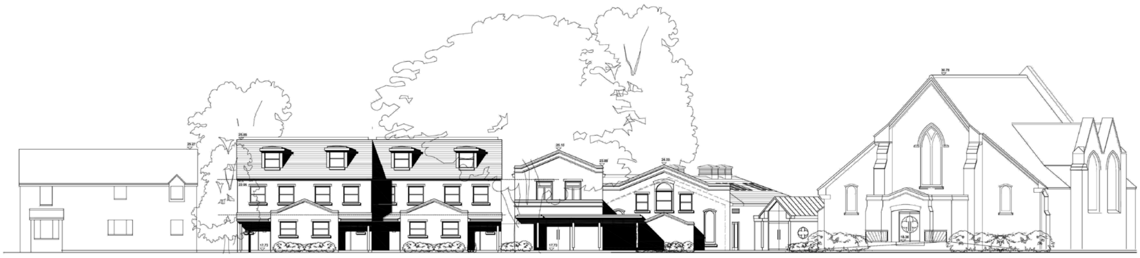
Affordable Housing Financial Viability Report for All Saints' Church & No. 44 The Avenue



All Saints' Church & No. 44 The Avenue, Hampton, TW12 3RG

19th January 2018

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Introduction

Section 106 Management is instructed by The Vicar and Church Wardens of All Saints' Church to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that it is appropriate to expect from a proposed development at All Saints' Church & No. 44 The Avenue, Hampton, TW12 3RG.

The site currently accommodates All Saints' Church, an adjacent Church Hall, and a residential bungalow. The development proposes to demolish the existing Church Hall and bungalow and to erect 4 x townhouses, a modern Church Hall (with 1 x residential flat above), and a Narthex connecting the existing Church to the new Church Hall. The purpose of constructing the townhouses is to cross-subsidise the costs that will be incurred in erecting the improved community facility. Although the residential flat above the Church Hall has been included in our calculations as a 'full market' unit, it is intended, when possible, to be set aside for youth workers and Church laity.

The London Borough of Richmond Upon Thames seeks an Affordable Housing contribution through the operation of their Core Policy CP15 (adopted April 2009) and the 'Development Management Plan Document Policy DM HO6' (adopted November 2011).

Location Plan:

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S106 Management

S106 Management is a consultancy run by Robin Furby who has 13 years of experience in the preparation of viability appraisals. During this time over 450 reports have been completed and these have been successfully used at pre-application discussions with Planning Officers and Affordable Housing Officers, supporting planning applications, written appeals, and planning appeal hearings.

Following qualification as a solicitor in 1985 and 8 years in private practice, Robin has spent the last 20 years as a property developer. His in-depth knowledge and experience concerning site acquisition, planning negotiation and construction, provide a rigorous and informed perspective to viability issues.

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Planning Policy

National Guidance

Guidance on the delivery of Affordable Housing was substantially altered by the publication of the National Planning Policy Framework (NPPF) in March 2012 which replaced the previous advice in PPS3.

Paragraph 173 of the NPPF is of particular relevance:

> ***Ensuring viability and deliverability***
>
> 173. Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.

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2.3 The London Borough of Richmond Upon Thames relies on its Core Policy CP15 adopted in April 2009:

8.3.3 CP15 Affordable Housing

15.A Housing provision is expected to include a range of housing to meet the needs of all types of households.

Over the LDF period the Council:

i. expects 50% of all new units will be affordable housing, with a tenure mix of 40% housing for social rent and 10% intermediate housing.

ii. expects that the affordable housing mix should reflect the need for larger social rented family units and the Sub-Regional Investment Framework requirements.

The Council will seek to bring forward affordable housing through development of new units, purchase of property in or outside the borough and through rent deposit schemes.

15.B Some form of contribution towards affordable housing will be expected on all new housing sites. The contribution towards affordable housing on sites involving new-build housing will be as follows:

i. on sites below the threshold of 'capable of ten or more units gross,' a financial contribution to the Affordable Housing Fund commensurate with the scale of development. The amount involved will be set out in the Development DPD and will be reviewed annually.

ii. on sites capable of ten or more units gross, at least 50% on-site provision. Where possible, a greater proportion than 50% affordable housing on individual sites should be achieved.

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The core policy has been clarified by the DPD policy:

Policy DM HO 6

Delivering Affordable Housing

The Council will seek the maximum reasonable amount of affordable housing when negotiating on individual private residential and mixed-use schemes, having regard to the strategic borough-wide target and the individual circumstances of the site, in accordance with Policy CP15.

On sites capable of less than 10 units gross, a financial contribution to the Affordable Housing Fund commensurate with the scale of development will be required:

No of units	% Affordable Housing	AH Homes
9 units	45%	4.05
8 units	40%	3.20
7 units	35%	2.45
6 units	30%	1.8
5 units	25%	1.25
4 units	20%	0.8
3 units	15%	0.45
2 units	10%	0.20
1 unit	5%	0.05

The level of the contribution required will be based on the difference between the gross development value of the whole scheme as a market scheme and the equivalent as an affordable housing scheme, divided by the number of homes in the scheme, to give the subsidy per home, that will be multiplied by the number of AH Homes relating to the size of the scheme as set out above.

As outlined in Core Strategy Section 7.2 Costs and Viability, in considering proposals or financial contributions, the Council will have regard to:

- economic viability;
- individual site costs;
- the availability of public subsidy; and
- the overall mix of uses and other planning benefits.

In addition there is also guidance from the 'Richmond Consultation Affordable Housing SPD' adopted March 2014.

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These policies have been informed by two documents; ‘ The Financial Viability Assessment for Affordable Housing Thresholds’ (March 1987) (hereafter referred to as the ‘FVA’) and the ‘Affordable Housing Financial Viability Assessment – Sub Threshold Contributions Report’ (November 2010), both of which were prepared by Christopher Marsh and Co Ltd Consultants, on behalf of the London Borough of Richmond. Where appropriate we use the data from these two reports to inform our report.

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Viability

The relevance of viability is clearly accepted in all the Richmond Policy Documents; particularly the closing paragraph of DPM policy DM HO6 which states:

> As outlined in Core Strategy Section 7.2 Costs and Viability, in considering proposals or financial contributions, the Council will have regard to:
>
> - economic viability;
> - individual site costs;
> - the availability of public subsidy; and
> - the overall mix of uses and other planning benefits.

The issue of viability is more fully addressed in the 'LB Richmond Affordable Housing SPD' dated March 2014. Our report is designed to provide the evidence called for by these adopted policies.

All the Richmond Affordable Housing policies must be seen in the context of the NPPF, and indeed subsequent Government guidance.

The concept of viability is well expressed by the NPPF which seeks to ensure that there should remain ***'competitive returns to a willing owner and willing developer to enable the development to proceed'.***

There are several proprietary spreadsheets in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT). This spreadsheet was developed by GVA Grimley in partnership with the Housing Corporation (now HCA) and is one of the Toolkits anticipated by paragraph 2.7.2 of the draft Affordable Housing SPD.

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

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

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Spreadsheet Inputs

Proposed Development (input sheet 1)

Full plans for the residential element of this development can be seen in **Schedule 2** and the accommodation is summarised by the table below. (The D1 elements of the development are addressed subsequently in our reporting).

Unit	Type	Area m2
1	townhouse	112.25
2	townhouse	132.6
3	townhouse	132.6
4	townhouse	132.6
5	flat	75
	Total area	**585.05m2**

Affordable Housing Values (input sheet 2)

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), then we produce further modelling to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

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Open Market Housing Values (input sheet 2)

We have looked at the Zoopla data for this area, shown below:

Property value data/graphs for TW12

Property type	Avg. current value	Avg. £ per sq ft.	Avg. no. beds	Avg. £ paid (last 12m)
Detached	**£1,116,419**	£618	4.0	£964,171
Semi-detached	**£772,491**	£614	3.5	£699,149
Terraced	**£544,672**	£589	2.8	£523,875
Flats	**£384,586**	£579	1.9	£388,151
Flats	**£290,593**	£430	1.9	£278,364

This data leads us to expect sales values of circa £6,337/m2 for the townhouses and £6,230/m2 for the flat.

We have cross checked this data with 'sold' house transactions extrapolated from Rightmove. All the transactions displayed below occurred in the last year and took place within ½ mile of our client's proposed development. Details are shown in **Schedule 3** to this report.

Terraced Units					
Address	**Type**	**Sale Date**	**Area**	**£/m2**	**Price**
1 Walker Close, Hampton, Greater London TW12 3XT	4-bedroom terraced house	27 10 2017	102.1	£4,848	£495,000
12 Cotswold Road, Hampton, Greater London TW12 3JQ	2-bedroom bungalow	15 09 2017	78	£6,153.85	£480,000
11 Partridge Road, Hampton, Greater London TW12 3SB	2-bedroom terraced house	04 09 2017	57.3	£6,719	£385,000
1 Conway Walk, Hampton, Greater London TW12 3YF	2-bedroom terraced house	31 07 2017	90.5	£3,983	£360,500

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6 Tulip Close, Hampton, Greater London TW12 3SA	1-bedroom terraced house	19 05 2017	40.8	£7,475	£305,000
89 Broad Lane, Hampton, Greater London TW12 3BQ	4-bedroom terraced house	31 04 2017	107.3	£6,431	£690,000
38 Rumsey Close, Hampton, Greater London TW12 3XY	3-bedroom terraced house	17 02 2017	86.9	£4,833	£420,000
5 Embleton Walk, Hampton, Greater London TW12 3YU	2-bedroom terraced house	30 01 2017	59.9	£5,426	£325,000
9 Partridge Road, Hampton, Greater London TW12 3SB	2-bedroom terraced house	20 01 2017	70.4	£5,469	£385,000
			Average	**£5,547.46**	

Flats					
Address	**Type**	**Sale Date**	**Area**	**£/m2**	**Price**
21 Stanford Close, Hampton, Greater London TW12 3XZ	2-bedroom flat	10 11 2017	49.4	£5,769.23	£285,000
46 Fearnley Crescent, Hampton, Greater London TW12 3YS	2-bedroom maisonette	10 10 2017	55.8	£5,465.95	£305,000
Flat 1, 136, Broad Lane, Hampton, Greater London TW12 3BW	ground floor flat	04 09 2017	46	£5,978.26	£275,000
23 Stanford Close, Hampton, Greater London TW12 3XZ	top floor flat	11 08 2017	47	£6,063.83	£285,000
62 Morland Close, Hampton, Greater London TW12 3YY	1-bedroom top floor flat	27 07 2017	42	£5,892.86	£247,500
10 Rosetree Place, Hampton, Greater London TW12 3BH	2-bedroom flat	24 05 2017	67.7	£5,316.84	£359,950
12 Green Walk, Hampton, Greater London TW12 3YG	1-bedroom flat	10 03 2017	45.6	£4,989.04	£227,500
9 Stanford Close, Hampton, Greater London TW12 3XZ	1-bedroom flat	23 02 2017	44.4	£5,743.24	255000
72 Stanborough Close, Hampton, Greater London TW12 3YQ	1-bedroom flat	15 02 2017	47.5	£5,789.47	275000
			Average	**£5,646.50**	

The average figures extrapolated from Rightmove are considerably lower than those taken from Zoopla. This is because while the Zoopla data is compiled from transactions across the TW12 postcode, the Rightmove data focusses more centrally on the area immediately surrounding All Saints Church.-

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There is also evidence of the often-seen inverse correlation between unit area and £/m2 values.

We have obtained advice from Jezzards (experts in the local market) who suggest that the 3-bed town house should be marketed at £575,000, while the 4-beds should be marketed at between £750,000 and £825,000. Despite the fact that the residential flat above the Church Hall is intended to be set aside for Church Laity, we have run our calculations with an open market value of £425,000. We have run the HCEAT Spreadsheet accordingly and our projected values are summarised by the table below:

Unit	Type	Area m2	£/m2 price	Price
1	townhouse	112.25	£5,122.49	£575,000
2	townhouse	132.6	£6,221.72	£825,000
3	townhouse	132.6	£6,221.72	£825,000
4	townhouse	132.6	£6,221.72	£825,000
5	flat	75	£5,666.67	£425,000
	Total area	**585.05**		

These values represent the 'top end' of what the development can hope to achieve. They have been calculated by studying proposed plans and assessing the local market, and consequently should be viewed as robust.

We have included £5,000 to allow for the freehold ground rent of the residential flat, this has been calculated by assuming a passing rent of £300pa and applying a yield of 6%.

This produces a GDV for the residential element of the scheme of £3,762,417.

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Timing (input sheet 2)

This report is to accompany a planning application which it is hoped will be granted within the next 3 months.

Construction is projected to proceed over an 18 month period. We would expect the first sale 2 months before completion with sales continuing for a further 4-month period.

The holding period prior to construction is ignored for the purposes of this report to be as fair as possible to the viability of the proposed scheme.

Construction Costs (input sheet 2)

We have obtained a cost plan from Sawyer and Fisher Chartered Quantity Surveyors (the full report is shown in **Schedule 4**)

The cost of building the 4 townhouses is summarised by the table below:

JUNE 2014 (UPDATED DECEMBER 2017)

		Qty	Un	Rate	£ (rounded)	Total (rounded)
1.00	**Demolitions and Site Clearance**					40,000
2.00	**New Houses (4nr)**					
2.01	New houses area updated to December 2017 drawing issue	510	m2	1,930	984,000	
2.02	Front driveways including bin stores and associated paths				18,000	
2.03	Crossovers (2nr)				5,000	
2.04	Rear gardens allowance				10,000	
2.05	Incoming services allowance				20,000	
2.06	Drainage below ground allowance				10,000	
						1,047,000

We have adopted a £/m2 build cost for the 4 houses of £2,052/m2 (£1,047,000 / 510m).

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The cost of building the new hall, narthex and flat is summarised by the table below:

3.00	**New Church Hall and First Floor Flat (including Narthex)**				
3.01	New entrance/steps to existing church from Narthex			15,000	
3.02	New church hall and flat	504 m2	2,030	1,023,000	
3.03	External works including rebuilding front boundary wall, resurfacing carpark and new path to sides and rear of Hall			29,000	
3.04	Incoming services allowance			3,000	
3.05	Drainage below ground allowance			30,000	
					1,100,000

We have adopted a £/m2 build cost for the residential flat of £2,182/m2 (£1,100,000/ 504m2)

Unlike conversion projects, new build developments are currently 0% rated for VAT, thus, while some costs will be incurred on purchases until the VAT can be reclaimed, no allowance has been made for this in the HCEAT Spreadsheet.

Fees (input sheet 2)

The default value of fees in the HCEAT spreadsheet is 10%, and we adopt this figure in our spreadsheet.

Contingency (input sheet 2)

The HCEAT spreadsheet allows a default value contingency of 5%.

Section 106 Payments (input sheet 2)

Richmond BC adopted their CIL Charging Schedule in November 2014. This document stipulates that residential developments (in this location) must pay £190/m2 in CIL for every m2 of additional residential accommodation, and £50/m2 in mayoral fees. The development proposes to create an additional 499m2 of residential accommodation, thus the HCEAT Spreadsheet has been run with corresponding figures of £94,810 for CIL, and £24,950 in Mayoral fees.

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There are no other S106 contributions that we are aware of, however we note the obvious, that any that there is will affect the viability of the project.

Abnormal Development Costs (input sheet 2)

The Sawyer and Fisher cost report is inclusive of all external and abnormal costs; thus, no input has been included.

Site Acquisition Costs (input sheet 2)

The Existing Use Value of the site as explained below is £698,740; we have included acquisition costs of £25,000 which incorporates £24,000 in SDLT.

Finance Costs (input sheet 2)

Typically, banks are prepared to lend only the building cost (£2,193,380) of this type of development; their arrangement fee will be 2% and the spreadsheet carries an input of £43,000.

While base rates are at a historic low level, cost of funding expressed as a percentage above LIBOR is at historically high figures. A rate of 7% is widely accepted, and this is the value used in the spreadsheet.

The spreadsheet includes misc. lending fees of £10,000; made up from the bank surveyor's initial valuation fee of £5,000, monitoring fees while the project progresses of £3,000, and £2,000 in other bank fees. This figure is shared equally in the individual spreadsheets.

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Marketing Costs (input sheet 2)

The HCEAT spreadsheet has default values of 6% for marketing and £600 per unit for legal fees, we think these are high; so have adopted a marketing cost of 3% and legal fees of £1,000 per unit as a compromise.

Developer Profit (input sheet 2)

The 'Sub Threshold Contributions Report' discusses the question of developer profit as follows:

> **3.3.6 Developer's profit**
>
> 3.3.6.1 As noted earlier, developer's profit is closely related to the perceived risk of residential development. The greater the risk, the greater the profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank to fund a scheme. In 2007, profit levels were around 17% of Gross Development Value. This was the 'benchmark' profit adopted by the GLA in its revised Development Control Toolkit Model (previously 15%). However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the boards of the major house builders will set targets for minimum profit). The views of the banks which fund development are more important; if the banks do not fund a development, it is very unlikely to happen, as developers do not generally carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards residential development. The near collapse of the global banking system resulted in a much tighter regulatory system which will continue for some time, with UK banks having to take a much more cautious approach to all lending. In this context, the banks may not allow profit levels to decrease much lower than their current level, if at all. The minimum generally acceptable profit level is now around 20%, while the banks will require some riskier schemes to show a higher profit level, of perhaps up to 25%. However our appraisals have been run therefore with two different profit levels, as follows:
>
> - 17%
> - 20%
>
> By running the appraisals with a range of profit margins, we are pre-empting a very wide range of outcomes.

Recent planning appeal cases support the view that a 20% profit is appropriate, and the spreadsheet input is at that level (see appeal reference **APP/X0360/A/12/2179141**)

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Community Assumptions (input sheet 3)

Size of Scheme

The development proposes to demolish the existing church hall (GIA of 341m2) and to erect an improved facility, as well as a Narthex connecting the new Hall to the existing Church. The development will create a new Church Hall with a GIA of 429m2, of which 204m2 will be net lettable space.

Values

We have received advice from the Church Wardens (shown in Schedule 5). This suggests a projected income less expenditure of £14,950pa which equates to a rental value of £73.2/m2.

To this we have applied a yield of 5% which produces a capital value for the new hall of £299,000.

Building Costs

We refer to the cost schedule shown in Schedule 4 as summarised below:

3.00	**New Church Hall and First Floor Flat (including Narthex)**					
3.01	New entrance/steps to existing church from Narthex				15,000	
3.02	New church hall and flat	504	m2	2,030	1,023,000	
3.03	External works including rebuilding front boundary wall, resurfacing carpark and new path to sides and rear of Hall				29,000	
3.04	Incoming services allowance				3,000	
3.05	Drainage below ground allowance				30,000	
						1,100,000

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We have adopted a £/m2 build cost of £2,182.5/m2 (£1,100,000 /504m2)

Fees

Professional fees (10%) and contingencies (5%) are spreadsheet default values.

Timing

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

Letting Fees

We have adopted the default values of the spreadsheet, thus letting fees at 10%, advertising at 1%, and sales fees at 1.75%.

Return for risk

We have adopted 17.5%.

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Benchmark Value

In April 2013, The Government issued guidance entitled 'Section 106 Affordable Housing Requirements (review and appeal)'. This guidance establishes the test of viability in the following terms:

The test for viability is that the evidence indicates that the current cost of building out the entire site (at today's prices) is at a level that would enable the developer to sell all the market units on the site (in today's market) at a rate of build out evidenced by the developer, and make a competitive return to a willing developer and a willing landowner.

Annex A to this guidance addresses the issue of Land Value, and confirms that an Open Market Value of the site may be used as a reference point when determining the viability of the development under consideration, and derivatively the S106 Affordable Housing requirements that might be expected to be appropriate.

The 'RICS Viability Guidance' (GN94/2012) determines 'Market Value' by reference to the following paragraph:

> **E.1.1** The *RICS Valuation – Professional Standards 2012 (Red Book)* definition of market value is as follows:
>
> *'The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'*

To determine the EUV of the site we must consider the current value of both the existing Church Hall, and the bungalow at number 44, The Avenue.

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The advice provided by the Church Wardens demonstrates that in 2017 the Church Hall had an income, after all expenditure, of £6,187. To this we have applied a yield of 5% which produces a capital value for the existing hall of £123,740.

In determining the existing use of the bungalow at 44 The Avenue, we have obtained advice from two local agents, Snellers and Jezzards, which is shown in **Schedule 6**. Snellers suggest an Existing Use Value of between £500,000 and £700,000, which is clearly a wide range. Jezzards suggest that a value between £575,000 and £625,000 is appropriate. We have adopted £575,000 as the Existing Use Value of the bungalow.

Therefore, the Benchmark value from which to gauge the viability of the proposed scheme is £698,740. This figure includes the value of both the existing Church Hall and residential bungalow.

This approach to Benchmarking is consistent with Annex E of the RICS Viability Guidance.

The standard approach to viability is to compare the Market Value of the development site with the Residual Value calculated by the (HCEAT) viability spreadsheet. 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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HCEAT Spreadsheet Conclusions
(Spreadsheet Summary)

The full spreadsheet appears at **Schedule 1**.

The key conclusions are set out in the summary section of the spreadsheet but are repeated for convenience below:

Residential Value	£3,480,000
Commercial Value	£282,417
Total Capital Value	£3,762,417

Less Costs

Construction Costs	£1,210,273
Other Site Costs	£332,352
Marketing	£110,400
Commercial Construction Costs	£983,107
Commercial Fees	£104,896
Finance Costs	£202,320
Developer Profit	£745,423
Residual Site Value	**£73,647**

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site (£698,740), is deducted from the Residual Value calculated by the HCEAT spreadsheet; if the result is negative, as it is in this case (-£625,093), it is not viable for the development to provide Affordable Housing.

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Conclusion

The following table has been compiled using data from the HCEAT spreadsheet to reveal the profit that the developers will earn from this project:

Spreadsheet Residual Value	**£73,647**
Spreadsheet Operating Profit	**£745,423**
Benchmark Value	**£698,740**
Actual Profit	**£120,330**

This presents a return of 3.2%, which is considerably below the profitability Benchmark of 20% identified above.

Any contribution towards Affordable Housing would reduce this profit level.

We conclude that this scheme can be considered policy compliant without the provision of any Affordable Homes or S106 contributions towards Affordable Housing.

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