Viability Appraisal Report

REMOVED

Background

Adams Integra Limited has been instructed by Sevenoaks District Council to carry out an evaluation of the appraisal submitted by **REMOVED** on behalf of **REMOVED** and to advise on the validity of their case.

This review is put forward being based on the information provided to date by the Council and applicant which includes a viability report from **REMOVED** dated June 2013 and drawings and plans of the proposed scheme.

The redevelopment comprises **REMOVED**.

The comments made by Adams Integra relate to the existing use value of the site. Viability is considered to be a material consideration which Local Planning Authorities are obliged to take into account in considering planning requirements.

We confine our report to the market and financial considerations of whether the proposed development is viable.

Whilst the Council's policy states that:

"In exceptional circumstances where it is demonstrated to the Council's satisfaction through an independent assessment of viability that on-site provision in accordance with the policy would not be viable, a reduced level of provision may be accepted or, failing that, a financial contribution towards provision offsite will be required."

the developer is maintaining that the development is not viable with any level of financial contribution towards affordable housing.

The scheme should be appraised against an existing use value for the land. In this case the HCA DAT has the land value as an input (or cost to the scheme) and assesses whether the scheme is in surplus (i.e. viable) or in deficit (not viable).

Land Value

As the applicant points out – the site has **REMOVED**. The existing use value of the site can therefore be considered as being suitable for residential use.

The "market value" is that use that might reasonably be granted planning consent. In essence, the question to answer is*: "What is the market value a willing vendor would require to bring this opportunity to the market, and a willing purchaser be prepared to pay?"* In this case the applicant has paid **REMOVED**.

The site was purchased by the applicant **REMOVED**.

The Affordable Housing 106 report states *"a sale at Auction represents true Market Value".* That is clearly not correct. A sale at auction could result in a buyer paying too much for the land. However for the purposes of this report we have used the price paid at auction in our appraisal.

To take a view on a viability assessment put to us, we first consider viability without any Affordable Housing contribution to test base assumptions; and then include contributions to review its impact.

We have carried out an assessment of the scheme's viability using the HCA Development Appraisal Tool based on assumptions made by the applicant and using industry standard assumptions.

The viability report makes a number of assumptions some of which are based on the applicants appraisal and some on industry standards:

1. **Sales values**: The sales values referred to in the **REMOVED** are as follows:

Plot 1 – 3 bed house	@ 92 m^2	- **REMOVED**
Plot 2 – 2 bed house	@ 73 m^2	- **REMOVED**
Plot 3 – 3 bed house	@ 108 m^2	- **REMOVED**
Plot 4 – 2 bed house	@ 79 m^2	- **REMOVED**
Plot 5 – 3 bed house	@ 82 m^2	- **REMOVED**
Plot 6 – 2 bed house	@ 77 m^2	- **REMOVED**
Plot 7 – 2 bed house	@ 77 m^2	- **REMOVED**
Plot 8 – 2 bed house	@ 87 m^2	- **REMOVED**
Plot 9 – 2 bed flat	@ 70 m^2	- **REMOVED**

    We have carried out web based research using Rightmove (see Appendix 1) and through talking to local estate agents.

    This research indicates that the proposed sales values are reasonable and we have used these figures in our appraisals.

2. **Build costs**: The **REMOVED** has shown a cost of **REMOVED**. This figure compares well with BCIS figures for a development of this type and location and is in line with current assumptions on build costs.

3. **Professional fees and contingency**: We have allowed for 12% professional fees, which is in line with the HCA guidelines, and 15% for contingencies which includes the 5% VAT on the build costs as this is a refurbishment of property for residential use. It is our view that contingencies for new build should be 5% and for refurbishment works 10%.

4. **Sales Fees**: These have been included at **REMOVED** which is in line with HCA guidelines for a scheme such as this.

5. **Interest rate**: We have assumed an interest rate of 7% which is a reasonable assumption for a scheme such as this.

6. **Section 106 Contributions**: We have not shown any Section 106 costs in our appraisal.

7. **Profit Levels:** In considering the appropriate return for risk and profit we have considered the HCA EAT, RICS GN and market practice. It is usual practice in a usual development appraisal to assume a required return in terms of a capital sum, and to include it in the cash flow on the assumption that the development will be sold on completion and a capital profit received. The return for a scheme of this nature would be calculated as a percentage of the Gross Development Value (GDV).

   RICS GN provides no guidance as to the appropriate level of return. HCA EAT suggests that a typical allowance would currently be between 17.5% and 20% on GDV. We have appraised the scheme using a profit level of 17.5% which in our opinion is a reasonable figure to use for a development such as this

The revised HCA DAT carried out (Appendix 2) shows a **deficit** of **REMOVED** using a profit level of 17.5%.

It is our opinion that this appraisal demonstrates that the scheme cannot support any provision of affordable housing and still remain viable.

Conclusions

It is our view that should the Council be minded to grant planning permission for the scheme then the developer should not be required to pay any financial contribution towards affordable housing or any other Section 106 payments.

This scheme has been looked at in terms of its particular financial characteristics and it represents no precedent for any sustainable approach on the Council's policy base.

Author

David Coate

Report ends

September 2013

APPENDICES

1. Sales research
2. DAT appraisal