DJC HOUSING CONSULTANTS LTD

Prepared for Progress Planning
on behalf of

Westcombe Developments Ltd

Kingston Bridge House
Church Grove
Kingston-Upon-Thames
KT1 4AG

(London Borough of Richmond upon Thames)

November 2021

Contents

Introduction

DJC Housing Consultants has been instructed by Progress Planning Ltd and the applicant, Westcombe Developments Ltd to advise on the **viability case** of the proposed development at Kingston Bridge House.

The proposal is for the following:

21/1399/FUL - Erection of 2 storey and single storey roof extension and conversion of existing building to create 89 flats with associated works

In addition to the report, we are attaching an appraisal, using the HCA DAT toolkit which calculates the surplus or deficit left using a residual land calculation. The benchmark land value and the profit levels are both inputs into the appraisal.

Policy LP 36 Affordable Housing of Richmond's Local Plan states that the Council expects 50% of all housing units to be affordable and this 50% should comprise a tenure mix of 40% for rent and 10% for intermediate housing.
It also states that the affordable housing mix should reflect the need for larger rented family units and the Council's guidance on tenure and affordability, based on engagement with a Registered Provider to maximise delivery.
This scheme has been worked up collaboratively with Richmond Council, and Richmond Housing Partnership to find an appropriate quantum of affordable and mix.
The proposal seeks to provide half of the building as affordable comprising the side element facing onto Bushy Park.
The development would provide 48.15% affordable as calculated by habitable room which is considered appropriate by Richmond's Supplementary Planning Document Affordable Housing for development with a range of unit types. Although this marginally falls short of the Council's policy for affordable housing, it would meet the GLA's requirement for fast tracking as it is greater than 35% of the development.

The total development comprises 216 habitable rooms and 104 habitable rooms would be affordable.

We have carried out our appraisal based on the proposed mix of units to ascertain whether the scheme is in deficit or surplus.

This report is a desktop assessment that will examine the different appraisal inputs and will demonstrate that the proposed scheme provides the maximum amount of affordable housing.

Viability Guidance

In advising the Council in respect of viability, we need to have regard to published guidance. In this respect, we are considering in particular the National Planning Policy Framework (NPPF) June 2019; The Planning Practice Guidance, updated October 2019; the RICS publication "Assessing Viability in Planning under the NPPF 2019 for England" March 2021.

With regard to NPPF, we believe that paragraph 57 is particularly relevant. It states:

> *57. 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.*

The Planning Policy Guidance goes on to say the following:

> *"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."*

and

> *"Any viability assessment should reflect the government's recommended approach to defining key inputs as set out in National Planning Guidance."*

The updated PPG goes on to say the following:

> ***"Standardised inputs to viability assessment***
>
> ***What are the principles for carrying out a viability assessment?***
>
> *Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.*
>
> *This National Planning Guidance sets out the government's recommended approach to viability assessment for planning. The approach supports accountability for communities by enabling them to understand the key inputs to and outcomes of viability assessment."*

It also goes on to look at the following:

- *How should gross development value be defined for the purpose of viability assessment?*
- *How should costs be defined for the purpose of viability assessment?*
- *How should land value be defined for the purpose of viability assessment?*
- *What factors should be considered to establish benchmark land value?*
- *What is meant by existing use value in viability assessment?*
- *How should the premium to the landowner be defined for viability assessment?*
- *Can alternative uses be used in establishing benchmark land value?*
- *How should a return to developers be defined for the purpose of viability assessment?*

Between NPPF and RICS the guidance presents a case for requiring flexibility in the face of changing market conditions, whilst affirming that development will entail an element of risk for the developer. A viability assessment needs to take both these positions into account.

The ability of the site to contribute a level of affordable housing needs to be assessed through a consideration of the various inputs into the development appraisals.

Appraisal Inputs

We have considered the main inputs into the development appraisal as follows:

Sales Values

We have looked at sales evidence for this area and have consulted with local Estate Agents who have a good knowledge of the housing market in this area.

We have also carried out research via websites such as RightMove and Zoopla looking at sales values and sold values for 1, 2 and 3-bed flats in the area.

We have priced all of the units individually taking into account their floor area as follows:

Kingston Bridge House, Church Grove, Hampton Wick, KT1 4AG

Pricing Schedule As Per Submitted Planning Application

	No	Bedrooms	Floor	Sq m	Sq ft	OMV	£psf
Block A	5	2 bed 3 p	Ground	61.4	661	£465,413	£704.20
	6	1 bed 2 p	Ground	51.2	551	£388,096	£704.20
	7	1 bed 2 p	Ground	50	538	£379,000	£704.20
	8	1 bed 2 p	Ground	51.5	554	£390,370	£704.20
	9	1 bed 2 p	Ground	50	538	£379,000	£704.20
	10	2 bed 3 p	Ground	63.4	682	£480,573	£704.20
	17	2 bed 3 p	First	61	657	£462,381	£704.20
	18	1 bed 2 p	First	51.1	550	£387,338	£704.20
	19	1 bed 2 p	First	50	538	£379,000	£704.20
	20	1 bed 2 p	First	50	538	£379,000	£704.20
	21	1 bed 2 p	First	50	538	£379,000	£704.20
	22	studio 1 p	First	38.3	412	£290,314	£704.20
	23	1 bed 2 p	First	55.9	602	£423,722	£704.20
	30	2 bed 3 p	Second	61	657	£462,381	£704.20
	31	1 bed 2 p	Second	51.1	550	£387,338	£704.20
	32	1 bed 2 p	Second	50	538	£379,000	£704.20
	33	1 bed 2 p	Second	50	538	£379,000	£704.20
	34	1 bed 2 p	Second	50	538	£379,000	£704.20
	35	studio 1 p	Second	38.3	412	£290,314	£704.20
	36	1 bed 2 p	Second	55.9	602	£423,722	£704.20
	43	2 bed 3 p	Third	61	657	£462,381	£704.20
	44	1 bed 2 p	Third	51.1	550	£387,338	£704.20
	45	1 bed 2 p	Third	50	538	£379,000	£704.20
	46	1 bed 2 p	Third	50	538	£379,000	£704.20
	47	1 bed 2 p	Third	50	538	£379,000	£704.20

	48	studio 1 p	Third	38.3	412	£290,314	£704.20
	49	1 bed 2 p	Third	55.9	602	£423,722	£704.20
	56	2 bed 3 p	Fourth	61	657	£462,381	£704.20
	57	1 bed 2 p	Fourth	51.1	550	£387,338	£704.20
	58	1 bed 2 p	Fourth	50	538	£379,000	£704.20
	59	1 bed 2 p	Fourth	50	538	£379,000	£704.20
	60	1 bed 2 p	Fourth	50	538	£379,000	£704.20
	61	studio 1 p	Fourth	38.3	412	£290,314	£704.20
	62	1 bed 2 p	Fourth	55.9	602	£423,722	£704.20
	69	2 bed 3 p	Fifth	61	657	£462,381	£704.20
	70	1 bed 2 p	Fifth	51.1	550	£387,338	£704.20
	71	1 bed 2 p	Fifth	50	538	£379,000	£704.20
	72	1 bed 2 p	Fifth	50	538	£379,000	£704.20
	73	1 bed 2 p	Fifth	50	538	£379,000	£704.20
	74	studio 1 p	Fifth	38.3	412	£290,314	£704.20
	75	1 bed 2 p	Fifth	55.9	602	£423,722	£704.20
	76	2 bed 3 p	Sixth	61	657	£462,381	£704.20
	77	1 bed 2 p	Sixth	51.1	550	£387,338	£704.20
	78	1 bed 2 p	Sixth	50	538	£379,000	£704.20
	79	1 bed 2 p	Sixth	50	538	£379,000	£704.20
	80	1 bed 2 p	Sixth	50	538	£379,000	£704.20
	81	studio 1 p	Sixth	38.3	412	£290,314	£704.20
	82	1 bed 2 p	Sixth	55.9	602	£423,722	£704.20
	83	2 bed 3 p	Seventh	61	657	£462,381	£704.20
	84	1 bed 2 p	Seventh	51.1	550	£387,338	£704.20
	85	1 bed 2 p	Seventh	50	538	£379,000	£704.20
	86	1 bed 2 p	Seventh	50	538	£379,000	£704.20
	87	1 bed 2 p	Seventh	50	538	£379,000	£704.20
	88	studio 1 p	Seventh	38.3	412	£290,314	£704.20
	89	1 bed 2 p	Seventh	55.9	602	£423,722	£704.20
Block B	1	3 bed 4 p	Ground	86.7	933	£657,187	£704.20
AFFORDABLE	2	1 bed 2 p	Ground	55.6	598	£421,448	£704.20
	3	2 bed 3 p	Ground	67.9	731	£514,683	£704.20
	4	1 bed 2 p	Ground	65.5	705	£496,491	£704.20
	11	3 bed 4 p	First	86.2	928	£653,397	£704.20
	12	1 bed 2 p	First	60.5	651	£458,591	£704.20
	13	2 bed 3 p	First	74.9	806	£567,743	£704.20
	14	1 bed 2 p	First	65.2	702	£494,217	£704.20
	15	3 bed 5 p	First	86	926	£651,881	£704.20
	16	2 bed 3 p	First	63.9	688	£484,363	£704.20
	24	3 bed 4 p	Second	86.2	928	£653,397	£704.20
	25	1 bed 2 p	Second	60.5	651	£458,591	£704.20
	26	2 bed 3 p	Second	74.9	806	£567,743	£704.20
	27	1 bed 2 p	Second	65.2	702	£494,217	£704.20
	28	3 bed 5 p	Second	86	926	£651,881	£704.20
	29	2 bed 3 p	Second	63.9	688	£484,363	£704.20
	37	3 bed 4 p	Third	86.2	928	£653,397	£704.20
	38	1 bed 2 p	Third	60.5	651	£458,591	£704.20

39	2 bed 3 p	Third	74.9	806	£567,743	£704.20
40	2 bed 3 p	Third	65.2	702	£494,217	£704.20
41	3 bed 5 p	Third	86	926	£651,881	£704.20
42	2 bed 3 p	Third	63.9	688	£484,363	£704.20
50	3 bed 4 p	Fourth	86.2	928	£653,397	£704.20
51	1 bed 2 p	Fourth	60.5	651	£458,591	£704.20
52	2 bed 3 p	Fourth	74.9	806	£567,743	£704.20
53	2 bed 3 p	Fourth	65.2	702	£494,217	£704.20
54	3 bed 5 p	Fourth	86	926	£651,881	£704.20
55	2 bed 3 p	Fourth	63.9	688	£484,363	£704.20
63	3 bed 4 p	Fifth	86.2	928	£653,397	£704.20
64	1 bed 2 p	Fifth	60.5	651	£458,591	£704.20
65	2 bed 3 p	Fifth	74.9	806	£567,743	£704.20
66	2 bed 3 p	Fifth	65.2	702	£494,217	£704.20
67	3 bed 5 p	Fifth	86	926	£651,881	£704.20
68	2 bed 3 p	Fifth	63.9	688	£484,363	£704.20
				56843		
				GDV:	**£40,028,510**	

Affordable units

In terms of tenure,
6 x 1-bedroom, 4 x 2-bedroom, and 6 x 3-bedroom units are to be provided as London Affordable Rent on the ground, first and second levels of Block B
1 x 1-bedroom, 3 x 2-bedroom, and 2 x 3-bedroom units are to be provided as London Living Rent on the third floor level of Block B
and 2 x 1-bedroom, 6 x 2-bedroom, and 4 x 3-bedroom units are to be provided as Shared Ownership at fourth and fifth floor levels.

For ease we have included the tenure split for Block B as below:

BLOCK B	Bedrooms	Floor	Sq m	Sq ft	OMV	London Affordable Rent per week	London Living Rent per week	Shared ownership - 65% of OMV
1	3 bed 4 p	Ground	86.7	933		£180.72		
2	1 bed 2 p	Ground	55.6	598		£161.71		
3	2 bed 3 p	Ground	67.9	731		£171.20		
4	1 bed 2 p	Ground	65.5	705		£161.71		
11	3 bed 4 p	First	86.2	928		£180.72		
12	1 bed 2 p	First	60.5	651		£161.71		
13	2 bed 3 p	First	74.9	806		£171.20		
14	1 bed 2 p	First	65.2	702		£161.71		
15	3 bed 5 p	First	86	926		£180.72		

16	2 bed 3 p	First	63.9	688		£171.20		
24	3 bed 4 p	Second	86.2	928		£180.72		
25	1 bed 2 p	Second	60.5	651		£161.71		
26	2 bed 3 p	Second	74.9	806		£171.20		
27	1 bed 2 p	Second	65.2	702		£161.71		
28	3 bed 5 p	Second	86	926		£180.72		
29	2 bed 3 p	Second	63.9	688		£171.20		
37	3 bed 4 p	Third	86.2	928			£316.62	
38	1 bed 2 p	Third	60.5	651			£258.92	
39	2 bed 3 p	Third	74.9	806			£287.77	
40	2 bed 3 p	Third	65.2	702			£287.77	
41	3 bed 5 p	Third	86	926			£316.62	
42	2 bed 3 p	Third	63.9	688			£287.77	
50	3 bed 4 p	Fourth	86.2	928	£653,397			£424,708.05
51	1 bed 2 p	Fourth	60.5	651	£458,591			£298,084.15
52	2 bed 3 p	Fourth	74.9	806	£567,743			£369,032.95
53	2 bed 3 p	Fourth	65.2	702	£494,217			£321,241.05
54	3 bed 5 p	Fourth	86	926	£651,881			£423,722.65
55	2 bed 3 p	Fourth	63.9	688	£484,363			£314,835.95
63	3 bed 4 p	Fifth	86.2	928	£653,397			£424,708.05
64	1 bed 2 p	Fifth	60.5	651	£458,591			£298,084.15
65	2 bed 3 p	Fifth	74.9	806	£567,743			£369,032.95
66	2 bed 3 p	Fifth	65.2	702	£494,217			£321,241.05
67	3 bed 5 p	Fifth	86	926	£651,881			£423,722.65
68	2 bed 3 p	Fifth	63.9	688	£484,363			£314,835.95

We have made standard allowances for management and maintenance, voids and bad debts, etc and applied these to the LLR and LAR. The shared ownership assumptions are as per our HCA DAT appraisal and result in a capital value broadly equivalent to 65% of open market value.

Build Costs

We have looked at BCIS build cost rates for both new build and refurbishment of flats (6 storey and above) and they show a range of values as per Appendix 2 of this report.

We have applied the new build median rate of £2,153 per m^2 to the new build element and the refurbishment median rate of £1,711 per m^2 to the refurbishment of the existing building.

We have calculated the net to gross ratio for the floor area to be 23.78% with a total floor area of 6,963 m^2.

The newbuild area is 1,674 m^2 and the refurbished area is 5,289 m^2 resulting in the following build costs:

1,674 m^2 x £2,153 per m^2 = £3,604,122
5,289 m^2 x £1,711 per m^2 = £9,049,479
Total = £12,653,601

This results in an overall build cost of £1,817 per m^2.

Abnormal costs
Site Security £50,000 per annum for 2 years = £100,000
Site Preparation/Demolition/ Contamination costs – Asbestos removal has been estimated at £350,000 (the applicants have a report that shows the extent of asbestos to be removed if required).
Despite being a conversion, the external envelope is to be entirely replaced and the costs are as follows:
removal £500,000
new façade £2,000,000

Total abnormal costs - £2,950,000

Professional Fees
We have made a standard allowance for fees of 10%

Contingencies
We have made a standard allowance for contingencies of 5%

Sales Fees (agent's fees & marketing costs)
We have made an allowance for the sales and marketing fees at 2% of open market value for the open market units. We have not, at this stage made any allowance for the cost of disposal of the affordable units but reserve the right to revisit this cost element if required.

We have made an allowance of £1,000 per unit for legal fees for the open market units.

Timings
We have assumed a start on site in November 2022 and a construction period of 20 months.

Open market sales – we have assumed a sales period of 1 year which is optimistic but allows for any "off-plan" sales that may occur.

Interest

HCA DAT recognises that finance costs would include an arrangement fee payable to a bank for arranging finance for the scheme, interest payable on the loan typically around 4-6% above 3 month LIBOR rate and miscellaneous fees such as monitoring surveyors.

This would suggest that a figure of 7% is in line with current lending rates. This figure includes arrangement fees and surveyor fees that are normally applied by banks.

This is the figure we have used in our appraisal. We have applied a credit balance rate of 4%.

CIL

We have included a S106 payment of £200,000 and a CIL payment of £1,500,000.

Profit

At Appeal and Local Planning Inquiries the level of profit a scheme should make has been the subject of debate with expert witnesses and Inspectors coming to the view that, if at all possible, schemes should make a minimum of 20% profit on sales over cost. There are reasons why schemes progress with lower levels of profit equally some developer interests will not consider any scheme unless it makes a profit of at least 25%.

In this case we have applied a profit level of 17.5% of GDV for the open market units and 6% for the affordable units which is a reasonable and fair assumption.

Benchmark Land Value

The Planning Practice Guidance says the following at paragraph: 013 Reference ID: 10-013-20190509:

> "***How should land value be defined for the purpose of viability assessment?***
> *To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy*

requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+).

In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process.

At Paragraph: 014 Reference ID: 10-014-20190509 it says the following:

What factors should be considered to establish benchmark land value?

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or *the price expected to be paid through an option or promotion agreement)."*

At Paragraph: 015 Reference ID: 10-015-20190509 it says the following:

"What is meant by existing use value in viability assessment?

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."

At Paragraph: 016 Reference ID: 10-016-20190509 it says the following:

"How should the premium to the landowner be defined for viability assessment?

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 land owner 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 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)."*

The property comprises two large blocks forming an L-shaped building arranged over four to seven storeys and is arranged as student accommodation with 218 rooms and communal areas currently owned by Kingston University.

We have included at Appendix 3 the Valuation Report for the property from Copping Joyce which shows an EUV of £11,250,000. We have not at this stage, applied an uplift to the EUV and have, therefore, assumed a Benchmark Land Value of £11,250,000.

Conclusions

We have carried out a financial appraisal of the scheme using the HCA Development Appraisal Tool.

The appraisal shown at Appendix 1 which includes Block B for affordable housing (as detailed above) shows a **deficit of -£8,722,263**.

This demonstrates that the amount of affordable housing offered is a fair and reasonable offer (48.15% by habitable room) and whilst the scheme is showing a large deficit the applicant has indicated that they would proceed on this basis.

It is our opinion, therefore, that the applicant should not be required to provide any additional affordable housing on site.

End of Report
DJC Housing Consultants Ltd
November 2021

Appendix 1 – HCA DAT Appraisal – 48.15% affordable housing
Appendix 2 – BCIS rates.
Appendix 3 – Valuation report

D J C Housing Consultants Ltd