S106 MANAGEMENT

Financial Viability Appraisal

Address:	3 Duke Street, Richmond, TW9 1HP
LPA:	Richmond Borough Council
Planning ref:	N/A
Client:	Bricks & Fuel (Duke Street) Limited
Date:	21st February 2024

Contents

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Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at 3 Duke Street, Richmond, TW9 1HP. 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	[redacted]
Costs exc land and profit	[redacted]
Finance	[redacted]
Return	[redacted]
BLV	[redacted]
RLV	[redacted]
RLV-BLV	[redacted]
Target profit	[redacted]
Actual profit	[redacted]

Target developer return includes a risk-adjusted rate for market residential (20%). Sensitivity analysis demonstrates this is the minimum return necessary to offset the current risk environment.

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

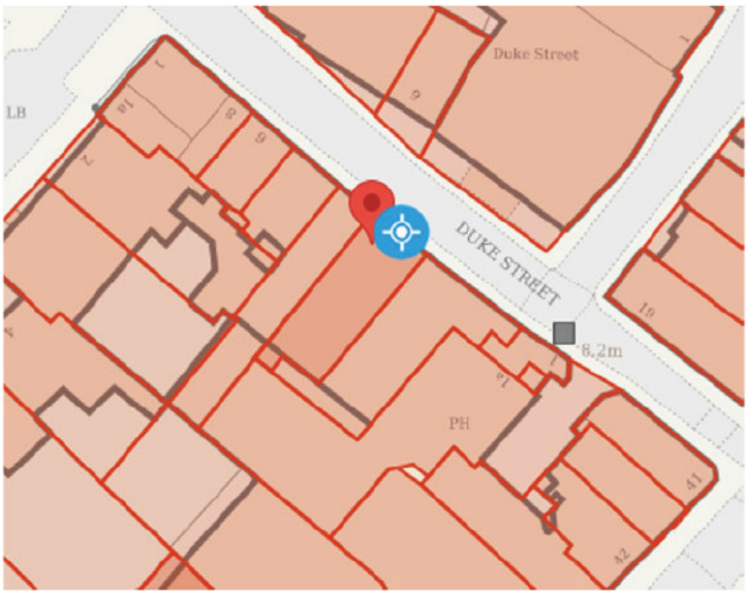
S106 Management is instructed by Bricks and Fuel (Duke Street) Limited to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at 3 Duke Street, Richmond, TW9 1HP.

Richmond Borough Council seeks an Affordable Housing contribution in accordance with LP36 of their Local Plan (adopted July 2018).

The existing site comprises 3 Duke Street, a Class E property with a GIA of 154m2.

This FVA is to be viewed in conjunction with a new application . The proposed development seeks to reconfigure and rehabilitate the existing commercial space and erect 4 no. new build residential apartments above. The development will provide a combined GIA of 415m2 (132m2 of retail space, 254m2 of residential space and the rest communal/circulation).

Site Location Plan



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.

Planning Policy

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

Therefore, our starting point is Policy LP36 of the Richmond Borough Council Local Plan (Adopted July 2018):

Policy LP 36

Affordable Housing

A. The Council expects:

a. 50% of all housing units will be affordable housing, this 50% will comprise a tenure mix of 40% of the affordable housing for rent and 10% of the affordable intermediate housing.

b. 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.

Where on-site provision is required, an application should be accompanied by evidence of meaningful discussions with a Registered Provider which have informed the proposed tenure, size of units and design to address local priorities and explored funding opportunities.

B. A contribution towards affordable housing will be expected on all housing sites. The following requirements apply:

a. on all former employment sites *at least* 50% on-site provision. Where possible, a greater proportion than 50% affordable housing on individual sites should be achieved.

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

c. 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, in line with the sliding scales set out below and in the Affordable Housing SPD.

No. of units proposed (gross)	% Affordable Housing		
	For conversions and reversions (where there is no loss of former employment floorspace.	For new build development or redevelopment (where there is no loss of former employment floorspace)	For any units replacing employment floorspace
9 units	36%	45%	90%
8 units	32%	40%	80%
7 units	28%	35%	70%
6 units	24%	30%	60%
5 units	20%	25%	50%
4 units	16%	20%	40%
3 units	12%	15%	30%
2 units	8%	10%	20%
1 unit	4%	5%	10%

LP36 suggests that new build developments of 4 units where there is no loss of former employment floorspace should provide a 20% financial contribution.

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

These policies have been informed by 'The London Borough of Richmond upon Thames Whole Plan Viability Assessment', produced by Adams Integra (December 2016).

PPG Viability para 008 states:

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

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

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

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

National Guidance

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

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

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

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

    b) directly related to the development; and

    c) fairly and reasonably related in scale and kind to the development.

58. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

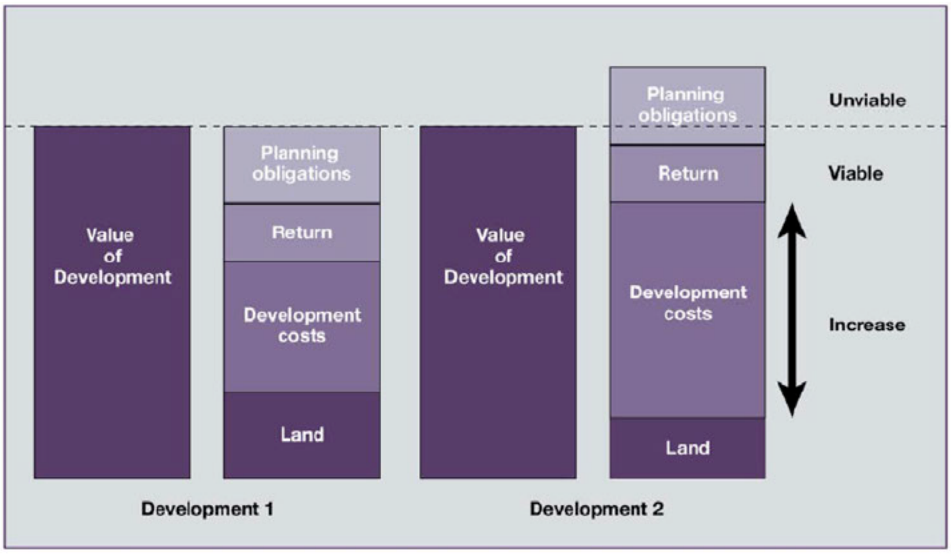
65. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused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

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

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

> ***'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.'***

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



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

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

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

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Particular Circumstances

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

> *'Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.'*
>
> *PPG Viability para 007*

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

Following the RICS guidance:

3.10.3 The main differences in FVAs for decision taking, compared to for plan making, are that:

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

Vacant Building Credit

The NPPF establishes Vacant Building Credit (VBC) in Para.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.*
>
> *[30] Equivalent to the existing gross floorspace of the existing buildings. This does not apply to vacant buildings which have been abandoned.*

We understand that:

a) the whole building is vacant.
b) the building has not been abandoned.
c) the building has not been made vacant specifically for the purpose of redevelopment.

The following worked example is a standard approach to calculating VBC.

Examples of Vacant Building Credit calculation

Example 1	**Housing development in AH Area 1. (Affordable Housing requirement 40%)** 40 dwellings The **Proposed** Gross Internal Floor Area(GIFA): **4,000sqm** The **existing** Gross Internal Floor Area(GIFA): **1,000sqm**	
Step 1	Calculate the affordable housing contribution based on the total number of eligible dwellings and the affordable housing percentage (40%) required by the council's planning policy	Affordable housing contribution 40 units x 40% = **16 units**
Step 2	Calculate the amount of existing floorspace, if any, as a proportion of the floorspace provided by the development: E/P x 100 (where E = existing floorspace and P = proposed floorspace)	1,000 sqm / 4,000 sqm x100 = **25%**
Step 3	Calculate the number of AH credit: Step 1 AH units x Step 2 percentage	16 units x 25% = **4 units**
Step 4	Deduct the AH credit from the policy compliant affordable housing contribution, Step 1 AH number – Step 2 AH number	16 units – 4 units = **12 units (12 affordable dwellings to be delivered on-site)**

The affordable housing contribution required under Policy LP36 is 20%

The existing vacant GIFA is 154m2.

The proposed residential GIFA is 254m2 depending on the scheme assessed.

A credit of c.61% should therefore apply, meaning the maximum affordable housing contribution that should be sought before the conclusions of this report is 7.8%.

Viability

The relevance of viability is clearly accepted in all the Richmond Policy Documents; of particular relevance are paras C. and D. of LP36:

> C. In accordance with A and B, the Council will seek the maximum reasonable amount of affordable housing when negotiating on individual private residential and mixed-use schemes. The Council will have regard to:
>
> a. economic viability;
>
> b. individual site costs;
>
> c. the availability of public subsidy; and
>
> d. the overall mix of uses and other planning benefits.
>
> D. Where a reduction to an affordable housing contribution is sought from the requirements in A and B on economic viability grounds, developers should provide a development appraisal to demonstrate that schemes are maximising affordable housing. The developer will be required to underwrite the costs of a Council commissioned economic viability assessment. The Council will rigorously evaluate such appraisals and:
>
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> a. assess if the maximum reasonable amount of affordable housing is based on delivering the appropriate tenure, unit sizes and types that address local needs.
>
> b. consider whether it is necessary to secure provision for re-appraising the viability of a scheme prior to implementation to secure contingent obligations.
>
> c. in most circumstances the Existing Use Value plus a premium (EUV+) approach to assessing benchmark land value in development appraisals and viability assessments should form the primary basis for determining the benchmark land value.

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

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

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

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

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	92.00	2-Bedroom Apartment
2	51.00	1-Bedroom Apartment
3	52.00	1-Bedroom Apartment
4	59.00	1-Bedroom Apartment
Total	**254.00**	

The residential unit mix comprises 3 x 1-bedroom apartments and 1 x 2-bedroom apartment.

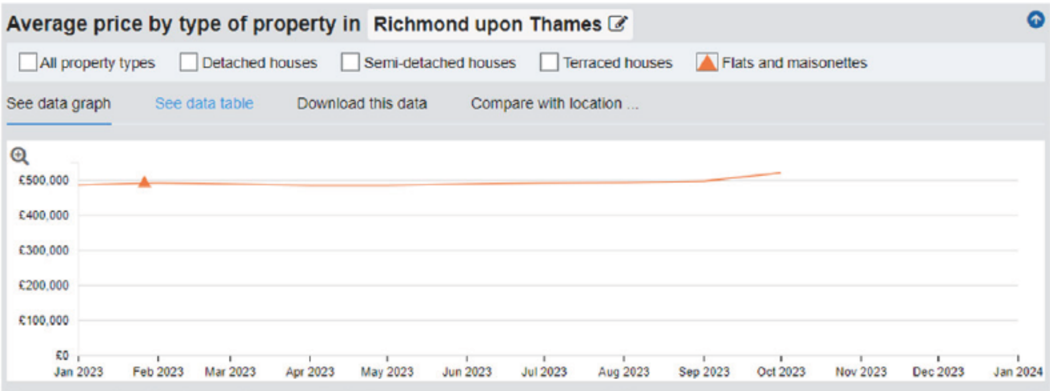
There will also be a retail facility spread across the ground floor and basement, this will be 132m2 plus a 4m2 staircase.

Affordable Housing Values

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

Open Market Housing Values

Land Registry data for Richmond upon Thames suggests the following average values for flats and maisonettes:



Nimbus suggests the following data:

This suggests an average open market value for properties in the immediate area of £11,545.48/m2.

Transactional Data

We have compared this data to relevant recent 'sold' transactions for detached units extrapolated from Rightmove (see **Schedule 3**). Values are extremely sensitive to small changes in search area; therefore, we have limited our transactional search to within 1 year and 1/4 mile of the scheme.

Sold Flats within 1 Year 1/4 Mile					
Address	**Type**	**Sale Date**	**Area m2**	**£/m2**	**Price**
44, Lichfield Gardens, Richmond, Greater London, TW9 1AP	1-bedroom purpose-built apartment, private balcony	31.08.2023	42	£9,166.67	£385,000
8, Carrington Lodge, Sheen Road, Richmond, Greater London, TW9 1AQ	Mid-floor flat	16.08.2023	78	£8,628.21	£673,000
9, Wilton Court, Sheen Road, Richmond, Greater London, TW9 1AH	Mid-floor flat	03.08.2023	56	£8,571.43	£480,000
31d, Church Road, Richmond, Greater London, TW9 1UA	2-bedoom apartment	31.07.2023	57	£9,122.81	£520,000
124, Lichfield Court, Sheen Road, Richmond, Greater London, TW9 1AY	Mid-floor flat	25.07.2023	42	£7,142.86	£300,000
Flat 1, 49, Halford Road, Richmond, Greater London, TW10 6AW	Ground-floor flat	14.07.2023	55	£8,490.91	£467,000
			Avg. £/m2 value	**£8,560.61**	

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

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

Flats For Sale within 1/4 Mile					
Address	**Type**	**SSTC/For Sale?**	**Area m2**	**£/m2**	**Price**
Little Green, Richmond, TW9	3-bedroom apartment, private patio, communal gardens	For Sale	84.4	£10,071.09	£850,000
The Quadrant, Richmond, TW9	Modern 2-bedroom apartment, private roof terrace, above commercial property	For Sale	75	£9,333.33	£700,000
Sheen Road, Richmond, TW9	Recently refurbished 2-bedroom apartment, communal patio and garden	For Sale	69.3	£9,379.51	£650,000
Halford Road, Richmond	2-bedroom period conversion maisonette, private rear garden	For Sale	116.5	£10,729.61	£1,250,000
The Quadrant, Richmond, TW9	Modern 2-bedroom apartment, above commercial property	For Sale	64.3	£10,108.86	£650,000
Church Court, Richmond, TW9	Recently redesigned 2-bedroom split-level apartment, private roof terrace	For Sale	95.4	£9,171.91	£875,000
Sheen Road, Richmond, TW9	Modern 1-bedroom apartment, off street parking, communal gardens	For Sale	42	£7,738.10	£325,000
Sheen Road, Richmond, TW9	Modern 2-bedroom apartment, private conservatory and balcony	Under Offer	74.6	£7,707.77	£575,000
			Avg. £/m2 value	**£9,452.94**	

Furthermore, we have reviewed new-build data.

New Build Flats For Sale within 1/4 Mile					
Address	**Type**	**SSTC/For Sale?**	**Area m2**	**£/m2**	**Price**
George Street, London, TW9	New build 1-bedroom apartment, private terrace	For Sale	49	£11,173.47	£547,500
George Street, London, TW9	New build 2-bedroom split level apartment, private terraces on each floor	For Sale	63	£10,555.56	£665,000
George Street, London, TW9	New build 1-bedroom apartment, 1 large private terrace	For Sale	49	£12,142.86	£595,000
George Street, London, TW9	New build 2-bedroom apartment, private terrace	For Sale	60	£11,083.33	£665,000
George Street, London, TW9	New build 1-bedroom apartment, 1 large private terrace	For Sale	52	£11,442.31	£595,000
			Avg. £/m2 value	£11,236.26	

The above properties, although new build, cannot be seen as directly comparable given the building they are in, as well as the fact that they all offer private terraces. The proposed units will be above a retail facility, between a public houses and offices, meaning they will not likely achieve as high a £/m2 as above as they will not be seen as desirable. We take this into account when looking at the GDV below.

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

	Nimbus	**Sold**	**For Sale**	**New Build For Sale**
Avg. £/m2 Values - Flats	£11,545.48	£8,560.61	£9,452.94	£11,236.26
	Sold	**For Sale**	**New Build For Sale**	**As Proposed**
Avg. GIA m2 - Flats	55.00	77.68	54.60	63.50

Average asking prices are 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 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.

We have valued the scheme as per the below:

Unit	Area m2	Type	£/m2	Price
1	92.00	2-Bedroom Apartment	[redacted]	[redacted]
2	51.00	1-Bedroom Apartment	[redacted]	[redacted]
3	52.00	1-Bedroom Apartment	[redacted]	[redacted]
4	59.00	1-Bedroom Apartment	[redacted]	[redacted]
Total	254.00		[redacted]	[redacted]

The above figures have largely been based on the new build comparable data and adjusted to account for the inverse correlation identified where the larger the unit, the lower the £/m2 value. The characteristics surrounding the existing property have also been taken into consideration.

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.

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Timing

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

Construction is projected over a 12-month period with sales expected between months 12 and 14.

Construction Costs

The below commentary is drawn from the most recent BCIS update.

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.

The applicant has obtained a site-specific cost plan from Q, this can be seen in full at **Schedule 4**, but is summarised below for ease:

Work Required	Cost £
Externals	[redacted]
Shell	[redacted]
Flat 1 Fit Out	[redacted]
Flat 2 Fit Out	[redacted]
Flat 3 Fit Out	[redacted]
Flat 4 Fit Out	[redacted]
Services	[redacted]
Preliminaries	[redacted]
Direct Orders	[redacted]
Total	[redacted]
GIA	**254**
£/m2	[redacted]

We adopt [redacted] /m2 for build costs.

Non-BCIS

The site-specific cost plan from Q is inclusive of externals works, this is shown above.

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

The 2019 DEFRA Consultation considers the potential cost of delivery as a proportion of build costs on both greenfield and brownfield sites.

Based on this, broadly we consider an allowance of 0.75% for brownfield delivery and 2.5% for greenfield to be an appropriate assumption if the net gain is to be delivered onsite.

Fees

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

The local plan viability study adopts 10% as a broad category for professional fees – this is not differentiated by site type.

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.

However, the cost plan provided by Q suggests an allowance for fees of £[redacted], we have included this figure in our report rather than a percentage.

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.

Usually, we would adopt 5% of the base build costs for contingency; however the cost plan provided by Q makes allowances off £25,000 for contingencies. We have adopted this figure in our appraisal.

Planning Obligations (Section 106 Payments)

Richmond adopted their CIL Charging Schedule in November 2014; they are also liable to make MCIL2 payments.

The site-specific cost plan provided by Q has made calculations for the CIL and MCIL2 payments associated with the scheme, we have included the below in our appraisal:

CIL = £[redacted]
MCIL2 = £[redacted]

This is subject to confirmation by the charging authority.

Site Acquisition Costs

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

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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 August 2023, with further rate rises currently suggested throughout 2023. The local plan viability study in 2016 adopted 6.75%. The base rate at that date was 0.25%. The base rate has increased 5% since this date.

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 9% 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 9% accommodates all fees and is applied to all costs.

Sales/Marketing Costs

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

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

Developer Profit

The NPGV contains the following advice at paragraph 18:

> ***How should a return to developers be defined for the purpose of viability assessment?***
>
> *'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'*

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

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

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

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

We refer to the draft Whole Plan Viability Assessment (WPVA), produced by Adams Integra on behalf of the Council in 2016, which, at para 9.3 suggests an appropriate profit to be 20% on open market housing. This aligns with national policy and precedent.

As an illustrative exercise, to quantify the change in risk environment since this date we have compiled the below comparison:

	Dec-16	Jan-24	Difference
House price index (values up or down)	+5.2%	-1.5% (Nationwide)	6.7%
Inflation (costs, contingency up or down)	1.6%	4%	2.4%
Bank of England base rate (finance cost up or down)	0.25%	5.25%	+5%

Overall, this broadly correlates with a quantifiable 14.1% difference in the cost:value ratio of property development between 2013 and 2024. Applying a 14.1% increase in targeted return to a 17.5% profit results in a 19.97% rate, say 20%.

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.

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

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

Taking into account the risk profile of the development we consider the assumption adopted in the Local Plan Viability Assessment to be appropriate (20%). 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 rehabilitated commercial unit with a GIA of 132m2.

Values

We have completed our own market research on rents; however, we had to extend our search to +3 miles in order to get enough properties for a sample:

Retail Property For Rent within 3 Miles					
Address	**Type**	**Status?**	**Area m2**	**£/m2**	**Price Per Annum**
159 Heath Road, Twickenham, TW1 4BH	Ground floor retail property for long term lease, 3 x car parking spaces	Under Offer	313	£223.63	£69,996
21 Treaty Centre, High Street, Hounslow, TW3 1ES	Ground retail property for lease, offices above	Under Offer	217	£230.43	£50,004
6 High Street, Teddington, Greater London, TW11 8EW	Retail property for long term lease	Under Offer	156	£352.54	£54,996
Northfield Avenue, London	Small retail shop for rent, long term lease	For Rent	27	£666.67	£18,000
Northfield Avenue, London, W13	Retail property for long term lease	Under Offer	52.6	£380.08	£19,992
			Avg. £/m2 value	**£278.20**	

The above suggests an average rental £/m2 value of £278.20, this is based on an average unit size of 153.12m2.

The unit at *6 High Street, Teddington* is most comparable in terms of property characteristics and size. This is under offer for a rental value of £353.54/m2.

However, we note that the property in question will have undergone rehabilitative works, meaning the internal condition will be better. We also understand from a valuation by *Duncan Lillie & Company* that the existing commercial facility would achieve in the region of £65,000 per annum (£422,07/m2).

Applying a general 10% uplift to the valuation above to account for the updated internal property condition would result in a rental income of £71,500. The proposed commercial facility will be 22m2 smaller than the existing, meaning the £/m2 is likely to be higher; this creates a rental £/m2 value of £[redacted].

For yield, we have adopted the same as suggested by Mr John Carter for the existing commercial facility of [redacted]%.

Building Costs

The site-specific cost plan makes allowances of £[redacted] for the Ground Floor Licenced Premises.

The toolkit has been run with this amount at [redacted] m2.

Fees

Professional fees and contingencies have not been included in the commercial section on the basis that they are accounted for in the cost plan fees and contingency allowances.

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 17.5% for the commercial target developer return.

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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.

The existing site comprises 3 Duke Street, a Class E property with a GIA of 154m2.

In order to determine an appropriate existing use value for the site, we have obtained advice from Mr John Carters (RICS Commercial Valuer):

'I have been commissioned to carry out a Benchmark Valuation of a premises at 3, Duke Street, Richmond, TW9 1HP.

The property comprises a single-story unit extending to some 1,200 ft.² on the ground floor together with 376 ft.² in the basement.

The unit has recently been operated as a wine bar and I am advised that a short-term stop- gap tenant occupied the premises until March of last year at a rental of £[redacted] per annum. The current Rateable Value of the premises stands at £[redacted] per annum.

I have had a sight of a valuation carried out on the subject property on the 29th of November 2023 by Duncan Lily and Company based in Wardour Street London. The rental is valued at £[redacted] per annum. A comparable quoted concerned a larger unit next door at 2 Duke Street, which was let at a rising rental commencing at £[redacted] per annum set in May 2022. This rental supports a rate per sq., ft. of £[redacted] for the ground floor space, with the basement at [redacted] per sq. ft. This figure, notwithstanding the fact that is a smaller unit, is used to arrive at £[redacted] per annum on the subject property.

Turning to yield, it is my view that an appropriate figure should be at 5.5%. This is supported

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by a proposed sale of a freehold premises at 78 Petersham Road Richmond being offered for [redacted]. The rental income passing is £[redacted] per annum. The selling agent Michael Rogers used several recent investment comparables falling within the immediate catchment achieved prior to the latest interest rate increases ranging from 3.7% to 4.25%. Duncan Lilly have also held the view that 5.5% would be appropriate yield for a property in this location.

Using the figures quoted above would produce a Capital Value in at the sum of [redacted].

The potential for this property is unusual in that it comprises a single storey unit which has two 3 Storey properties on either side. It is therefore reasonable in my view to assume that a landlord would expect added value to be achieved from this potential. As a consequence, it is my view that a landlord's premium should be applied in this case and I have used a 20% uplift on the current capital value, providing a revised value of [redacted].

My Benchmark Valuation is in the sum of [redacted]'

We adopt [redacted] as our BLV.

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

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 for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'*

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

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

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

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

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

The above figure provided by Mr John Carter (RICS Commercial Valuer) is inclusive of a 20% uplift.

We adopt £[redacted] as our BLV.

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

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

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

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

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

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

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

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

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

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

An AUV has not been assessed in detail as this is not required.

The standard approach to viability is to compare the BLV 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.

Conclusions

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

Sales	[redacted]
Less Costs	
Construction Costs (Resi)	[redacted]
Commercial Costs (Build & Fees)	[redacted]
Other Site Costs	[redacted]
Marketing	[redacted]
Finance Costs	[redacted]
Developer Return	[redacted]
Residual Site Value	[redacted]
Benchmark Land Value	[redacted]
Result	[redacted]

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	[redacted]
Plus Target Developer Return	[redacted]
Less Benchmark Value	[redacted]
Actual Profit	[redacted]
Percentage actual profit	[redacted]

This presents a return which is significantly lower than the 20% target identified previously.

Any planning obligations would further reduce this level.

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%	5.61%	10.80%	15.99%	21.17%	26.36%
	-5%	4.06%	9.25%	14.44%	19.63%	24.81%
	0%	2.51%	7.70%	12.89%	18.08%	23.27%
	5%	0.96%	6.15%	11.34%	16.53%	21.72%
	10%	-0.59%	4.60%	9.79%	14.98%	20.17%

This demonstrates that in 19 out of 25 scenarios the achieved return is below the targeted 20%, suggesting a high-risk development.

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T&Cs and Compliance

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

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

1.3 S106M has not inspected the property.

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

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

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

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

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

Ellie Gavin BA Hons

Tim Wills CIHM

John Carter MRICS
RICS Membership No. 0048015

Robin Furby BA Hons Law, Director