FINANCIAL VIABILITY ASSESSMENT SUMMARY

222 LONDON ROAD

ST ALBANS

AL1 1PN

24 AUGUST 2021

1.0

INTRODUCTION

1. This report has been prepared to provide a summary of the Financial Viability Assessment (FVA) prepared by Montagu Evans LLP on behalf of Oakford Homes (Bewick) Limited (hereafter the Applicant) to support an application for planning permission on the site known as 222 London Road, St Albans AL1 1PN (the Site) made to St Albans City & District Council (hereafter SACDC).

2. The planning application seeks permission for redevelopment of the Site for residential use comprising the conversion of Vickers House into 9 apartments and demolition of the remaining industrial buildings on the Site and erection of 23 houses.

3. The SACDC Affordable Housing Supplementary Planning Guidance, March 2004 (SPG) sets out that the Council will seek, by negotiation, a target level of 35% affordable units on suitable sites. At paragraph 7.15 of the SPG it is stated that "On sites where the viability of housing development is threatened by the 35% target, an appropriate percentage will be negotiated on a site by site basis. Developers will have to produce evidence that site viability is threatened by the provision of 35% affordable housing."

4. Montagu Evans LLP have been instructed by the Applicant to test the maximum levels of affordable housing and other planning contributions that the scheme is able to support. This report summarises the financial viability as detailed within the FVA which provides justification for the levels of affordable housing and other planning benefits included within the application.

5. This report has been prepared by Jonathan Glaister, BSc MSc MRICS, RICS Registered Valuer and reviewed by Will Seamer, BA MSc MRICS, RICS Registered Valuer.

EXISTING PROPERTY

6. The Site, outlined in red below, is located on the south-west side of London Road approximately 1km from St Albans City Centre.

7. The site was historically used as ship model experiment tank to test the designs of submarines, ships and sea planes, but has since been reutilised as an industrial park occupied by a number of small businesses predominantly in B1 (now Use Class E), B2 and B8 uses. A principal two-storey brick building, known as

Vickers House, fronts London Road, which is followed by a long, narrow collection of single-storey industrial units that extend some 135 metres to the rear of the site.

PROPOSED DEVELOPMENT

8. The planning application seeks permission for redevelopment of the Site for residential use comprising the conversion of Vickers House into 9 apartments and demolition of the remaining industrial buildings on the Site and erection of 23 houses as summarised below.

PROPERTY	UNIT TYPE	NO. OF UNITS	AVERAGE SIZE (SQ. M)	AVERAGE SIZE (SQ. FT.)
Conversion Apartment	1B 2P Duplex	6	64.4	693
Conversion Apartment	2B 4P	3	111.4	1,199
New Build House	3B 6P	20	140.7	1,514
New Build House	3B 6P	3	170	1,830
TOTAL		**32**		

9. The proposed development largely follows the linear footprint of the existing buildings. The conversion of Vickers House retains the existing building but with a more appropriately designed front extension to replace the existing 1970s addition and removal of the external staircase addition. Vickers House will accommodate 6 no. 1 bedroom apartments, each with a private rear garden (ground floor) or a balcony and 3 no. 2 bedroom apartments.

10. The remaining existing buildings will be replaced by 5 short terraces with 3 bedroom houses over 3 storeys. Each house will benefit from a private rear garden backing onto the Green Belt beyond.

2.0

VIABILITY POLICY & METHODOLOGY

PLANNING CONTEXT

NATIONAL POLICY

1. Paragraph 34 of the National Planning Policy Framework (NPPF) confirms that the contributions expected from development, including the levels and types of affordable housing provision, should not undermine the deliverability of the relevant plan.

2. Paragraph 56 confirms that planning obligations should only be sought where they are:

    - necessary to make the development acceptable in planning terms;
    - directly related to the development; and
    - fairly and reasonably related in scale and kind to the development.

3. Paragraph 57 goes on to state:

    > *"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."*

4. Paragraph 122 underlines how planning policies and decisions should support development that makes efficient use of land, "*taking into account local market conditions and viability*".

LOCAL POLICY

5. The St Albans City and District Affordable Housing Supplementary Planning Guidance, March 2004 (SPG) sets out that the Council will seek, by negotiation, a target level of 35% affordable units on suitable sites. At paragraph 7.15 of the SPG it is stated that "On sites where the viability of housing development is threatened by the 35% target, an appropriate percentage will be negotiated on a site by site basis. Developers will have to produce evidence that site viability is threatened by the provision of 35% affordable housing."

VIABILITY METHODOLOGY

VIABILITY CONTEXT

6. In simple terms, the viability of a scheme is assessed by comparing the residual land value of the proposed development with an appropriate Benchmark Land Value (BLV). The BLV can be considered as the value below which a reasonable landowner is unlikely to release a site for development. If the residual land value is lower than the BLV then the scheme is not technically viable.

7. The residual land value of the proposed development is arrived at by summing the revenues derived from the development and deducting from these the costs of development (including an appropriate profit allowance).

8. There are a number of different approaches adopted in order to reach an acceptable BLV depending on site specific factors.

9. In arriving at our opinion of the appropriate BLV we have had regard to:

   - The RICS Guidance Note - Assessing viability in planning under the National Planning Policy Framework 2019 for England (1st Edition March 2021).
   - The RICS Professional Statement – Financial viability in planning: conduct and reporting (1st edition, May 2019).
   - The Planning Practice Guidance (PPG) for viability in support of the National Planning Policy Framework (NPPF).
   - The Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance (SPG) (August 2017).

10. We summarise the approach to arriving at a suitable BLV for the Site in Section 3 of the report below.

3.0

BENCHMARK LAND VALUE

1. The Viability Planning Practice Guidance (PPG) in support of the National Planning Policy Framework (NPPF) states: “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 comply with policy requirements.”

2. The RICS Guidance Note Assessing viability in planning under the National Planning Policy Framework 2019 for England (March 2021) also supports the EUV+ methodology for assessing Benchmark Land Values (BLVs).

3. We have therefore assessed the BLV adopting the EUV+ approach, in accordance with the PPG and RICS Guidance.

EXISTING USE VALUE

4. As set out in Section 3 the Site is currently used as an industrial park occupied by a number of small businesses predominantly in B1 (now Use Class E), B2 and B8 uses. A principal two-storey brick building, known as Vickers House, fronts London Road, which is followed by a long, narrow collection of single-storey industrial units that extend some 135 metres to the rear of the site. The majority of the industrial units are let and income producing.

5. The accommodation on site totals 3,295 sq. m (35,467 sq. ft.).

6. Following detailed consideration of comparable evidence we are of the opinion that the units are under rented. This is due to the fact that the Applicant has agreed breaks in the leases so they can be terminated with 12 months’ notice. This has been done in order to be able to secure vacant possession faster and bring forward this important development site at the earliest opportunity. In a no development scenario required to be assumed for viability purposes, new or existing tenants could be provided with better terms which would result in higher rents being achieved.

7. We are of the opinion that the total Market Rent (MR) is £334,218, equating to an average of £9.42 per sq. ft.

8. A rent free / void period of 9 months has been applied to the vacant units and we have applied an equivalent yield of 6.25% which results in a total Existing Use Value of £4,880,000.

LANDOWNER’S PREMIUM

9. As set out within the Affordable Housing and Viability Supplementary Planning Guidance, a landowner’s premium is usually added to provide the landowner with an additional incentive to release the site, having regard to site specific circumstances. This premium is normally in the range 10% - 40% but can be much higher (see Parkhurst Road Appeal Decision Ref: APP/V5570/W/16/3151698).

10. We have considered the following site specific circumstances when applying an appropriate premium to the subject property:

- The hypothetical landowner would be aware that the site has very good redevelopment potential and would require a sufficient premium to persuade them to release their property based upon their perception of the value that will be released by the development.
- The property is let and income producing.
- There is currently very strong investor demand for industrial assets.
- Industrial stock in the South East of England is diminishing quickly due to redevelopment which means that it would be expensive for the landowner to replace their asset or re-invest in the sector.
- In order to replace the asset, the landowner would be competing with residential developers. Because an Existing Use Value ignores any hope value for redevelopment, a larger uplift is required to persuade the landowner to release the site.

11. Based upon the above, we have applied a 20% premium to the Existing Use Value.

BENCHMARK LAND VALUE

12. On the above basis the BLV for the purposes of this FVA is £5,856,000, arrived at by applying a 20% landowner's premium to the EUV of £4,880,000.

4.0

VIABILITY RESULTS AND CONCLUSIONS

1. Based on detailed market research and a construction cost estimate prepared by the Applicant's Quantity Surveyors, we have undertaken a residual appraisal of the proposed development and summarise the results below.

222, London Road, St Albans – 100% Private Homes	
Revenue	
Private Dwellings	22,162,500
Costs	
Construction	£10,114,898
Contingency (5.00%)	£505,745
Professional Fees (12.00%)	£1,274,477
S106 Estimate	£102,000
Residential Marketing & Sales	£664,875
Residential Sales Legal Fees	£110,812
Developer's Return (17.5% GDV)	£3,878,437
Finance (7%)	£1,437,164
Residual Land Value	**£3,835,297**
Benchmark Land Value	**£5,856,000**
Viability Deficit	**-£2,020,703**

2. It can be seen from the above that the scheme with 100% private housing results in a residual land value of **£3,835,297** representing a viability deficit of **-£2,020,703** when compared to the BLV of **£5,856,000.**

3. In accordance with the requirements of the RICS Professional Statement Financial viability in planning: conduct and reporting (May 2019), we have carried out a sensitivity analysis on the proposed scheme appraisal. A 5% increase in private sales values with a concurrent 5% decrease in total construction costs would increase the residual land value to £5,055,912 which still represents a viability deficit of -£800,088 when compared to a Benchmark Land Value of £5,856,000.

4. The viability modelling therefore demonstrates that the development is technically unable to viably support the provision of any affordable housing whilst allowing for a competitive return to the developer to enable the development to be delivered. However, the Applicant is committed to delivering this much needed housing, albeit at profit levels that we consider to be below standard requirements in the current market.

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