extant schemes Appendix 5
Residual Land Value (RLV) with AH £31,200	£54,000	Varies	AH Not viable
Residual Land Value (RLV) with AH £0	£84,000	Varies	AH Not viable
GDV Sales	£1,060,000	Varies	
Acquisition Costs **Agent** **Legal**	 1% 0.5%	 1% 0.5%	
Build Cost	£480,476 (£2,283/m^2)	BCIS Upper Quartile	BCIS TPI increased by 14% from 335 in 2019 to 383 in 2023
Contingency	10% of Works	5% of Works	
Professional Fees	10% of Works + Fees	10% -12% of Works + Fees	
CIL **(Camden + MCIL2)**	£113,788	LBC: £644/m^2 MCIL2: £80/m^2	All Zones
Sales and Marketing Fees	Total 2.5% Sales:1.5% Marketing: 1%	Total 3% (Includes Legal Fees of 0.5%)	
Legal Fees (Sales)	£1,500/unit	0.5% of GDV	
Finance	9%	7%	GBP Libor 3 M 07/2019 – 0.77980% 06/2023 – 5.01490% BoE 07/2019 – 0.75 06/2023 – 4.5
Developer Profit	20% of GDV	20% of GDV	

4.3 Definition of Viability

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

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

Underline my emphasis.

The Mayor of London's "Homes For Londoners – Affordable Housing And Viability Supplementary Planning Guidance 2017" states at Paragraph 3.37:

Within planning viability assessments there are two assessments of land value that are undertaken to determine whether a proposal is viable: the assessment of residual land value and benchmark land value.

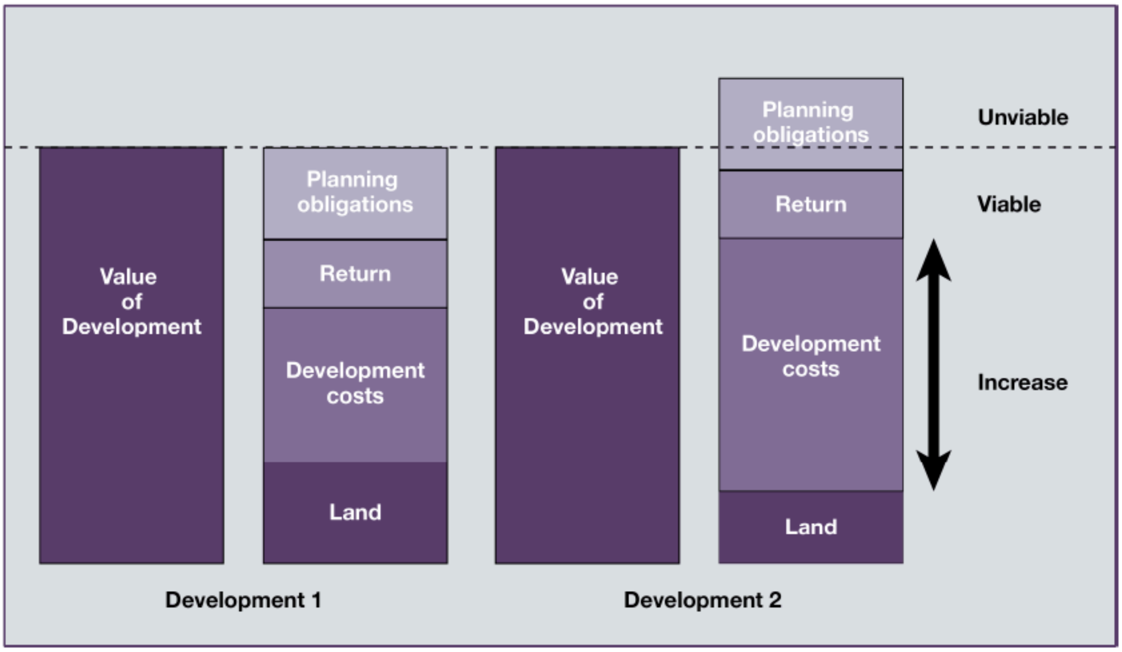
The residual land value is determined through deducting development costs from development value to ascertain the underlying land value. This is then compared with the benchmark land value. The benchmark land value can be considered as the value below which a reasonable land owner is unlikely to release a site for redevelopment.

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/Site Description

The application site is approximately 0.04 hectares in area and located in north west London within the London Borough of Camden.

The area is mixed use and in general comprises ground floor retail/commercial use with residential upper parts.

The application site comprises 2 ground floor retail properties (141 Fortess Road – "Off Licence" and 143 Fortess Road – "Café"), with 2 residential upper floors containing a total of 4 flats.

The site is bordered to the north and south by similar properties and by residential gardens/properties to the west. The site is bordered to the east by Fortess Road, with similar properties opposite.

Tufnell Park tube station is the nearest London Transport station (Northern line), approximately 100 m northeast of the site.

A site location plan is attached – Appendix 1.

4.6 Development Proposal

The planning application proposes the erection of an additional storey to 2 terrace buildings to provide:

Third/Loft Floor (141 Fortess Rd) - 1b x 2p Flat @ 61.84 m^2 (666 ft^2) NSA, 80.65 m^2 (868 ft^2) GIA

Third/Loft Floor (143 Fortess Rd) - 1b x 2p Flat @ 66.57 m^2 (717 ft^2) NSA, 75.32 m^2 (811 ft^2) GIA

4.7 Appraisal Inputs

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

The Development Appraisal shows the Residual Land Value (RLV) for the private sale scheme of 2 x 1b units with an affordable housing contribution of £31,200. The scheme generates an RLV of £54,000 which is below the Benchmark Land Value (BLV) of £120,000 - Appendix 2.

We have also carried out an RLV of the proposed scheme assuming nil affordable housing contribution. The scheme generates an RLV of £84,000 which is also below the BLV of £120,000 - Appendix 2A.

Development Programme

We have assumed the following timetable:

June 2023	-	Planning application submission
September 2023	-	Planning consent/S106 completion
October 2023	-	Acquisition
October – November 2023	-	Tender period
December 2023 – January 2024	-	Tender review/Contract negotiations
February 2024	-	Lead in period
March 2024	-	Clear planning conditions, start on site
September 2024	-	Site practical completion
December 2024	-	Final sales

We have assumed a works contract period of 30 weeks / 7 months which falls within the BCIS contract duration calculator 90% prediction interval for similar size individual projects in the London Borough of Camden – Appendix 3.

4.7.2 Income

i) Private Residential Units (2) - £1,060,000

We have considered comparable sales evidence for both the extant and application from suitable properties within a 0.25 mile radius of the application site - Appendix 4.

Although the extant/proposed scheme comprise 1b flats, the range of comparables includes 2b flats if their floor area/details make it an appropriate comparable.

The comparable evidence for 1b/2b flats range in value from £352,500 to £635,000 with sales/asking rates from £579/ft^2 to £1,076/ft^2.

The two proposed 1b flats are arranged over 2 floors and have an average NSA of 64.2 m^2 (691 ft^2) and are located on the third and loft floors. They will access to a shared garden.

In our opinion the most relevant comparables are:

A period conversion mid floor 2b flat @ 60.0 m^2 (646 ft^2) GIA at Flat 3, Palmer House, 76 -78 Fortess Road. This sold for £535,000 in September 2022 £535,000 (£828/ft^2). This property is superior to the applications scheme as it is not located in a mixed use retail/residential development.

Taking all the comparable evidence available to us, and making allowances and adjustments for asking/sold prices, age, location, parking, amenities, age, competition from other properties etc, we have adopted the following average values in our viability appraisal:

Unit	M^2 NSA	Ft^2 NSA	Sales Value	£/Ft^2
1b x 2p Flat (Ave)	64.2	691	£530,000	£767

ii) Ground Rent - £0

On 30 June 2022, the Leasehold Reform (Ground Rent) Act 2022 came into force.

The new legislation means that any ground rent cannot be charged at more than one peppercorn per year (effectively setting the rate to nil).

Accordingly, we have assumed there will be no ground rent income.

4.7.3 Expenditure

i) Benchmark Land Value (BLV) - £120,000

The application site is approximately 0.04 hectares in size and currently occupied by 2 mid terrace 3 storey properties comprising ground floor retail units and 4 x residential flats arranged over the upper floors.

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, <u>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</u>.

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 17 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. <u>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.

Underline my emphasis.

We have evidenced/calculated the BLV as £xx on the basis of an Alternative Use Value (AUV)

Existing Use Value (EUV)

We have not calculated an EUV for the site as it relates to the sale of a right of way and development rights to vertically extend 2 existing occupied buildings, and as the existing use valuation would not be on the basis of a traditional investment/capital value valuation, the valuation would be subjective and would reflect the owners desire and incentive to sell/permit the proposed development.

Accordingly we have not provided an EUV but reserve the right to do so in the future if necessary.

ii) Premium

We have not allowed for a premium as we have not assumed an EUV.

iii) Alternative Use Value – £120,000

We have calculated an AUV on the basis of the 2 extant planning consents relating to 141 and 143 Fortess Road (2021/0268/P and 2021/1071/P).

The assumptions we have adopted are noted and compared with the assumptions we have adopted for the application scheme – Appendix 5.

iv) Stamp Duty (Acquisition)

Effective SDLT rate @ 3%

v) Legal Fees (Acquisition)

0.75% of acquisition

vi) Works – £480,476

The works comprises site preparation, conversion and extension of existing property to create 2 x 1b residential units and associated external works.

We have been provided with a scheme specific works budget by cost consultants Gleeds, who have visited site and assessed the development plans. The budget excludes professional fees, contingency, VAT and other items as listed in the exclusions, assumptions and costing notes. Note: Gleeds have measured and costed for the scheme works with reference to the GIA of the building measured to the internal face of the external wall, which is why the GIA stated by the architect on the plans differ, as they have been measured to the internal surface of the units - Appendix 6.

As the Gleeds budget is measured, site specific and current, we have adopted their budget of £480,476 as our works costs in the Development Appraisal.

vii) Professional Fees - £52,852

We have adopted a standard rate of 10% of works and contingency for a vertical roof extension with residents in situ.

We have applied a professional fees allowance of 10% of build cost within our appraisals reflecting the scale and complexity of the proposals. Our appraisals take account of professional fees and on costs that are likely to be incurred as part of the development process.

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.

viii) Contingency - £48,048

A contingency of 10% of construction costs would be required and appropriate for a project comprising a vertical roof extension with residents in situ. This also reflects the current level of design and scheme information known to date and the scale /complexity of the proposals.

ix) S106/CIL Contributions - £113,788 (CIL)

CIL has been adopted by LBC.

The Original CIL charging rate is £644/m^2 for residential development (2020).

We have estimated the current LBC CIL rate (by indexing) to be £684.50/m^2.

In 2019, the GLA set a MCIL2 rate of £80/m^2 for residential development within LBC.

We have estimated the current Mayoral CIL rate (by indexing) to be £86.06/m^2.

The architect advises a scheme GIA of 147.67 m^2.

This computes a total scheme CIL liability of £113,788.

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.

x) Sales & Marketing – £26, 500

We have assumed 2.5% of GDV.

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

We have assumed a 3-month sales period from practical completion based on our discussions with local selling agents, including Foxtons and Dexters.

All agents advise that the current property market is slow for flatted developments and expectations are that the flatted market will continue to fall.

Given the slow/soft market, it is possible that sales/marketing will take place over a longer period.

xi) Legal Fees (Sales) – £3,000

We have assumed £1,500/unit.

xii) Interest

In considering the appropriate level of finance and interest costs we have noted 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.

Lenders are currently charging up to 5% above LIBOR, with minimum rates of 8-9%.

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

The PILR2019 (July 2019) adopted a finance rate of 7%, since then the BCIS All in TPI indicate build costs have increased by 14.3%, the LIBOR 3-month lending rate has increased by 4.2351% and the Bank of England base interest rate has increased by 3.75%.

An interest rate of 9% (including fees) is therefore reasonable given the current residential market/UK economy.

xiii) 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. 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.

Paragraph 004 of the PPG on Planning obligations states:

a. Where should policy on seeking planning obligations be set out?

b. 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.

We note the BNPP viability assumption in the PIL2019 which supports the local plan affordable housing policies assumes a profit level at 20% of GDV.

Paragraph 4.38 of the BNPP viability study of 2019 states:

"The near collapse of the global banking system in the final quarter of 2008 has resulted in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks were for a time reluctant to allow profit levels to decrease. Perceived risk in the in the UK housing market had receded with a range of developer profit of between 17% to 20% being seen on developments across London, but the outcome of the referendum on the UK's membership of the European Union has resulted in a degree of uncertainty about the future trajectory of house prices. We have therefore adopted a profit margin of 20% for testing purposes (being at the higher end of the range previously experienced), although individual schemes may require lower or higher profits, depending on site specific circumstances".

Underline my emphasis.

Paragraphs 4.36 and 4.37 state:

"It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major house builders will set targets for minimum profit)".

And

"The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals".

Underline my emphasis.

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 May 2023 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 10 May 2023, the MPC voted by a majority of 7–2 to increase Bank Rate by 0.25 percentage points, to 4.5%. Two members preferred to maintain Bank Rate at 4.25%. The Committee's updated projections for activity and inflation are set out in the accompanying May Monetary Policy Report. They are conditioned on a market-implied path for Bank Rate that peaks at around 4¾% in 2023 Q4 before ending the forecast period at just over 3½%.

And

UK GDP is expected to be flat over the first half of this year, although underlying output, excluding the estimated impact of strikes and an extra bank holiday, is projected to grow modestly. Economic activity has been less weak than expected in February, and the Committee now judges that the path of demand is likely to be materially stronger than expected in the February Report, albeit still subdued by historical standards. The improved outlook reflects stronger global growth, lower energy prices, the fiscal support in the Spring Budget, and the possibility that a tight labour market leads to lower precautionary saving by households.

And

CPI inflation was 10.2% in 2023 Q1, higher than expected at the time of the February and March MPC meetings, with the upside surprise concentrated in core goods and food prices. Although still elevated, nominal private sector wage growth and services CPI inflation have been close to expectations.

Local agents and many political commentators say the London Help to Buy scheme artificially propped up the market until sales completions ended on 31 May 2023.

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.

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
- The Savills UK Housing Market Opinion (June 2023) states a number of house price indices reporting a drop in house prices for the London region and a reduction in the number of mortgage approvals citing in particular rising interest rates as the cause – Appendix - Appendix 7
- Build costs increasing @ 2.3% in next 12 months – See BCIS TPI forecasts below

BCIS All-in TPI — **Base date:** 1985 mean = 100 | **Updated:** Jun-2023 | #101

Recent changes			Percentage change		
Date	Index	Equivalent sample	On year	On quarter	On month
1Q 2023	379	Provisional	8.6%	1.1%	
2Q 2023	383	Provisional	4.9%	1.1%	
3Q 2023	385	Forecast	3.8%	0.5%	
4Q 2023	388	Forecast	3.5%	0.8%	
1Q 2024	390	Forecast	2.9%	0.5%	
2Q 2024	392	Forecast	2.3%	0.5%	
3Q 2024	393	Forecast	2.1%	0.3%	
4Q 2024	399	Forecast	2.8%	1.5%	

- 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

<u>It is therefore reasonable for the developer to consider the PILR2019 and reflect on the development risks including current interest rates, inflation rates, and slow economy/housing market and assume a profit rate of 20% of GDV for a vertical extension to 2 occupied mid terrace properties.</u>

We have therefore factored in a 20% Profit on Gross Development Value.

5. Sensitivity Analysis

The Savills research indicates falling sales values in London in the current year and next 2 years.

The RICS BCIS All-in TPI provides an index of building costs. Building costs are predicted to increase by 4.2% from now until the end of 2024.

We have therefore carried out a basic sensitivity analysis on the 100% private sales scheme with an affordable housing contribution of £31,200 by assuming all inputs values remain the same, save build costs increase by 5%.

The scheme with + 5% build costs generates an RLV of £28,000, which is below the current BLV of £120,000 – Appendix 8.

6. Conclusion

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

Prepared by:

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For and on behalf of: affordable housing 106

Appendices

Appendix 1	Site location plan and existing and proposed plans
Appendix 2	RLV HCA DAT Model – 2 private residential units – AH £31,200
Appendix 2A	RLV HCA DAT Model – 2 private residential units – no AH
Appendix 3	BCIS contract duration calculator
Appendix 4	Proposed residential comparables
Appendix 5	AUV - Extant scheme(s)
Appendix 6	Preliminary Construction Budget Estimate – Gleeds
Appendix 7	Uk Housing Market – June 2023 Savills
Appendix 8	RLV HCA DAT Model – 2 private residential units – AH £31,200. Build +5%

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