S106 MANAGEMENT

Financial Viability Appraisal

Address:	**Land at 42 -46 Drake Street, Rochdale, OL16 1NU**
LPA:	**Rochdale**
Planning ref:	
Client:	**Cassel Fletcher**
Date:	**23/1/23**

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Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at 42 -46 Drake Street, Rochdale, OL16 1NU. 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	£2,945,374.87
Costs exc land and profit	£2,848,006.12
Finance	£69,332.25
Return	£508,181.23
BLV	£12,600.00
RLV	(£480,144.73)
RLV-BLV	(£492,744.73)
Target profit	17.50%
Actual profit	0.53%

Target developer return includes a risk-adjusted rate for market residential (17.5%). 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. An appropriate 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 Cassel Fletcher to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at Land at 42 -46 Drake Street, Rochdale, OL16 1NU.

Rochdale Borough Council seeks an Affordable Housing contribution in accordance with Policy C4 of the Rochdale Adopted Core Strategy (adopted 2016)

The existing site comprises a plot of empty land at the corner of 42-46 Drake Street, extending to 0.042Ha.

This FVA is to be viewed in conjunction with a new application. The proposed development seeks to erect a block of 33 No. 1 bed and studio flats (NIA totalling 1266m2), with ground floor commercial accommodation extending to 139m2.

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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, the policy starting point is C4 of the Rochdale Adopted Core Strategy (adopted 2016):

C4 - Providing affordable homes

We will seek affordable housing on all developments of 15 dwellings or more. We will seek a contribution to affordable housing of 7.5% of the development sales value of the overall scheme. Affordable housing should be:

a. Provided on-site using this contribution to deliver homes of a type, size and tenure agreed by the developer and the local authority based on local evidence and, where appropriate, delivered in partnership with a Registered Provider; or
b. Provided via an off-site financial contribution in exceptional circumstances, for example, where:

    i. The local authority considers that the site is not an appropriate location for affordable housing e.g. poor access to local services and public transport; or
    ii. The type of housing on the site makes it difficult to provide an element of affordable housing; or
    iii. It is not practical to properly manage an element of affordable housing on the site e.g. on-site provision would only deliver a very small number of homes.

We will take the following factors into account when negotiating the level of affordable housing and how it is to be provided:

i. The type of affordable housing required in the area;
ii. The availability of Social Housing Grant or equivalent;
iii. The need to deliver other planning objectives with a higher priority; and
iv. The economic viability of the development.

CS4 suggests that developments of 15+ dwellings should an affordable housing contribution of 7.5% of the development sales value of the overall scheme.

Based on our assessment of GDV, this would equate to c. £265,000.

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

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While this policy is not specifically informed by a local plan viability study, the Greater Manchester Combined Authority Viability Assessment of Spatial Framework (September 2020) has considered the viability of the adopted policies in Rochdale.

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) (2023), 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[26]:
>
> 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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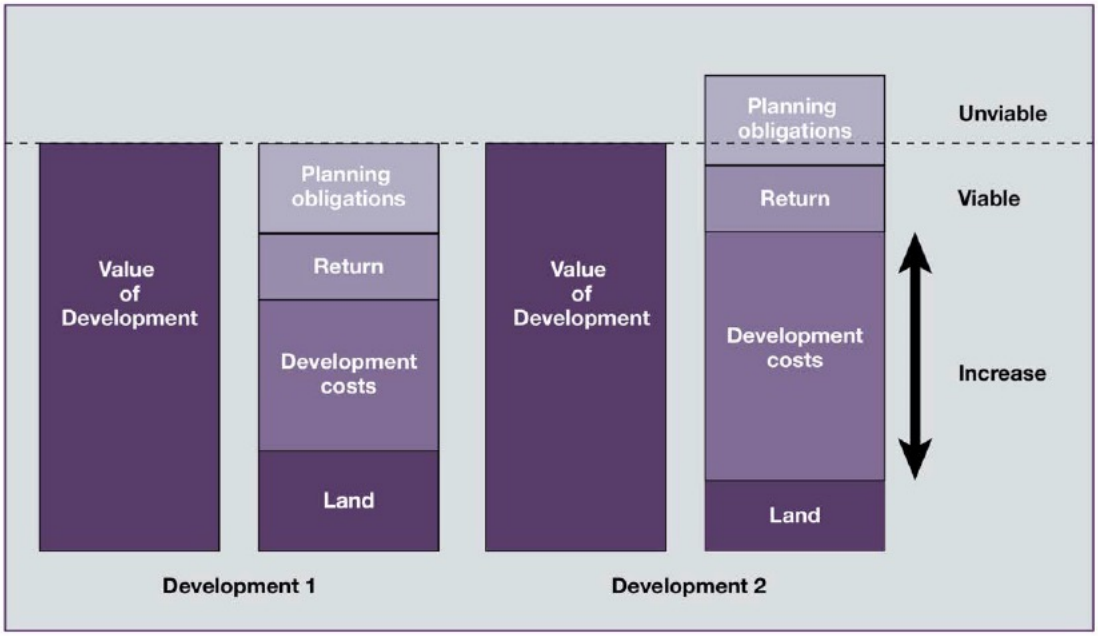
This is summarised well in the below figure from RICS guidance:



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 and the proposed type of development was not assessed as part of the local plan area wide study.

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Viability

The relevance of viability is accepted in CS4 which states:

> We will take the following factors into account when negotiating the level of affordable housing and how it is to be provided:
>
> i. The type of affordable housing required in the area;
> ii. The availability of Social Housing Grant or equivalent;
> iii. The need to deliver other planning objectives with a higher priority; and
> iv. The economic viability of the development.

These policy statements 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	40.50	1-bed apartment
2	38.90	1-bed apartment
3	42.10	1-bed apartment
4	41.80	1-bed apartment
5	39.20	1-bed apartment
6	39.70	1-bed apartment
7	39.00	1-bed apartment
8	39.20	1-bed apartment
9	40.00	1-bed apartment
10	41.70	1-bed apartment
11	41.50	1-bed apartment
12	38.90	1-bed apartment
13	38.00	1-bed apartment
14	38.90	1-bed apartment
15	38.80	1-bed apartment
16	39.70	1-bed apartment
17	41.70	1-bed apartment
18	41.50	1-bed apartment
19	38.90	1-bed apartment
20	38.00	1-bed apartment
21	38.90	1-bed apartment
22	38.80	1-bed apartment
23	39.70	1-bed apartment
24	41.70	1-bed apartment
25	41.50	1-bed apartment
26	38.90	1-bed apartment
27	38.00	1-bed apartment
28	38.90	1-bed apartment
29	38.80	1-bed apartment

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30	39.70	1-bed apartment
31	52.70	1-bed apartment
32	45.80	1-bed apartment
33	40.00	1-bed apartment
Ave	40.345455	
Total	1331.40	

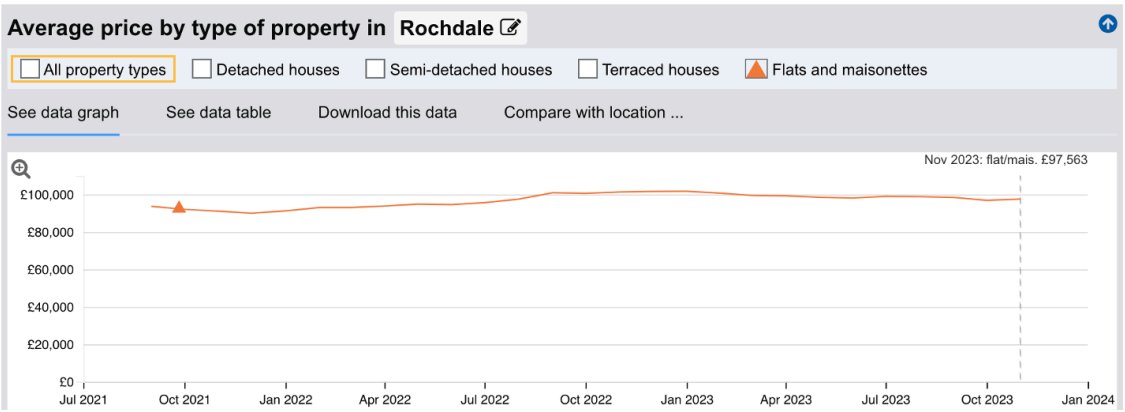
The unit mix comprises 33 No. 1 bed apartments, along with 143m2 of commercial accommodation on the ground floor.

Affordable Housing Values

Policy C4 does not consider onsite affordable housing delivery, but rather a cash in lieu payment. We approach this issue by firstly modelling a scheme with no contribution; 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 contribution that can viably be delivered by the development.

Open Market Housing Values

Land Registry data for Rochdale suggests the following average values for flats:



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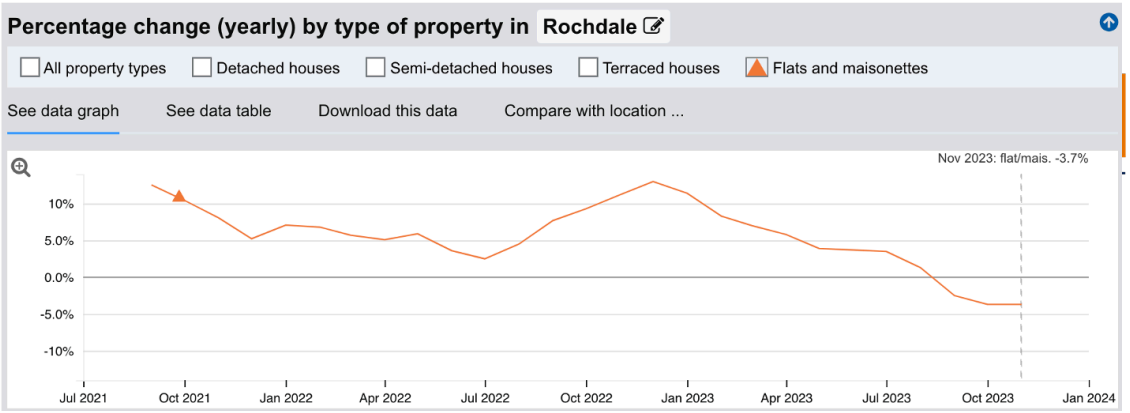
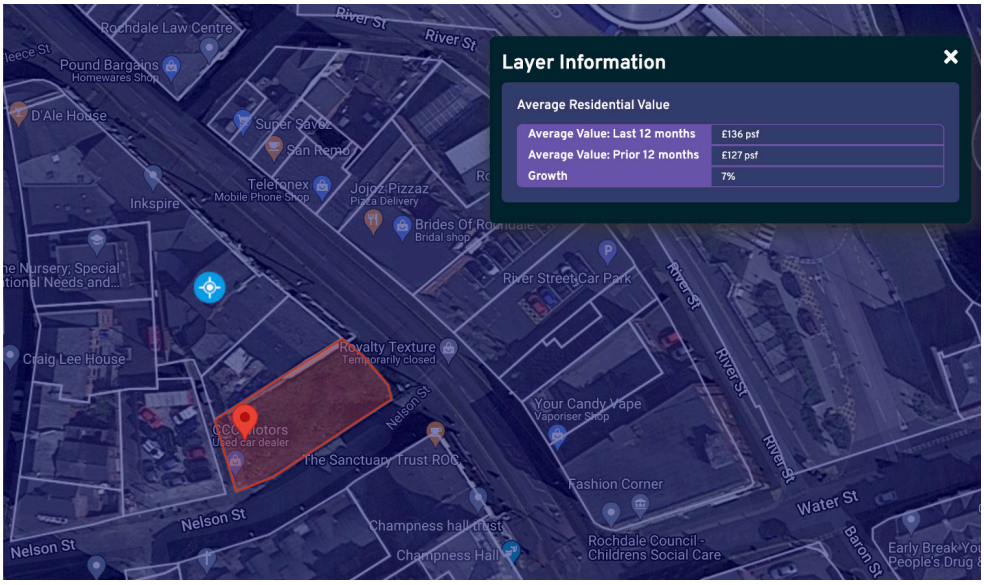


Average flat values are noted at c.£97,563; however a drop of -3.7% annually is apparent as of November 2023 (most recent available data), with a negative trend apparent.

Nimbus suggests the following data:



This suggests an average open market value for properties in the immediate area of £1,464/m2.

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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 2 years and 1 mile of the scheme.

Flats Sold within 0-1 Mile, Last 2 Years					
Address	**Type**	**Sale Date**	**Area m2**	**£/m2**	**Price**
41, Pegasus Court, Rochdale, Greater Manchester OL11 4EA	1b flat, top floor, retirement housing	23.10.23	38	£1,868.42	£71,000
80, Henderson Street, Rochdale, Greater Manchester OL12 9SG	1b ground floor apartment, reasonable condition, tenant in situ at £425pcm	21.09.23	43	£1,395.35	£60,000
11a, Beaufort Street, Rochdale, Greater Manchester OL12 7EP	2b apartment, recently refurbished, garden	28.07.23	59	£1,644.07	£97,000
31, Pegasus Court, Rochdale, Greater Manchester OL11 4EA	2b apartment, mid floor, retirement housing	19.05.23	59	£1,525.42	£90,000
12, Jacob Bright Mews, Rochdale, Greater Manchester OL12 6JF	2b penthouse apartment, modern development, balcony	21.11.22	63	£1,944.44	£122,500
8, Jacob Bright Mews, Rochdale, Greater Manchester OL12 6JF	2b ff apartment, modern development, balcony	06.08.22	60	£1,916.67	£115,000
3, Flat 4, Oakenrod Hill, Rochdale, Greater Manchester OL11 4ED	3b top floor apartment	08.04.22	80	£1,499.38	£119,950
Stoneyvale Court, Flat 30, Dicken Green Lane, Rochdale, Greater Manchester OL11 1SU	3b ground floor apartment, recently modernised, private courtyard	25.03.22	83	£1,024.10	£85,000
			Avg. £/m2 value	**£1,567.94**	

Data in the immediate Rochdale area is limited; however Jacob Bright Mews provides a useful data point for more modern development, with one penthouse property returning c.£1944/m2 providing a potential ceiling value. 11a Beaufort Street provides a recently refurbished property at £1644/m2 by comparison. 41 Pegasus Court, while a retirement property which will likely transact at a premium to normal stock, provides a useful comparative sized unit to the proposed which are overall smaller than average.

The average achieved prices are in line with the average data noted above.

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We have also studied properties which are currently on the market:

Flats For Sale within 0-1 Mile					
Address	**Type**	**SSTC/for sale?**	**Area m2**	**£/m2**	**Price**
Bentmeadows, Rochdale, Greater Manchester, OL12	2b ff apartment, recently refurbished, listed building conversion, gated development, parking	sstc	102.7	£1,752.68	£180,000
Falinge Road, Rochdale, OL12	2b gf apartment, good condition throughout, parking gardens	sstc	84.2	£1,840.86	£155,000
15 Falinge Manor Mews, Rochdale OL12 6RU	2b ff apartment, good condition throughout, balcony	reduced 5/10/23	70.2	£1,923.08	£135,000
JACOB BRIGHT MEWS, Shawclough, Rochdale OL12 6JF	2b ff apartment, good condition throughout, balcony	added 11/10/23	71.3	£1,823.28	£130,000
Falinge Road, Rochdale, Greater Manchester, OL12	2b ff apartment, recently refurbished	sstc	69.9	£1,788.27	£125,000
JACOB BRIGHT MEWS, Shawclough, Rochdale OL12 6JF	2b gf apartment, good condition, gated development, parking	reduced 25/7/23	59.2	£1,942.57	£115,000
Newbold Hall Drive, Rochdale, OL16	2b 2f apartment, good condition, allocated parking	added 12/01/24	57.7	£1,906.41	£110,000
16a Manchester Road, Rochdale OL11 4HY	2b ff flat, reasonable condition, £515pcm rental	reduced 23/3/23	79	£1,012.66	£80,000
Bury Road, Rochdale, OL11	1b gf apartment, reasonable condition, gated development	reduced 13/11/23	41	£1,585.37	£65,000
			Avg. £/m2 value	**£1,723.87**	

Bentmeadows and Falinge Road provide useful data points for recently refurbished property at £1788-1752/m2, in line with the average, and both sstc. A number of properties have been advertised for some time, or recently reduced.

Furthermore, we have reviewed new-build data. However there were no properties within the immediate area currently advertised.

Average asking prices are generally inflated when compared to wider achieved values and the dataset supplied by Nimbus, suggesting asking prices are unlikely to be achieved. Consultation with local agents suggests prices are often being discounted 5-10% in the current market. Savills' Housing Market Update January

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2024 places house price changes at -1.8% over 2023, with significant variation by area (-7% in Runnymede, +7% in Gwent). Transactions are down significantly on 2017-19 (-21%, November 2023). Moderate falls of -2-3% are expected in 2024 before the market returns to growth.

Given the new build nature of the proposed scheme we have optimistically valued the scheme as per the below:

unit	area m2	type	£/m2	PRICE
1	40.50	1-bed apartment	£1,975	£80,000
2	38.90	1-bed apartment	£2,057	£80,000
3	42.10	1-bed apartment	£1,900	£80,000
4	41.80	1-bed apartment	£1,914	£80,000
5	39.20	1-bed apartment	£2,041	£80,000
6	39.70	1-bed apartment	£2,015	£80,000
7	39.00	1-bed apartment	£2,051	£80,000
8	39.20	1-bed apartment	£2,041	£80,000
9	40.00	1-bed apartment	£2,000	£80,000
10	41.70	1-bed apartment	£1,918	£80,000
11	41.50	1-bed apartment	£1,928	£80,000
12	38.90	1-bed apartment	£2,057	£80,000
13	38.00	1-bed apartment	£2,105	£80,000
14	38.90	1-bed apartment	£2,057	£80,000
15	38.80	1-bed apartment	£2,062	£80,000
16	39.70	1-bed apartment	£2,015	£80,000
17	41.70	1-bed apartment	£1,918	£80,000
18	41.50	1-bed apartment	£1,928	£80,000
19	38.90	1-bed apartment	£2,057	£80,000
20	38.00	1-bed apartment	£2,105	£80,000
21	38.90	1-bed apartment	£2,057	£80,000
22	38.80	1-bed apartment	£2,062	£80,000
23	39.70	1-bed apartment	£2,015	£80,000
24	41.70	1-bed apartment	£1,918	£80,000

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25	41.50	1-bed apartment	£1,928	£80,000
26	38.90	1-bed apartment	£2,057	£80,000
27	38.00	1-bed apartment	£2,105	£80,000
28	38.90	1-bed apartment	£2,057	£80,000
29	38.80	1-bed apartment	£2,062	£80,000
30	39.70	1-bed apartment	£2,015	£80,000
31	52.70	1-bed apartment	£1,708	£90,000
32	45.80	1-bed apartment	£1,856	£85,000
33	40.00	1-bed apartment	£2,000	£80,000
Ave	40.345455			
Total	1331.40		£1,994.14	£2,655,000

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

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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 10 and 16.

Construction Costs

Construction costs in 2021-23 have been turbulent, with significant variations occurring due to supply/demand imbalances post-Covid, increased building regulations and energy crises.

We have consulted the BCIS data for the subject area rebased to Q1 2024 to provide an estimated build cost in the first instance.

Results

Rebased to 1Q 2024 (389; forecast) and Rochdale (98; sample 34) Edit

£/M2 STUDY

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 13-Jan-2024 07:26

MAXIMUM AGE OF RESULTS: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
345. Shops							
Generally (30)	1,782	672	973	1,463	2,309	4,707	16
1-2 storey (30)	1,801	672	969	1,421	2,334	4,707	15
816. Flats (apartments)							
Generally (15)	1,748	865	1,451	1,645	1,976	5,925	828
1-2 storey (15)	1,649	1,007	1,386	1,561	1,842	3,419	173
3-5 storey (15)	1,725	865	1,443	1,638	1,943	3,616	554
6 storey or above (15)	2,057	1,255	1,667	1,935	2,232	5,925	98

Taking the above into consideration, we have adopted the lower quartile cost of £1,443/m2 for new build flats (3-5 storey).

The NIA of the units themselves, represents 91% of the internal accommodation.

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Non-BCIS Costs

As mentioned previously, the BCIS data makes no allowance for all external works and associated infrastructure costs, and as it is reported in retrospect will not account for newer policy and legislation such as biodiversity enhancement.

We generally consider an allowance of 15% for greenfield and 10% for brownfield sites to be appropriate for external and infrastructure works.

In addition the requirements of the Environment Bill will soon come into force (February 2024) requiring a minimum 10% biodiversity net gain on all development sites. Councils may adopt a higher target in their development plans.

Based on this, broadly we consider an allowance of 1% for brownfield delivery and 2.5% for greenfield to be an appropriate assumption if the net gain is to be delivered onsite. If it cannot be delivered onsite then the statutory credit costs must be applied to the biodiversity net gain calculator conclusions.

We have not currently allowed a cost for biodiversity net gain required as we are not in receipt of the confirmed net gain calculation.

Fees

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

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 cautiously adopted a figure of 8% for this scheme.

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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 a 17.5% target return. If the target return is reduced then the contingency allowance must likewise be adjusted to compensate.

Planning Obligations (S106 contributions & CIL)

In the first instance we have modelled the scheme without planning contributions to consider the maximum surplus available for any potential contributions.

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 raised the base rate to 5.25% in Q4 2023, with further rate rises currently suggested throughout 2024.

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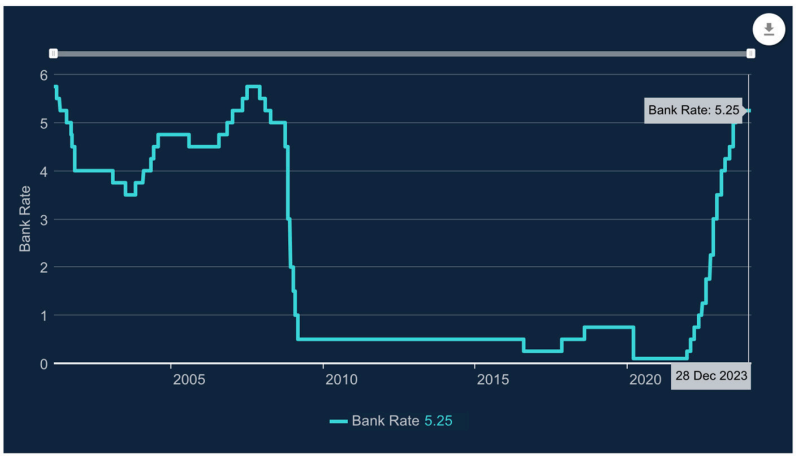
Official Bank Rate



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. 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% accommodates all fees and is applied to all costs.

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Sales/Marketing Costs

We have adopted a sales/marketing cost of 2% and legal fees of £750 per unit.

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.

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 generally therefore set the expectations for return on investment.

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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 have tested a 17.5% target return for residential, and 15% for commercial elements. 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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Commercial Assumptions (input sheet 3)

Size of Scheme

In addition to the residential dwelling the development will also provide a commercial unit with a NLA (net lettable area) of 143m2.

Values

While data is limited, a review of the properties currently on the market suggests a rental of £150/m2 may be achievable for a reasonable specification in line with the costs adopted. We have assessed the scheme on this basis.

We have adopted a yield at 7%.

Construction Costs

We refer to the up to date BCIS data and adopt the lower quartile figure of £969/m2.

Fees

Professional fees (8%) and contingencies (5%) have been included as per the residential element of the scheme.

Timing

This is identical to the 'residential' section of the report.

Purchaser's costs

We have adopted purchaser's costs of 5.75%.

Developer Profit (input sheet 2)

We adopt 15% as commercial elements are generally considered to be of lower risk than residential elements.

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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 0.042Ha of vacant land at the corner of 42-46 Drake Street. The site has no obvious existing use, although the VOA ratings list suggests it was previously occupied by an advertising hoarding rated at £5,000. Any existing use value is therefore likely to be limited.

On this basis we have adopted a nominal £20,000/Ha land value.

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. 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

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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).'

A land value multiplier of 10-15x existing use value is generally accepted on such sites. We have applied 15x for a total benchmark of £12,600.

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

In this instance we are not aware of any specific alternative use values; however we note that some permitted development rights may apply to conversion or extension of the existing properties.

In this instance we have not completed a policy-compliant residual calculation as the outcome of the 100% open market appraisal demonstrates a negative residual land value and 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	**£2,945,374.87**
Less Costs	
Construction Costs (Resi)	£2,111,220.00
Commercial Costs (Build & Fees)	£164,910.64
Other Site Costs	£494,025.48
Marketing	£77,850.00
Finance Costs	£69,332.25
Developer Return	£508,181.23
Residual Site Value	(£480,144.73)
Benchmark Land Value	£12,600.00
Result	**(£492,744.73)**

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	**(£480,144.73)**
Plus Target Developer Return	**£508,181.23**
Less Benchmark Value	**£12,600.00**
Actual Profit	**£15,436.50**
Percentage actual profit	**0.53%**

The scheme delivers only a nominal return, and the proposed C4 contribution is therefore considered unviable and undeliverable. Any planning obligations would further reduce this level.

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S106 MANAGEMENT

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%	-2.34%	2.73%	7.80%	12.87%	17.94%
	-5%	-5.98%	-0.90%	4.17%	9.24%	14.31%
	0%	-9.61%	-4.54%	0.53%	5.60%	10.67%
	5%	-13.25%	-8.18%	-3.10%	1.97%	7.04%
	10%	-16.88%	-11.81%	-6.74%	-1.67%	3.40%

This demonstrates that with reasonable expectations of growth in sales and cost efficiencies, a market facing return may be achieved. However in all circumstances the achieved return is below the targeted 17.5%, and therefore any contribution remains unviable in all circumstances tested.

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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:

Tim Wills CIHM

John Carter MRICS
RICS Membership No. 0048015

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