Financial Viability Appraisal

Address:	15 Howitt Road, Belsize Park, London, NW3 4LT
LPA:	London Borough of Camden
Planning ref:	N/A
Client:	Anese Group Ltd
Date:	27th June 2024

Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at 15 Howitt Road, Belsize Park, London, NW3 4LT. The process involves utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019), Assessing Viability in Planning under the NPPF Framework (2023), and National Planning Policy Guidance on Viability (NPGV 2019), and complies with RICS professional standards and guidance Financial Viability in Planning: Conduct & Reporting.

Following NPGV para 008, wherever possible this FVA utilises assumptions used in the underlying local plan evidence base. Where changes have been made, these are fully supported by market evidence demonstrating current local circumstances.

The key outputs of this FVA are summarised in the below table:

GDV	**£3,930,000.00**
Costs excl. land and profit	**£1,467,190.00**
Finance	**£295,956.93**
Return	**£786,000.00**
BLV	**£1,980,000.00**
RLV	**£1,380,853.07**
RLV-BLV	**(£599,146.93)**
Target profit	**20.00%**
Actual profit	**4.75%**

Target developer return includes a risk-adjusted rate for market residential (20.00%). Sensitivity analysis demonstrates this is the minimum return necessary to offset the current risk environment.

Benchmark Land Value (BLV) is assessed via the EUV+ and AUV method where relevant in line with national policy. A 20% premium has been added in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the benchmark land value exceeds the residual land value of the scheme. Therefore, the development cannot viably provide the targeted contributions.

Full appraisal inputs and evidence are found in the Schedules, referred to throughout.

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Introduction

S106 Management is instructed by Anese Group Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at 15 Howitt Road, Belsize Park, London, NW3 4LT.

The London Borough of Camden seeks an Affordable Housing contribution in accordance with Policy H4 of the Camden Local Plan (adopted 2017).

The existing site comprises 15 Howitt Road - a mid-terraced house that is currently used as an HMO comprising 10 x units. The total area of the existing house is 224.10m2.

This FVA is to be viewed in conjunction with a new application. The proposed development seeks to convert and extend the existing to provide 2 x split-level flats. In total, the development will provide 322.50m2 of residential accommodation.

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Location Plan

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S106 Management

S106 Management is a viability consultancy established in 2011. Formed initially to capitalise on 35 years of specialist experience in planning law, viability assessment and development, the company has expanded over the last 10 years and now benefits from the expertise of chartered surveyors, town planners, solicitors, architects and an extensive network of planning professionals.

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating with local authorities, **S106 Management** has often been at the forefront of planning viability matters. The company is now one of the most effective and experienced specialist viability consultancies in the UK, combining expertise from all corners of the industry and benefiting from a considerable evidence base of several thousand development appraisals countrywide.

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Planning Policy

By virtue of section 38 (6) of the Planning and Compulsory Purchase Act 2004, planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, our starting point is Policy H4 of the Camden Local Plan (adopted 2017)

Policy H4 Maximising the supply of affordable housing

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

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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 off-site provision would create a better contribution (in terms quantity and/ or quality), the Council may accept provision of affordable housing off-site 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.

Policy H4 suggests that the developments that provide fewer than 25 homes will be subject to a sliding scale contribution, with 2% to be provided for each additional home created. In this case, this adds up to a total contribution of 4%.

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We furthermore refer to the explanatory notes for the policy, referring specifically to HMOs and criteria for additional homes created:

3.100 For the purposes of Policy H4 we will treat small houses in multiple occupation (Use Class C4) in the same way as self-contained homes (Use Class C3), and seek provision of affordable housing from proposals for one or more additional small houses in multiple occupation. This reflects the freedom provided in legislation for changes between these uses without a planning application.

3.107 For schemes which involve one or more additional homes, we will assess their overall capacity for additional homes, starting from the proposed addition to floorspace. Having regard to the nationally described space standard (London Plan Table 3.3), we will generally assess an additional 100sqm GIA residential floorspace as having capacity for one additional home. In order to avoid deterring small extensions to existing residential blocks and or distorting the size of dwellings within them, we will not seek an affordable housing contribution from developments that involve less than 100sqm of additional residential floorspace, including:

- schemes that involve the subdivision of existing housing to create more homes;
- schemes that provide one home of 90sqm GIA; and
- schemes that provide two homes of 45sqm GIA each.

achieving an average of 100sqm GIA per home. We will therefore assess the capacity for additional homes on the basis of multiples of 100sqm GIA, rounding the additional residential floorspace to the nearest 100sqm GIA so the assessed capacity will always be a whole number. An additional 1,200sqm GIA will generally have capacity for 12 homes, an additional 1,800sqm GIA will generally have capacity for 18 homes, and an additional 2,400sqm GIA will generally have capacity for 24 homes. However, we will take into account any constraints on capacity where existing buildings are converted (particularly listed buildings and other heritage assets), or where ancillary residential space would be unable to provide dwellings (e.g. due to lack of natural light). The assessed capacity for additional homes will be used to determine the percentage affordable housing required in accordance with sliding scale set out in Policy H4 criteria (d) and (e) and paragraph 3.110.

In this case, the development proposes the conversion and extension of the existing 10-units HMO into 2 x flats.

The proposed development will provide an additional c. 100m2 of floorspace and hence based on the explanatory notes above, this will create 1 x additional home and be liable for a contribution of 2%.

This is subject to confirmation by the local authority.

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The purpose of this FVA is to determine whether the development is capable of supporting the targeted contribution.

This policy has been informed by the 'London Borough of Camden Local Plan Review Evidence Base: Financial Viability Study' and the 'London Borough of Camden Review of Payment-in-Lieu Rates for Housing and Affordable Housing Study', both conducted on behalf of the council by BNP Paribas and published in October 2015 and respectively July 2019.

PPG Viability para 008 states:

> ***'How should a viability assessment be treated in decision making?***
>
> *Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.'*

This creates a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties, with the burden of proof relating to what changes have occurred since adoption of the local plan applicable to all parties.

As such, where appropriate the conclusions of the underlying local plan evidence base are used to inform our report and corroborate assumptions. Where we believe changes must be made these are fully evidenced.

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) , and the 'National Planning Guidance for Viability' (NPGV) (May 2019).

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National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF.

Paragraphs 57, 58 and 65 of the NPPF are of particular relevance:

57. Planning obligations must only be sought where they meet all of the following tests[24]:

 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.

58. 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.

65. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount[31].

The recommended approach referred to above is set out in the NPGV (https://www.gov.uk/guidance/viability).

The standard approach to viability is explained at para. 10 of the NPGV:

> ***'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.'***

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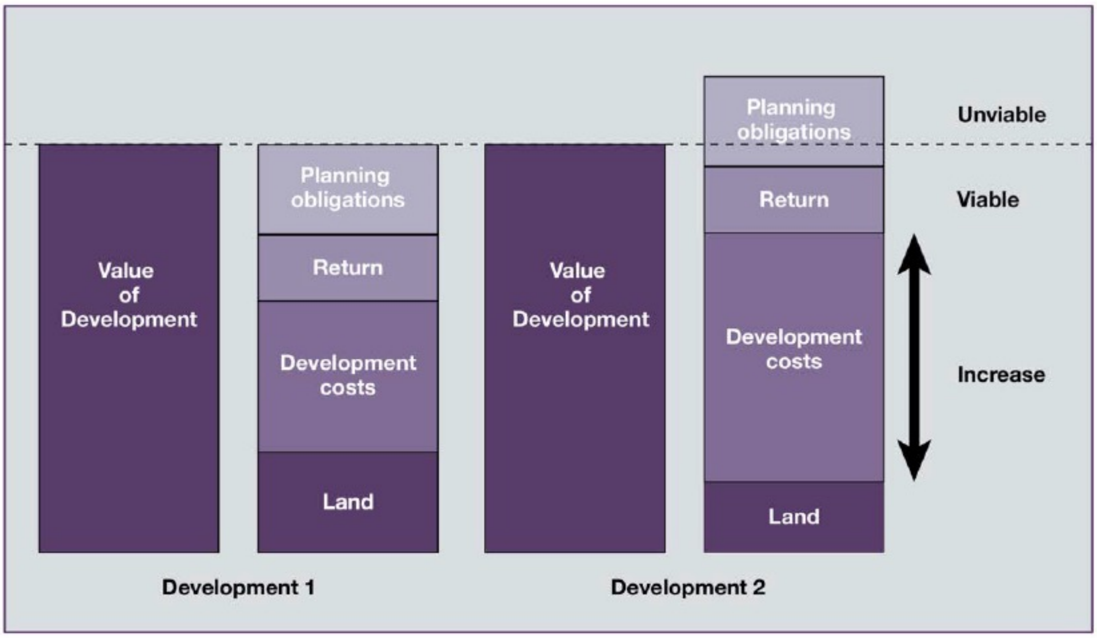
This is summarised well in the below figure from RICS guidance:



Paragraphs 11-18 lay out the required approach to calculating gross development value (GDV), development costs, benchmark land value, landowner and developer return.

The concept of viability is well expressed by the NPGV, in particular para 012 which sets out the costs that should be included in any viability statement, and paras 013-017 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.

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Particular Circumstances

Both RICS guidance and PPG Viability note that particular circumstances must justify the need for a site-specific viability assessment. These circumstances are broad, with a non-exhaustive list provided by the PPG.

> *'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.'*
>
> *PPG Viability para 007*

The particular justification for this site-specific viability assessment is that significant economic changes have occurred since the plan was brought into force.

Following the RICS guidance:

> **3.10.3** The main differences in FVAs for decision taking, compared to for plan making, are that:
>
> - the level of planning requirements has been determined in the plan
> - the site will be identified
> - the scheme will be specified in more detail
> - any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and any costs incurred in readying the site for development, and
> - the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

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Viability

The relevance of viability is accepted, and viability appraisals are required as part of Policy H4 which states:

> 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.

This policy statement should be seen in the context of the NPPF, and indeed subsequent Government guidance.

There are several proprietary toolkits in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT); and Argus Developer.

Our report and its conclusions are based on the application of this tool.

The next section sets out the assumptions that have been made in the preparation of the viability toolkit examining the viability of this site; the toolkit is shown in **Schedule 1** of this report. The comments below address the inputs to the toolkit sequentially and an electronic copy can be provided to the LPA on request.

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Toolkit Inputs

Proposed Development

The development is summarised by the table below (plans are shown at **Schedule 2** to this report):

Unit	Area (m2)	Type
1	162.00	3-bed flat
2	160.50	4-bed flat
Total area (m2)	**322.50**	

The unit mix comprises 1 x 3-bedroom flat and 1 x 4-bedroom flat, with an average unit size of 161.25m2.

Affordable Housing Values

We approach this issue by firstly modelling a scheme with no Affordable Housing; if the Residual Value of this model exceeds the Benchmark Value of the site (as described below) producing a surplus profit, then we produce a second model to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

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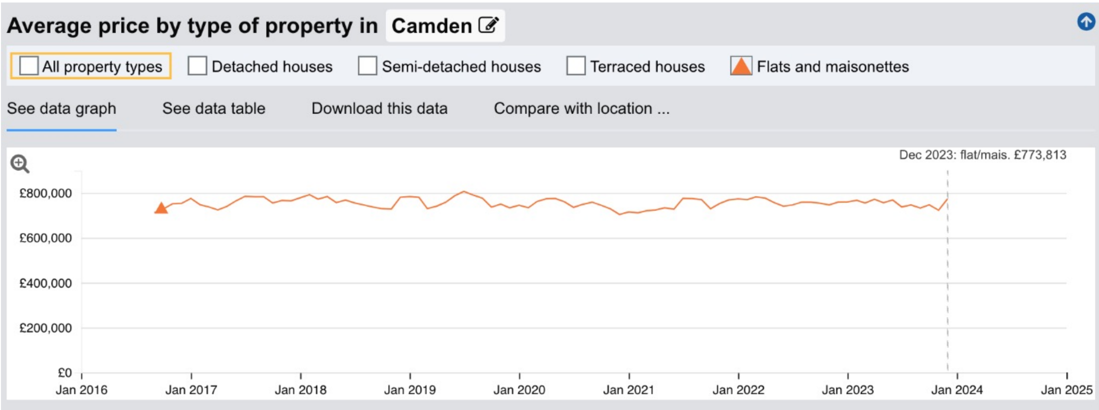
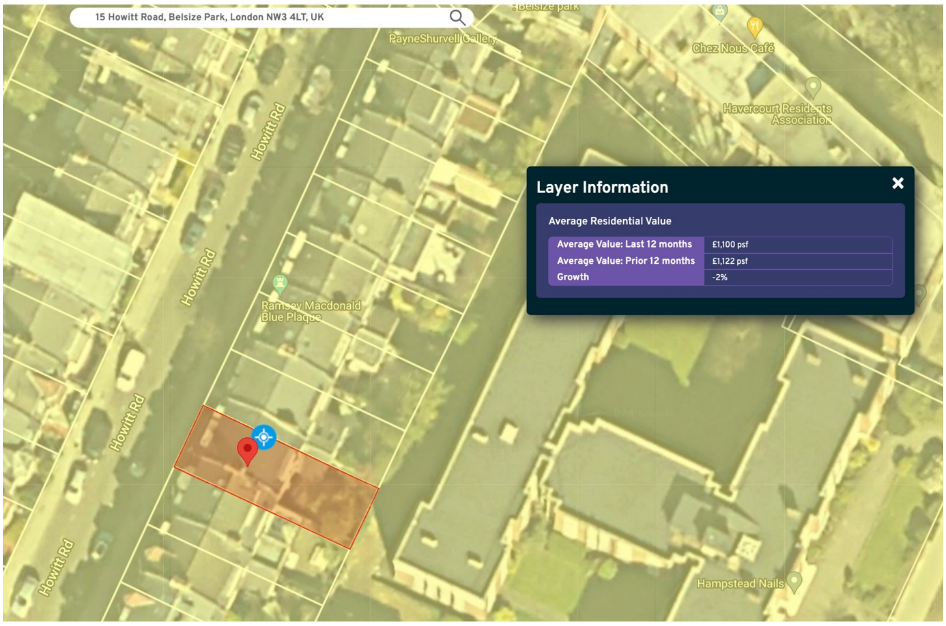
Open Market Housing Values

Land Registry data for Camden suggests the following average values for flats/maisonettes:



Therefore, as of December 2023, the average sales price of a flat in the area was £773,813.

Nimbus suggests the following data:



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This suggests an average open market value for general properties in the immediate area of £11,840/m2.

Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). Values are extremely sensitive to small changes in search area; therefore, we have limited our transactional search to within 1 year and 1/2 mile of the scheme.

Flats SOLD Within 1/2 mile, last 1 Year					
Address	**Type**	**Sale Date**	**Area m2**	**£/m2**	**Price**
28, Flat B, Glenloch Road, Hampstead, London, Greater London NW3 4DN	2-bed flat: 1 bath,	23.11.2023	72.80	£13,736.26	£1,000,000
15a, Buckland Crescent, London, Greater London NW3 5DH	3-bed flat	16.06.2023	111.00	£10,900.90	£1,210,000
66a, Belsize Park Gardens, London, Greater London NW3 4NE	3-bed flat	26.05.2023	144.00	£17,013.89	£2,450,000
54, First Floor Flat, Belsize Park, London, Greater London NW3 4EE	3-bed flat	07.09.2023	118.30	£10,481.83	£1,240,000
91, Belsize Lane, London, Greater London NW3 5AU	3-bed maisonette	06.09.2023	131.92	£15,463.92	£2,040,000
12, Second Floor Flat, Glenloch Road, Hampstead, London, Greater London NW3 4BU	3-bed flat:	31.03.2023	96.80	£8,832.64	£855,000
51, Ground Floor Flat, Howitt Road, London, Greater London NW3 4LU	3-bed flat:	20.04.2023	92.00	£13,152.17	£1,210,000
Glenloch Court, Flat 6, Glenmore Road, London, Greater London NW3 4DD	2-bed flat: 1 bath,	09.01.2023	98.00	£11,836.73	£1,160,000
			Avg. £/m2	**£12,910.20**	

The average achieved prices are higher than the average Nimbus data noted above. This is due to the fact that this data is compiled from across the postcode and typologies. More granular data presents a more accurate picture.

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We have also studied properties which are currently on the market, located within ¼ mile:

Flats FOR SALE Within 1/4 Mile					
Address	**Type**	**Sale Status**	**Area m2**	**£/m2**	**Price**
Belsize Park Gardens, London, NW3	3-bed flat:	Sold STC	227.51	£13,625.77	£3,100,000
Belsize Grove, Belsize Grove, London	4-bed flat	For sale	181.90	£15,118.20	£2,750,000
Belsize Grove, Belsize Grove, London	4-bed flat	For sale	184.00	£12,228.26	£2,250,000
Belsize Grove, Belsize Grove, London	3-bed flat:	Sold STC	167.78	£13,112.41	£2,200,000
Belsize Park Gardens, London, NW3	3-bed flat:	Sold STC	176.79	£12,444.14	£2,200,000
Haverstock Hill, Belsize Park, London, NW3	4-bed flat	For sale	229.30	£8,896.64	£2,040,000
Glenmore Road, Belsize Park, London, NW3	2-bed flat	Under Offer	82.00	£10,365.85	£850,000
Howitt Road, Belsize Park NW3	2-bed flat	Sold STC	79.00	£12,025.32	£950,000
Glenloch Road, London, NW3	2-bed flat	For sale	65.31	£12,632.06	£825,000
			Avg. £/m2	**£12,317.11**	

Furthermore, we have reviewed new-build data however, no comparable results are produced even when extending the search to +3 miles.

The average £/m2 values and GIAs from the data sets above are summarised below:

	Nimbus	**Sold**	**For sale**	**NB for sale**
Avg. £/m2 values	£11,840	£12,910	£12,317	N/A
	Sold	**For sale**	**NB for sale**	**As proposed**
Avg. GIA m2	108.103	154.84	N/A	161.25

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Results in the area are very sensitive to small changes in search area and we note that the datasets include units of various types. Some of these are of more luxury architecture and located on more spacious streets and set back from the driveway, and hence will not be directly comparable. We have therefore identified three roads in our dataset that accommodate units of similar style, namely Glenloch Road, Glenmore Road and Howitt Road, and have focused on this data specifically as shown below:

Flats SOLD Within 1/2 Mile, Last 1 Year					
Address	**Type**	**Sale Date**	**Area m2**	**£/m2**	**Price**
12, Second Floor Flat, Glenloch Road, Hampstead, London, Greater London NW3 4BU	3-bed flat:	31.03.2023	96.80	£8,832.64	£855,000
51, Ground Floor Flat, Howitt Road, London, Greater London NW3 4LU	3-bed flat:	20.04.2023	92.00	£13,152.17	£1,210,000
Glenloch Court, Flat 6, Glenmore Road, London, Greater London NW3 4DD	2-bed flat: 1 bath,	09.01.2023	98.00	£11,836.73	£1,160,000
28, Flat B, Glenloch Road, Hampstead, London, Greater London NW3 4DN	2-bed flat: 1 bath,	23.11.2023	72.80	£13,736.26	£1,000,000
			Avg. £/m2	**£11,749.17**	

All these units are smaller than the proposed and hence we would expect the proposed to achieve higher sales prices. We focus on the unit sold at ***51 Howitt Road***, which is located on the same road and is similar to the proposed 3-bed flat. The comparable flat is presented in good condition, with modern fitted kitchen and bathrooms. This is located at ground floor level and benefits from a private garden. The flat has also resulted from a period conversion and hence is directly comparable. This sold in April 2023 for £1,210,000 or £13,152/m2. We would expect the proposed to achieve a higher sales price to account for the larger size.

We have had particular regard to these transactions when valuing the proposed units.

Unit	Area (m2)	Type	£/m2	Price	Proposed Price
1	162.00	3-bed flat	£12,037.04	£1,950,000.00	£1,235,000
2	160.50	4-bed flat	£12,336.45	£1,980,000.00	£1,235,000
Total area (m2)	**322.50**		**Total GDV**	**£3,930,000.00**	**£9,380,000**
Avg. unit size (m2)	**161.25**		**Avg. £/m2**	**£12,186.05**	**£8,384.73**

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The proposed valuation above has been reached following extensive market research, consideration of comparable characteristics in recent transactions, new build and external amenity premiums and advice from local agents and therefore should be considered robust. The figures represent the very top end of what can be achieved in today's market and considering current trends should be considered optimistic.

Freehold Ground Rent

The capital value of the Freehold Ground Rents from the project is therefore included at zero for the purposes of this viability appraisal. The Leasehold Reform (Ground Rent) Bill received Royal Assent on 8 February 2022 meaning it is now an Act of Parliament (law).

The Act limits ground rent to a 'peppercorn rent.'

As such all-viability assessors are currently including ground rent at either a zero or nominal rate as this income will not be realised.

Timing

This FVA is to be read in conjunction with a detailed planning application which we expect to be granted within 3 months. There will be a 3-month period following this to produce building regs. drawings and obtain all fixed price quotations. We therefore allow a 6-month pre-commencement period.

Construction is projected over a 12-month period with sales expected between months 12 and 16.

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Construction Costs

In order to assess the construction costs for this project we have asked for assistance from Mr David Parker (MRICS) who was produced a cost report. This is shown at **Schedule 4** and also summarised below:

Item	Cost
Demolition	£46,000.00
Foundations, Basement, Slab	£298,800.00
Frame	£12,000.00
Roofs	£28,100.00
Upper Floors	£18,800.00
Staircases	£12,700.00
External Doors and Windows	£58,100.00
Internal Partitions	£20,400.00
Internal Doors	£17,500.00
Joinery	£71,200.00
Floor Finishes	£22,200.00
Wall Finishes	£26,600.00
Ceiling Finishes	£19,600.00
Decorations	£20,000.00
Sanitary Installation	£42,600.00
Plumbing Installation	£65,800.00
Electrical Installation	£42,700.00
Acoustic Testing	£1,000.00
Underground Drainage	£21,000.00
Main Contractors Prelims.	£102,000.00
Scaffolding to Perimeter	£10,000.00
Main Contractors Profit & Overhead (10%)	£95,700.00
Total	**£1,052,800.00**

The total construction cost is £1,052,800 and the £/m2 cost is £3,300. Our calculations have been run accordingly.

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Non-BCIS Costs

Non-BCIS costs are included in the cost report above and also shown below:

Item	Cost
Incoming Services	£14,000.00
NHBC / Warranty	£10,000.00
External Works	
Stained timber bin store on concrete base	£1,500.00
Prefinished metal railings to rear courtyard	£1,200.00
Patio, steps and paving to ground dining	£1,800.00
Paving to lightwell front	£2,200.00
Ditto rear lightwell	£2,000.00
Paving front path	£400.00
Works to front boundary	£1,500.00
Cultivate, topsoil and turf rear garden	£900.00
Small trees and shrubs	£1,000.00
Lighting to rear garden	£600.00
Works to existing rear garden boundary walls	£1,500.00
	£14,600.00
Main Contractors Prelims.	£4,000.00
Main Contractors Profit & Overhead (10%)	£4,300.00
Total	**£46,900.00**

This represents c. 4.45% of the base build costs and our calculations have been run with the corresponding figure.

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Fees

Professional fees are often quoted on a range of 8-12%, with separate allowances for planning fees.

The local plan viability study adopts suggests an allowance between 10-12%, dependant on the nature of the scheme and site constraints.

This will vary according to the size and complexity of the scheme. We normally adopt 6-8% for large sites (with repetitive designs and no complicating factors), 10-12% for more differentiated sites (with a variety of different house types or areas) and 10-15% for small sites, where the scale of the fees is often larger due to the lower overall cost of build and lack of potential efficiencies.

We have adopted 10% for this scheme on the basis of 2 x flats.

Contingency

PPG Viability para 012 notes:

> *Explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.*

Prudent developers often adopt a standard contingency allowance of 10-20% to account contingency. We more commonly see an allowance of c. 5% for viability assessment, although in the recent past when inflation has increased a higher allowance has been made.

In this case we adopt 5% on the basis of 20% target return. If the target return is reduced, then the contingency allowance must likewise be adjusted to compensate.

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Planning Obligations (S106 contributions & CIL)

We have calculated CIL charges as per the table below, accounting for indexation

	LPA CIL	MCIL2
Adopted Charging Schedule (£/m2)	£644	£80
Following indexation (£/m2)	£766	£94
Total proposed GIA (m2)	322.50	322.50
Existing GIA (m2)	224.10	224.10
Retained GIA (m2)	224.10	224.10
Lost GIA (m2)	0.00	0.00
Applicable GIA (m2)	98.40	98.40
CIL (total)	£75,348	£9,275
	Total	**£84,623**

This is subject to confirmation by the charging authority.

Site Acquisition Costs

We have included acquisition costs comprised of SDLT at the prevailing rate, legal fees at 0.75% and agency fees of 1%.

Finance Costs

Given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. The Bank of England maintained the base rate to 5.25% in Q1 2024, with further rate rises currently suggested throughout the year. The local plan viability study update in November 2017 adopted 7%. The base rate at that date was 0.5%. The base rate has increase 4.75% since this date.

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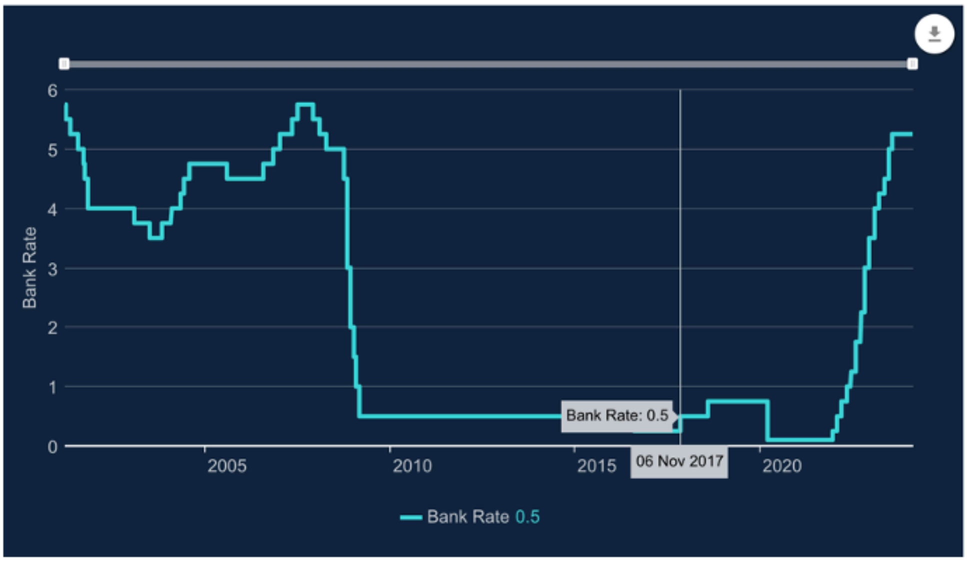

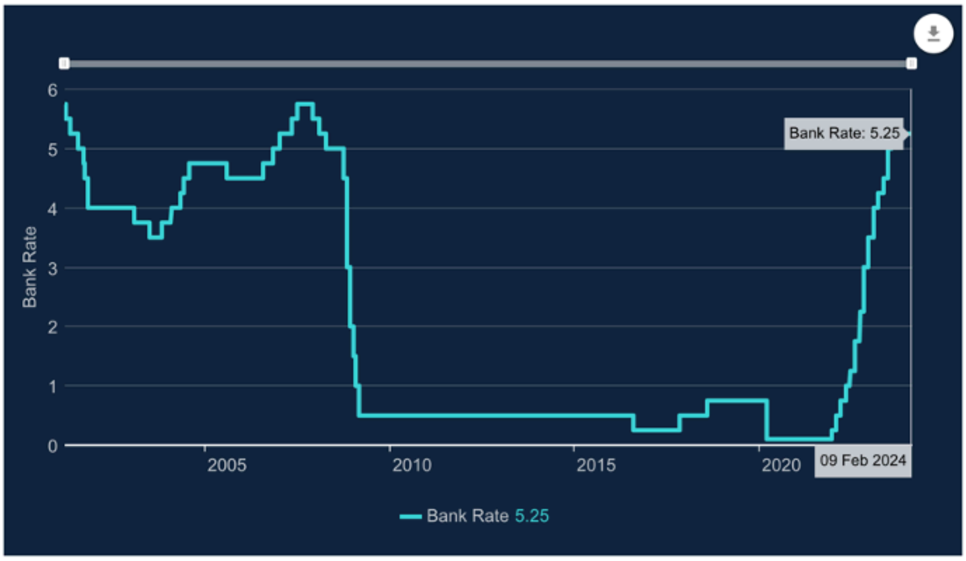

To provide hard data, we note that Sirius Property Finance's quarterly update noted the average interest rate increased to 12.2% in Q2 2023, with average set up and exit fees of 1.5% and 1.1% respectively. Vision Finance, a development finance broker, has note that rates of 10-12% 'all-in' on 100% should be anticipated.

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More broadly in terms of viability assessments, we note the following recent viability cases where an 8+ rate has been agreed:

LPA	Ref	Rate
Hackney	2023/1240	8%
Hackney	2023/1231	8%
Basildon	23/00212/FUL	9%
Tonbridge & Malling	22/01237/FUL	8%
South Holland	H11-0383-23	8%

Therefore, a minimum interest figure of 8% is appropriate and has been used in the toolkit. In reality finance deals are now significantly exceeding this level, but as an all-in rate 8.5% accommodates all fees and is applied to all costs.

Sales/Marketing Costs

The Local Plan Viability Assessment adopts the following inputs:

> **Marketing costs**
>
> 5.42 Our appraisals incorporate an allowance of 3% for marketing costs, which includes show homes and agents' fees, plus 0.5% for sales legal fees.

Generally, we would assume sales agents' fees at 1.5%, legal fees at 0.5% and marketing/promotion at 2% for housing schemes including a show home and 1% for marketing without a show home.

We have adopted a sales/marketing cost of 3% and legal fees of £1,000 per unit.

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Developer Profit

The NPGV contains the following advice at paragraph 18:

> ***How should a return to developers be defined for the purpose of viability assessment?***
>
> *'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.'*

The RICS guidance similarly notes the test laid out in the PPG as a starting point.

> **Return to the developer**
>
> **4.2.27** In paragraph 018, under the heading of 'Standardised inputs to viability assessment', the PPG provides some guidance on how a return to developers is defined for the purposes of the FVA. The paragraph's focus is on a suitable return for plan making, rather than individual returns for scheme-specific decision taking. It identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making, but is silent on a decision-taking developer return. However, PPG paragraph 008 states that where a site-specific FVA accompanies a specific planning application, it 'should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then'. This implies, in addition to other inputs, a similar test regarding developer's profit to that used at the plan-making stage.

The guidance further notes that timescale, uncertainty, and any particular characteristics that increase risk are factors which particularly influence profit assumptions.

As previously noted, Paragraph 008 of the NPGV provides a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties.

The 'London Borough of Camden Local Plan Review Evidence Base: Financial Viability Study' produced by BNP Paribas and published in October 2015 at para. 5.28 (page 35) identifies 20% on gross development value as an appropriate assumption.

Our experience is that for the previously assumed finance terms to be offered by commercial lenders, a minimum of 17.5% is generally required, up to a maximum of 25% on riskier proposals. Development finance will

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generally therefore set the expectations for return on investment.

Recent appeal decision ref APP/Y3615/W/22/3298341 noted the following:

> 68. Although it refers expressly to plan making, I also see no good reason why the profit range of 15-20% identified in the Government's planning practice guidance (PPG) should not reasonably be applied to a scheme of this type in order to assess viability, particularly when read in the context of para 58 of the Framework. Given the fairly difficult and comparatively uncertain economic circumstances for the construction sector at present and regardless of what profit margin the appellant has worked to in the past, it is reasonable to assume developer risk is greater now than at other more economically stable times. Consequently, notwithstanding the evidence regarding house prices and demand for housing in the area, and in respect to programming and sales revenue, a profit target to the higher end of the range, up to 20% of gross development value, is reasonable.

Taking into account the risk profile of the development we consider the assumption adopted in the Local Plan Viability Study to be appropriate, and we adopt the same (20.00%). This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The appraisal has been run accordingly.

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Benchmark Land Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV). Paragraph 15 requires that the EUV of the site should be identified:

> *'Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).*
>
> *Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'*

RICS guidance Assessing Viability in Planning under the NPPF Appendix B lays out the appropriate approach to assessing existing use value, including relevant data sources:

> 5.2.5 The assessment of the BLV requires the assessment of five components. They should be calculated and reported to the plan-maker/decision-maker **separately** to counter circularity arguments that BLVs from one method of valuation have been used as an input into another method, in order to reduce developer contributions.
>
> 5.2.6 The components that need assessing are:
>
> - EUV
> - premium
> - AUV, where appropriate
> - policy-compliant site value assessed by the residual method and
> - policy-compliant site value assessed by the comparative method.

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B.1.3 The PPG paragraph 015 identifies the type of evidence base that can be used to support the determination of the EUV and the sources of that evidence. At the plan-making stage, this should be accomplished with collaboration between the plan-makers, developers and landowners, and can use published sources of information on rental and capital values of land and property, such as:

- land registry records of transactions
- real estate licensed software packages
- real estate market reports
- real estate research
- estate agent websites
- property auction results
- Valuation Office Agency data and
- public sector estate/property teams' locally held evidence.

1. EUV

The existing site comprises 15 Howitt Road - a mid-terraced house that is currently used as an HMO comprising 10 x units. The total area of the existing house is 224.10m2.

Our client has advised that the current gross annual rental income from the HMO units totals £88,800, with a net annual income of c. £72,000 after expenses. If we capitalise this using a yield at 4.5% we obtain an existing value of £1.6m.

2. Premium

Paragraph 16 requires that a premium should be added to the EUV (EUV +) to *incentivise* the landowner to bring the site forward for development:

> *'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.*
>
> *Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration.*

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***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).'*

D.2.4 The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors, third-party rights and covenants
- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.

D.2.5 Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

D.2.6 Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites.

D.2.7 In the case of greenfield, cleared brownfield or some *sui generis* (unique) sites outside of the normal planning use classes, where the EUV is a small proportion of the BLV, the premium is more likely to be stated as a multiplier or could be stated as an actual amount.

In this instance we apply a 20% landowner premium to the EUV to obtain an BLV of £1.92m, which is similar to the value calculated if the house was to be brought back to its original shape.

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3. AUV

Paragraph 17 allows the BLV to be determined by an alternative Use Value (AUV):

> *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.*
>
> *Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'*

The professional guidance sets out the requirements for an AUV approach to determining land value. Largely this will be most appropriate where an existing extant or implementable consent is in place and there are accurate drawings on which to base the AUV:

> **C.1.5** Extant consents also need to meet the tests set out in C.1.1. above. But, as the extant consent is capable of being implemented, assessment of the residual value of the consent as permitted should be provided.
>
> **C.1.2** The AUV approach should be based on accurate floor plans and elevations for the alternative scheme. This is essential so that accurate gross to net assumptions can be made and for a detailed cost plan to be prepared.

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Further where an existing use will be refurbished or redeveloped this will constitute an AUV. However, the guidance makes a distinction between refurbishment and repair as below:

B.1.7 PPG paragraph 017 states that 'where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV'. Where any assumption regarding the use of the property involves any alterations, including refurbishment or redevelopment, BLV will be based on AUV with no premium.

B.1.8 What constitutes a repair versus an alteration will be determined by professional judgement as to whether the works bring the building up to standard within the existing use, or whether they go beyond that and fall into the category of refurbishment. In many circumstances, the expenditure in proportion to the building value may be a material consideration in informing this professional judgement. Each case needs to be considered on its merits but a building or site in need of substantial repair would be expected to have a lower EUV than a building or site in good repair, subject to any dilapidations claims. Furthermore, a landowner should not profit from their failure to maintain the building or site.

B.1.9 Works undertaken to comply with building regulations or statutory requirements, such as the *Disability Discrimination Act* 1995 or the need to provide Energy Performance Certificates (EPCs), would generally constitute repairs, as these are required for the continued use of the building. Such works could of course represent a significant cost. If the property cannot be legally used for its current use at the date of valuation, that should be reported, even if the EUV is based on the assumption that remedial works will be carried out.

B.1.10 All relevant repair and maintenance costs should be reflected in the valuation, and all assumptions made underpinning the assessment of the EUV should be reported.

B.1.12 Where a landowner has not renewed leases, it would be inappropriate to determine a lower BLV and penalise the landowner for making the site ready for development. That would occur if a lower EUV is coupled with a premium evidenced from similar sites that had not been made ready for development in this way. A balance is required, reflecting the circumstances at the valuation date, but also the costs actually incurred in delivering the site and bringing it forward for development purposes. Such costs would generally sit in the scheme assessment, as necessary to incur in order to bring the scheme forward. They should not include payments to tenants and other parties who have an interest in the land based on hope value, but should reflect the current use value of these interests and the statutory costs of determining tenancies. Any double counting (value and cost) must be avoided in the EUV, premium and scheme assessment.

In order to corroborate our assumption, we also consider the AUV of the site.

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In order to obtain an accurate value for the existing flats, we have turned to the sold data which has been extrapolated from Rightmove. All the properties below have been sold in the past 1 year and are located within 1/4 mile of the subject site.

Terraced SOLD Within 1/4 Mile, Last 2 Years					
Address	**Type**	**Sale Date**	**Area m2**	**£/m2**	**Price**
21, Howitt Road, London, Greater London NW3 4LT	Terraced house:	14.07.2023	324.00	£14,660.49	£4,750,000
35, Howitt Road, London, Greater London NW3 4LU	6-bed terraced house:	21.10.2022	225.00	£12,666.67	£2,850,000
25, Glenmore Road, London, Greater London NW3 4BY	6-bed terraced house:	28.04.2022	277.12	£14,416.14	£3,995,000
			Avg. £/m2	**£14,035.49**	

We focus on the sold unit at 35 Howitt Road, which is of similar size and layout to the existing house and also located on the same road. The comparable house has 6-bedrooms, which is similar to the existing and is also of similar size. Moreover, both units are arranged over 4-storeys. The house is presented in good condition with only minor modernisation works required. We would expect the existing house to achieve a similar price. We note however that the existing needs refurbishment works, and hence apply the BCIS upper quartile cost for refurbishment of terraced houses at £2,998/m2.

Existing Area (m2)	224.10
£/m2 value	£12,000.00
Value	£2,689,200.00
Refurb Works	£671,851.80
Value After Refurb	**£2,017,348**

In this instance we have not completed a policy-compliant residual calculation as the outcome of the 100% open market appraisal demonstrates this is not viable.

The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the viability toolkit. It is only if the Residual Value of the development exceeds the Market Value (Benchmark), that it will be viable for a contribution to be made towards Affordable Housing.

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Conclusions

The full toolkit appears at **Schedule 1,** and the key conclusions are set out in the summary section. They are also repeated for convenience below:

Sales	**£3,930,000.00**
Less Costs	
Construction Costs (Resi)	£1,052,800.00
Commercial Costs (Build & Fees)	£0.00
Other Site Costs	£294,490.00
Marketing	£119,900.00
Finance Costs	£295,956.93
Developer Return	£786,000.00
Residual Site Value	£1,380,853.07
Benchmark Land Value	£1,980,000.00
Result	**(£599,146.93)**

To determine the viability of targeted affordable housing provision, the Benchmark Value of the site as stated above, is deducted from the Residual Value calculated by the viability model. If the result is negative, as it is in this case, the development does not achieve the target return on a 100% open market basis and therefore is unlikely to be able to viably deliver the targeted contributions.

The following table summarises the above conclusions.

Spreadsheet Residual Value	**£1,380,853.07**
Plus Target Developer Return	**£786,000.00**
Less Benchmark Value	**£1,980,000.00**
Actual Profit	**£186,853.07**
Percentage actual profit	**4.75%**

This presents a return which is lower than the 20.00% target identified previously. Any planning obligations would further reduce this level.

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Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important to inform assessment of risk.

Sensitivity testing conclusions are included below.

Testing the variance associated with changes in sales and build costs of +/- 5-10% results in the below matrix:

Developer profit %		Sales values				
		-10%	-5%	0%	5%	10%
Build Costs	-10%	-2.57%	2.43%	7.43%	12.43%	17.43%
	-5%	-3.91%	1.09%	6.09%	11.09%	16.09%
	0%	-5.25%	-0.25%	4.75%	9.75%	14.75%
	5%	-6.58%	-1.58%	3.42%	8.42%	13.42%
	10%	-7.92%	-2.92%	2.08%	7.08%	12.08%

This demonstrates that in all scenarios the achieved return is below the targeted 20.00%, suggesting a high-risk development.

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T&Cs and Compliance

1.1 S106M has been instructed by the applicant to review the viability of the proposed development and engage with the local authority and their representatives on this matter.

1.2 Scope of instruction extends to provision of 1 report document and schedules for submission as part of a planning application.

1.3 S106M has not inspected the property.

1.4 This report is prepared as an assessment of the Planning Financial Viability of a proposed development for the purposes of agreeing appropriate Section 106 planning obligations and affordable housing contributions. It is not a valuation of the subject site or scheme. It is exempted from the RICS Red Book on the basis of the parties negotiating and agreeing the planning obligations and the authoritative requirement of the NPPF and PPG. It does not constitute a Red Book valuation report, and should under no circumstances be relied upon as such, although it may refer to the conclusions of third parties in this regard for which no liability is accepted. The date of the report can be viewed on the front page and will require updating for market uncertainty after a reasonable time period has elapsed.

1.5 The report is assumed to be made publicly available for transparency purposes unless otherwise stated. The Executive Summary can be considered a Non-Technical Summary for the purposes of the guidance.

1.6 S106M accepts responsibility only to the commissioning party named at the start of this report alone that this report has been prepared with the skill, care and diligence reasonably to be expected of a competent consultant but accept no responsibility whatsoever to any other person or entity.

1.7 S106M confirm that any RICS members involved in this reporting have complied with the mandatory requirements of RICS Professional Statement Financial Viability in Planning: Conduct and Reporting May 2019, including the following:

- We have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information (para 2.1).
- We have identified no conflicts of interest or risk of conflicts in preparing this report (para 2.2).
- We are not working under a contingent or performance related fee agreement basis (para 2.3).
- We support positive, proactive, transparent and appropriate engagement between all parties in the planning process. This report is prepared on the basis that it will be made publicly available, except in specifically agreed exceptional circumstances (para 2.4).
- We have not been involved in the preparation of the Council's Local Plan Area Wide Viability Assessment (para 2.5); however we have regard to this in line with PPG Viability para 002 and the statutory development plan.
- All inputs are reasonably justified by market and supporting evidence including but not limited to the local plan viability study which justifies the adopted planning policy in line with para 008 PPG Viability (para 2.6-2.7).
- The status of this report is Final as of the dated front page subject to any further reasonable, proactive and constructive negotiations to resolve reasonable professional differences of opinion in line with para 2.6, 2.8 and 2.10 of the Professional Statement.
- Our report includes sensitivity testing in line with the para 2.9.
- Where there are professional differences of opinion over inputs we seek to resolve these during negotiations following submission of the original report in line with para 2.8-2.10. Where differences of opinion cannot be re-

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solved this is stated clearly.

▪ The Executive Summary complies with the Non-Technical Summary requirement of para 2.11.

▪ Any sub-consultants contributing to this report have been made aware of the Professional Statement and its requirements, and confirm compliance with it (para 2.13).

▪ We have been allowed sufficient time since instruction to carry out this FVA bearing in mind the scale of the development and the status of the information as at the date of this report (para 2.14).

▪ Appropriate regard has also been had to RICS Guidance Note: Assessing Viability in Planning under the NPPF 2019 (2021).

Material Uncertainty

In respect of the planning and development sector as at the report date where unprecedented sets of circumstances are highlighted, including for example COVID-19, the Ukraine War and Energy Crisis, creating an absence of relevant/sufficient market evidence on which to base our judgements, our report will be reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of the report less certainty – and a higher degree of caution – should be attached to that report than would normally be the case.

For the avoidance of doubt this explanatory note, including the 'material valuation uncertainty' declaration, does not mean that the report cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which said report may have been prepared. In recognition of the potential for market conditions to move rapidly in response to changes in market conditions we highlight the importance of the valuation date and any reporting material uncertainty.

Quality Control

This report is provided for the stated purpose and for the sole use of the named clients. In line with para 2.12 the following quality control pathway has been taken, with all parties involved in the compilation of this report and history of previous viability discussions noted:

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