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Dear Jeremy

42 HIGH STREET, TEDDINGTON, TW11 8EW
VIABILITY ASSESSMENT

1. INTRODUCTION

The London Borough of Richmond Upon Thames (LBRUT) 'Local Plan' (2018) sets a target of 50% affordable housing (split 40% affordable rented and 10% intermediate), as set out in Policy LP36.

Criterion D of Policy LP36 states that **"Where a reduction to an affordable housing contribution is sought...on economic viability grounds, developers should provide a development appraisal to demonstrate that schemes are maximising affordable housing".**

Paragraph 9.3.5 of the supporting text then notes that the Development Control Toolkit or a similar Toolkit **"should be used in presenting any viability evidence for a scheme involving affordable housing, if it is not in accordance with the Council's policy."**

This Viability Assessment (VA) uses the Homes England Development Appraisal Tool (DAT), which has been accepted by Councils (including LBRUT) in the evaluation of viability for the past 20 or more years.

Meanwhile, the 'Supplementary Planning Document (SPD) Affordable Housing' (2014) states in paragraph 2.7.1 that **"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."**

For a scheme of only eight units, the target level of affordable housing is 40% by number ('SPD Affordable Housing', paragraph 2.8.3), subject to viability.

Given the diseconomies of scale of the scheme, it can be expected that a modest affordable housing contribution could be provided at best.

The site is located on the southern side of Teddington High Street, next to the Teddington Arms public house, at the junction with Cedar Road.

There is car parking to the rear of the site.

The site is surrounded by mostly medium rise retail units, with residential or office uses above. The streets around the High Street comprise primarily residential flats and houses.

Teddington station is a five minute's walk from the site, with trains into central London in 35 minutes, whilst a number of buses run regularly along the High Street to and from Richmond and Kingston-upon-Thames. Accordingly, the site has a PTAL rating of 3.

The site is currently a vacant two storey HSBC Bank, with a single storey extension to the rear. A rear staircase gives access to a one bed flat, which is on the second floor of the main building.

The application scheme comprises a mix of eight residential flats and commercial uses, as follows:

- 6 x 1 bed flats
- 1 x 2 bed flat
- 1 x 3 bed flat
- 277 sqm commercial (E Class use)

The following Section undertakes financial analyses using the DAT, to make clear that the new application scheme is unable to make an affordable housing contribution viably.

2. APPLICATION SCHEME VIABILITY

Each key input to the DAT is covered in turn in the following sub-sections. The DAT is attached to this letter as **Appendix 1**.

2.1 Sales Values

Hamptons has provided evidence on the pricing of the application scheme. Its office is located on the same parade as the subject site, so it has a very good understanding of the local housing market.

Hamptons' advice dated 19 October 2023 is attached as **Appendix 2**. The values provided are significantly higher than any of the other agents approached as part of this exercise.

As a result of its advice, the gross development value (GDV) of the scheme is £3.64m, equating to £700 per sqft (£7,530 per sqm).

In the past two years, the prices of apartments have flatlined, with an increase of less than 1% over that period, according to the Land Registry (see **Appendix 3**).

The values included at Appendix 2 can therefore be considered to be ambitious in the current uncertain housing market, which is being dampened down by significantly higher interest rates compared with two years ago.

2.2 Commercial Value

There will be commercial space on the basement and ground floors of the application scheme, with a GIA of 277 sqm.

Lewis & Co has produced an opinion on the value of this space in a letter dated 30 October 2023, which is attached as **Appendix 4**.

Lewis & Co concludes that the commercial space would rent at £30 per sqft, with a yield of 6% in the current market.

These figures have been included in the appended DAT, along with purchaser's costs totalling 6.5%.

2.3 Development Cost

A 'Cost Plan' dated 31 October 2023 has been produced by RPS. This identifies the build costs of the scheme and is attached as **Appendix 5**, with a total build cost of £2.756m.

The build costs of the scheme are broken down as follows:

• Commercial unit, shell only	£ 346,250
• Structural shell	£ 943,540
• Fit out	£ 638,956
• External works	£ 111,926
• Preliminaries	£ 387,728
• Overhead and profit	£ 157,846
• Contingency	£ 129,312
• Construction inflation	£ 40,733
Total Build Cost	**£2,756,291**

A construction period of 12 months is assumed, with an interest rate of 8% per annum, plus a further three months to sell all of the flats.

An interest rate of 8% is modest, given that the Base Rate has risen from 0.1% in December 2021 to 5.25% by August 2023, where it remains at the time of writing.

Professional fees of 7.5% on build cost have been included in the appended DAT. In reality they would represent a much higher percentage, given that the scheme has taken more than five years to reach this point in the planning process without a consent.

Marketing fees of just 2.75% on GDV are shown. This figure may well understate the actual cost of selling the residential apartments in the current challenging housing market.

The Developer's Return of the application scheme is only 5.5% on GDV, which is well below the threshold of 17.5% on GDV which is set out in the externally commissioned 'Local Plan Viability Assessment' (2023) (e.g. paragraph 4.37).

Even though the Developer's Return is relatively low, the applicants must progress the scheme in order to pay off loans against the land and to stop having to pay business rates.

The applicants have been seeking a planning permission for this site for more than five years. They can only recoup some or all of their losses if they can obtain a planning permission and build out the scheme.

2.4 Planning Obligations

An estimated financial planning obligation totalling £200,000 has been included, covering Mayoral and Council CIL, as well as the Council's monitoring and legal fees.

The final financial obligations will be agreed with the planning officer prior to determination of the application and may require adjustment at a later date, as required.

2.5 Benchmark Land Value

A 'Valuation Report' has been produced by Fisher German to identify the existing use value (EUV) of the site, which is attached as **Appendix 6**.

The value identified for the combined retail and residential uses in the Report is £1.175m.

At this stage, no land owner's premium has been added to the EUV.

The Benchmark Land Value applied in the appended DAT is therefore £1.175m, directly reflecting the EUV.

3. CONCLUSIONS

The key output of the appended Toolkit is that the application scheme of eight flats generates a Developer's Return of only 5.5% on GDV against the Benchmark Land Value and with planning obligations of £200,000 deducted.

The application scheme is therefore unable to provide an affordable housing contribution viably and will be unable to until it achieves a Developer's Return of at least 17.5% on GDV.

Even though the scheme currently generates a small Developer's Return, the applicants will have to proceed (given the interest costs and business rates being incurred), in the hope that prices recover and so a higher profit will eventually be generated, to help to offset their losses incurred over the past five years of the planning process.

Yours sincerely

Dr Douglas Birt
Encs.