

## Response:

### 12 Claygate Lane, Hinchley Wood, Esher, KT10 0AQ

***S106 Management (S106M) is instructed to review and respond to the findings of Bespoke Consultants (BPC) in relation to a proposed development at 12 Claygate Lane, reference 2023/2860.***

#### 1. Executive Summary

- BPC have reviewed S106M's Nov-23 appraisal and suggest several adjusted inputs.
- The below table highlights the main differences in the two appraisals:

	Original FVA	Council v1 (100% OM)
<b>GIA OMV</b>	1,070.00	1,069.40
OM GDV total	£7,035,000	£7,320,000
OM GDV psm	£6,575	£6,845
<b>TOTAL GDV</b>	<b>£7,035,000</b>	<b>£7,320,000</b>
base build cost total	£2,787,070	£2,580,935
externals	£557,414	£250,893
contingencies (%)	6%	5%
contingencies total	£167,224	£30,730
fees %	10%	10%
fees total	£295,429	£250,893
acquisition costs	£76,517	£162,190
CIL	£198,321	£198,322
sales & marketing fees	£211,050	£183,000
%	3%	2.00%
interest	£338,653	£430,738
finance rate	8.50%	7.50%
<b>Total cost</b>	<b>£4,631,678</b>	<b>£4,087,701</b>
profit %	20.00%	20.00%
<b>profit total</b>	<b>£1,407,000</b>	<b>£1,464,000</b>
<b>Cost + Profit</b>	<b>£6,038,678</b>	<b>£5,551,701</b>
<b>RLV</b>	<b>£996,322</b>	<b>£1,768,299</b>
<b>BLV</b>	<b>£1,580,700</b>	<b>£1,340,000</b>
<b>surplus / deficit</b>	<b>-£584,378</b>	<b>£428,299</b>

- Broadly the key differences in approach relate to construction costs, sales values, and benchmark land value.
- The below response provides additional information, updating S106M's original Q3 2023 reporting and reviews any changes aiming for agreement on any outstanding points.

## **1. Proposed Development**

- 1.1 Application **2023/2860** proposes *'Development comprising of 6 houses (2 detached and 2 pairs of semi-detached) and 3 flats and associated hard and soft landscaping following demolition of the existing house.'*
- 1.2 S106M's original viability report calculated that the development had a Residual Land Value (RLV) below the Benchmark Land Value (BLV), and therefore no financial contribution was viable. BPC have provided a response with some differing opinions impacting the overall conclusion.
- 1.3 The below response reviews both appraisals and provides the further information required to allow a conclusion to these discussions.

## **2. Review of Assumptions**

- 2.1 It should be noted from the outset that all concessions made in this review are purely for the purpose of this illustration; should the matter not be resolved at this juncture we reserve the right to return to our original figures in any subsequent appeal.

### 3. **Sales Revenue**

- 3.1 S106M originally assumed a 100% open market value GDV assessment of £7.035m (£6575/m<sup>2</sup>).
- 3.2 BPC have updated the proposed GDV, increasing this by c.£285,000 (4%).
- 3.3 We have tested the values suggested by BPC for open market dwellings below.
- 3.4 However, the applicant has subsequently instructed us to model the 3 flats proposed as onsite affordable housing. This would equate to 33% onsite affordable housing, exceeding the 30% targeted by policy CS21. Given the conclusions below, these have been modelled at the most viable tenure mix, as First Homes delivered at a 30% discount on open market value.

[Affordable Housing Tenure 3:](#)

[Intermediate - Discounted Market Sale](#)

Type of Unit	Capital Value (£ psm)	Total Floorspace (sq m)	Total Capital Value (£)
Studio	-	-	-
1 Bed	-	-	-
2 Bed	-	-	-
3 Bed	-	-	-
4 Bed	-	-	-
Other	£6,855	134.2	£920,000
Other	-	-	-
<b>Total</b>	-	<b>134.2</b>	<b>£920,000</b>

% of Open Market Value 70%

**Total Capital Value of Affordable Housing Tenure 3 £644,000**

- 3.5 We note that this proposal complies with both national guidance in the form of the government's Written Ministerial Statement (May 2021), Planning Practice Guidance, and Elmbridge Borough Council's Development Management Advice Note 6: First Homes, the target in adopted policy CS21 and the provisions of NPPF para 66.
- 3.6 We have re-run the viability calculation on this basis and updated the GDV assessment accordingly below:

	Original FVA	Council v1 (100% OM)	S106M Response
<b>GIA OMV</b>	1,070.00	1,069.40	935.30
OM GDV total	£7,035,000	£7,320,000	£6,400,000
OM GDV psm	£6,575	£6,845	£6,843
<b>GIA AH</b>			134.20
AH GDV			£644,000
AH assumption			30% discount on OMV
<b>TOTAL GDV</b>	<b>£7,035,000</b>	<b>£7,320,000</b>	<b>£7,044,000</b>

#### 4. **Build Costs**

- 3.1** S106M originally adopted Mean BCIS rates for the proposed development.
- 3.2** BPC have adopted the Median BCIS rate.
- 3.3** The applicant has provided a recent Quantity Surveyor's detailed elemental OCE which provides a site-specific costing at £4.36m (Schedule 1).
- 3.4** However this includes allowances for risk and inflation, which are accounted for elsewhere in the viability study. We have therefore removed these allowances and considered only the core cost of £3.84m for clarity.

	Original FVA	Council v1 (100% OM)	S106M Response
base build cost total	£2,787,070	£2,580,935	£3,840,824
externals	£557,414	£250,893	Included above

#### 5. **Contingency & Fees**

- 5.1 BPC and S106M are in agreement on the allowance for contingency and fees at 5 and 10% accordingly.
- 5.2 However there appears to be an error in BPC's appraisal whereby only an actual sum of £30,730 (1% of base build cost plus external works) has been applied in the appraisal.

5.3 We have maintained 5 and 10% accordingly.

	Original FVA	Council v1 (100% OM)	S106M Response
contingencies (%)	6%	5%	5%
contingencies total	£167,224	£30,730	£192,041
fees %	10%	10%	10%
fees total	£295,429	£250,893	£384,082

## **6. Acquisition costs**

5.1 This point can be agreed.

	Original FVA	Council v1 (100% OM)	S106M Response
acquisition costs	£76,517	£162,190	£162,190

## **7. CIL/S106**

6.1 These points are broadly agreed subject to confirmation by the local authority.

	Original FVA	Council v1 (100% OM)	S106M Response
CIL	£198,321	£198,322	£198,322

## **8. Sales fees and Legal fees**

7.1 We have modelled BPC's proposed reduction.

	Original FVA	Council v1 (100% OM)	S106M Response
sales & marketing fees	£211,050	£183,000	£140,880
%	3%	2.00%	2.00%

## **9. Finance Costs**

8.1 S106M have adopted an 8.5% allowance based on the substantial increase in the Bank of England base rate since the local plan viability study's original recommendations.

8.2 BPC have reduced this to 7.5%, although provided no justification for this reduction.

8.3 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 noted 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%

8.4 We therefore consider that a minimum 8% finance rate is an appropriate assumption, pending any substantive up-to-date evidence from BPC to the contrary.

	Original FVA	Council v1 (100% OM)	S106M Response
interest	£338,653	£430,738	£463,875
finance rate	8.50%	7.50%	8.00%

## **10. Profit**

7.9 S106M and BPC are in agreement that a 20% return for open market dwellings is appropriate, and 6% for traditional affordable housing tenures that are presold to registered providers thereby incurring lower risk.

7.10 For First Homes tenure dwellings we have adopted a reduced 12.5% return. While this is an affordable tenure it is not pre-sold to a registered provider but disposed of by the developer, and thus does not benefit from the level of risk reduction associated with traditional affordable tenures. 12.5% is in line with our experience and has been accepted widely for First Homes by viability assessors acting on behalf of local authorities.

	Original FVA	Council v1 (100% OM)	S106M Response
profit %	20.00%	20.00%	20% OM, 12.5% FH
profit total	£1,407,000	£1,464,000	£1,360,500

## **11 Benchmark Value**

11.1 S106M originally adopted a benchmark of £1.58m comprising EUV of £1.2m for 12 Claygate Lane, plus a 20% premium (£220,000), plus a value of £140,700 for the additional associated plot of land.

11.2 BPC note comparable properties valued at £723-816/ft, however they have adopted a significantly discounted EUV of £1 million on the basis of an assumption of 'inferior condition' although noting they have not inspected the property. If assuming the lowest value apparent in their comparable data this would equate to an EUV of £1.25m; therefore they have discounted in real terms £250,000 from this value to account for assumed inferior condition. They have agreed a 20% premium and a value of £140,700 for the plot.

11.3 While we have not visited the property, the applicant has stated the property is not in 'inferior condition' but is in lettable condition, and is indeed currently let by John D Wood at £3,610pcm (£43,320pa) subject to an annual CPI increase. On this basis the proposed significant £250,000 discount for condition appears inappropriate.

11.4 We consider that in any event it is inappropriate to assume inferior condition without any evidential basis, and have therefore maintained our original EUV of £1.2m, which returns a benchmark of £1.58m as previously.

	Original FVA	Council v1 (100% OM)	S106M Response
<b>BLV</b>	£1,580,700	£1,340,000	£1,580,000

## 12 Conclusion

12.1 To conclude, we have modelled a vast majority of the inputs proposed by BPC, updating the appraisal for the applicant's instruction to offer 3 affordable dwellings (First Homes), including the applicant's OCE and noting that the proposed reduction in BLV is inappropriate and unevidenced.

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<b>GIA OMV</b>	1,070.00	1,069.40	935.30
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%	3%	2.00%	2.00%
interest	£338,653	£430,738	£463,875
finance rate	8.50%	7.50%	8.00%
<b>Total cost</b>	<b>£4,631,678</b>	<b>£4,087,701</b>	<b>£5,382,215</b>
profit %	20.00%	20.00%	20% OM, 12.5% FH



<b>profit total</b>	£1,407,000	£1,464,000	£1,360,500
<b>Cost + Profit</b>	<b>£6,038,678</b>	<b>£5,551,701</b>	<b>£6,742,715</b>
<b>RLV</b>	<b>£996,322</b>	<b>£1,768,299</b>	<b>£301,285</b>
<b>BLV</b>	<b>£1,580,700</b>	<b>£1,340,000</b>	<b>£1,580,000</b>
<b>surplus / deficit</b>	<b>-£584,378</b>	<b>£428,299</b>	<b>-£1,278,715</b>

12.2 This suggests a revised deficit of c. -£1.278m, largely on the basis of a £320,000 reduction in development value (accrued through without prejudice provision of 3 No. onsite affordable dwellings as First Homes), the c. £1m increase in costs identified by the OCE over the BCIS average dataset, and the £240,000 difference of opinion on the benchmark land value.

12.3 The 3 No. First Homes modelled are therefore considered the absolute maximum deliverable on this site, although arguably the scheme as proposed remains unviable even at 100% open market values.