



# HOUSING EXPECTATIONS

## Affordable Housing Financial Viability Report

Relating to the Proposed Re-Development at:

### Station Plaza, Hastings

27<sup>th</sup> April 2016



## **Contents of Report**

The contents of this report must remain confidential and circulated only to parties requiring sight of this document in relation to the proposed planning application.

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## **1. Executive Summary**

- 1.1 This Affordable Housing Financial Viability Report has been prepared on behalf Laing / Gladedale (Hastings Ltd) the joint venture between Avant Homes and ██████████ in relation to the proposed development at Station Plaza, Hastings The proposed scheme comprises of 103 residential units. This report should be read in conjunction with the attached HEAM viability assessments.
- 1.2 The information contained within this report provides evidence of the financial viability issues in relation to this proposed development at Station Plaza, Hastings. This information is confidential and should only be shared with those necessary and involved within the planning decision process and not provided for information within the public domain due to its commercial sensitivity.**
- 1.3 The signed Section 106 agreement in terms of affordable housing provision requires 30% affordable housing with a tenure split of 25% social rented and 5% intermediate tenures.
- 1.4 This assessment demonstrates that even with a zero affordable housing contribution, the scheme is struggling financially and therefore it is not viable to provide the required affordable housing obligation (as stipulated within the Section 106 Agreement) as part of the proposed development at Station Plaza, Hastings

### 1.5 Summary of Viability Results

#### Scenario 1 **Zero Affordable**

Scenario 1 generates a residual land value of minus **£2,126,033** which is a loss against the benchmark value of the site of **£3,556,033**.

### 1.6 Recommendation

To facilitate the regeneration of this town centre site the recommendation is to proceed on the basis of a zero affordable housing contribution, based on the evidence provided within the report and accompanying viability studies which clearly demonstrate a substantial monetary loss against the benchmark valuation for the site.

## **2. Background of the Site & Development Proposals**

- 2.1 Planning permission HS/FA/06/00983 was granted to Hastings College of Arts and Technology in May 2007 for a mixed use development of this former station goods yard site for education and health facilities, together with 103 residential units and associated retail, car parking and landscaping. The Station Plaza site was then brought to the market in 2007 within a portfolio of sites offered by Hastings College. The proposals involved bringing some of the existing campus sites forward for private and affordable residential units as a way to provide sufficient value to develop the new Further Education Facility forming part of the mixed use development at Station Plaza.
- 2.2 The purchase of the College buildings was concluded at the height of the market and the [REDACTED] / Gladedale (now Avant Homes) joint venture fulfilled its commitments in terms of purchase of the sites, the delivery of new housing and of course in the delivery of the New Further Education College itself. It became apparent that the overall structure of the purchase was seriously challenged in terms of the viable delivery of the residential element of Station Plaza several years ago and after lengthy negotiations with Brighton University, who were at the time urgently in need of student accommodation, a planning application (HS/FA/14/00083) was submitted in 2014 for 223 Student rooms within the main residential block. This planning application was supported by Brighton University and approved by the Council, unfortunately the commercial negotiations to secure the delivery was not successful and subsequently Brighton University have announced proposals that have effectively eliminated the need that the scheme was designed to fulfil. It is in the context of this changed situation that we have prepared this application.
- 2.2 The proposed development that this viability submission relates to is the provision of 103 residential apartments on the site adjacent to the Sussex Coast College Hastings facility at Station Plaza, Hastings.
- 2.3 The new college, health centre, retail, car parking and associated landscaping has been provided by John Laing as part of the overall contract with the College and have been in operational use since 2010. In addition 11 no. 3 bed affordable homes have been provided as part of the St Saviours Road redevelopment and 26 no. 1,2,3 & 4 bed affordable homes have been provided as part of the Archery Road redevelopment.

### **3. Policy Context**

- 3.1 There is extensive national, regional and local planning policy relating to affordable housing.
- 3.2 At the local level the Council Policy at the time of planning permission being granted was 25% social rented housing and a further 5% intermediate housing. This Policy is reflected in the Section 106 agreement signed in May 2007. In this agreement there is a requirement for 21 number 1 bed apartments and 10 number 2 bed apartments to be disposed of to a Registered Provider for affordable housing.
- 3.3 The National Planning Policy Framework (NPPF) identifies at paragraph 50 that local planning authorities should set policies for meeting affordable housing on site, unless off-site provision or financial contribution of broadly equivalent value can be robustly justified.
- 3.4 In terms of justification, ensuring viability and deliverability is at the heart of the NPPF and is a significant material consideration in determining planning applications. Paragraph 173 of the NPPF states that pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Specifically it states:

*“To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.”*

- 3.5 Further, Circular 05/2005 states:

*“In some instances...it may not be feasible for the proposed development to meet all the requirements set out in local, regional and national planning policies and still be economically viable. In such cases...it is for the local authority and other public sector agencies to decide what is to be the balance of contributions made by developers and by the public sector infrastructure providers in its area supported, for example, by local or central taxation. In such cases, decisions on the level of contributions should be based on negotiation with developers over the level of contribution that can be demonstrated as reasonable to be made whilst still allowing development to take place.”*

- 3.6 In addition to the above, the Department for Communities and Local Government has produced guidance entitled “Section 106 affordable housing requirements: Review and appeal” which recognises that unrealistic Section 106 agreements negotiated in differing economic conditions can be an obstacle to housing building and reviewing such agreements will result in more housing. Whilst the guide is intended to inform applications made under Section 106BA, BB and BC inserted by the Growth and Infrastructure Act the principals contained within the document in terms of the form of evidence required to demonstrate viability applies in all cases and shows the Government’s advice on assessing viability.
- 3.7 In a recent planning appeal case (land at The Manor, Shinfield Case ref: APP/X0360/A/12/2179141/NWF), the Inspector determined that a viable scheme should provide a residual value equating to existing use value plus 50% of the uplift from the grant of planning consent, prior to any planning obligations. In addition, the Inspector stated that a competitive return of a 20% margin on GDV for both market and affordable housing should be accounted for within a viability submission.

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- 3.8 In accordance with new national guidelines as set out in the National Policy Planning Framework and Section 106BA, financial viability of sites is now a material planning consideration and this legislation has been further supported by the Government in their recent announcements stating that they wish to see more developments brought forward and not stalled due to viability issues.
- 3.9 It is in accordance with the NPPF and the Government's clear wish to take viability into serious consideration as part of the planning process that this report and accompanying viability has been submitted.

#### 4. Financial Viability Appraisal Assumptions

##### Costs

##### 4.1 Planning Obligations

The Council have notified our client that the total required financial section 106 contribution is £65,000 which accounts for the cost associated with the Local Sustainable Access Contribution of £50k with indexation and the provision of a Travel Plan.

It can be noted that this total of £65,000 section 106 financial contributions have been allowed for within the recommended viability.

##### 4.2 Build Costs

In terms of build costs assumed, figures from BCIS have been utilised for the base build cost in the attached viability.

##### 4.3 In Summary:

Net Residential Build Cost @ **£180.69** per m<sup>2</sup>

|   |                    |
|---|--------------------|
| <b>Total Net Build Cost:</b>                      | <b>£11,902,050</b> |
| <b>Contingency @ 5 %:</b>                         | <b>£602,102</b>    |
| <b>Exceptional Development Costs / Abnormals:</b> | <b>£500,000</b>    |
| <b>Total Build Cost:</b>                          | <b>£13,022,152</b> |

| <u>Exceptional Development Costs:</u>    |                 |
|--|-----------------|
| <b>Basement car park for residential</b> | <b>£500,000</b> |

A total of £1.1m was paid to the college as a contribution towards the residential car parking and infrastructure costs.



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### 4.4 BCIS comparison

We have analysed the mean BCIS Average Price figures based on prices received for similar developments over the last 5 years. The results are £180.69 per ft<sup>2</sup>.

### 4.5 Developer's Overheads and Profit

Although we would usually expect the industry norm of 20% of GDV developer's overhead and profit we have allowed for 17% in this instance due to the financial viability issues. This has therefore been allowed for in terms of the open market housing in relation to developer's return, and overheads have been allowed for within this figure.

### 4.6 Land Values and Acquisition Costs

The site was purchased by our client in 2007 for a **total purchase price of £1.1m** plus the infrastructure and car park contribution of a further £1.1m.

We have therefore utilised this figure as the **market value** and the **existing use value** of the site. Taking into account recent guidance and planning appeal cases we have assumed a **benchmark land value of £1,430,000** (EUV plus 30%) which we believe is a fair reflection of the EUV plus an element of 'hope value'. It is this figure that the scheme viability has been assessed against and not the purchase price. The land purchase price is only included within the viability appraisal in order to calculate the interest accrued in relation to this aspect of the development.

### 4.7 Anticipated Programme

The following programme has been assumed for this development:-

|   |                  |
|---|------------------|
| <b>Lead in to obtain planning permission:</b>               | <b>6 months</b>  |
| <b>Anticipated build programme:</b>                         | <b>2 ½ years</b> |
| <b>Time between build completion and sale of last unit:</b> | <b>6 months</b>  |
| <b>Total Programme:</b>                                     | <b>3 ½ years</b> |

We believe these programme dates to be extremely optimistic, however, in accordance with guidance no holding costs have been accounted for.

### 4.8 Finance Costs

An interest rate of 7% has been utilised within the viability assessment which is in fact less than the anticipated interest rate to be incurred by our client. However, it is a rate commonly utilised in financial viability assessments. This rate has been averaged out within the various cost elements to allow for the effect of income and costs. In our experience this equates to a very similar figure to that generated via a discounted cash flow.

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### 4.9 **Fees**

The following fees have been allowed for within the accompanying viability:-

- Marketing @ 3% (agent 1.5%; legals, incentives and RP 1.5%)
- Land acquisition @ 6.5% (4% SDLT; agents & legals 2.5%)
- Professional @ 10%

### **Revenue**

#### 4.10 **Market Values**

| Unit Type       | Estimated Sales Values    |
|-----------------|---------------------------|
| 1 bed apartment | Circa £148,000            |
| 2 bed apartment | Circa £172,000 - £178,000 |
| 3 bed apartment | Circa £250,000            |

A sales value of £250 per ft<sup>2</sup> has been assumed and these values have been utilised within the accompanying viability and summarised above.

#### 4.11 **Commercial Values**

A ground rent of £200 per unit per annum has been assumed and capitalised utilising a yield of 5.5%. This generates a commercial value of £374,545 which has been included within the viability.

#### 4.12 **Affordable Housing Values**

We have given not approached Registered Providers for offers at the current time as the scheme cannot financially afford to provide any affordable housing given current costs and values.

## 5. Conclusions

### 5.1 Proposed Affordable Housing Contribution

In determining the level of affordable housing that the site can sustain, a series of viability models are undertaken, increasing the level of contribution until the scheme becomes unviable. As can be demonstrated by the attached financial viability assessment, even with a zero affordable housing contribution and a £65,000 Section 106 contribution, the scheme shows a residual value of minus £2,126,033. The appraisal has been based on the following information and assumptions:

- 5.2 A financial viability assessment has been undertaken to demonstrate the effect of the costs attributable to the build of 103 residential apartments at Station Plaza, Hastings.
- 5.3 It is recommended that the scheme proceeds on the basis of zero affordable housing. As can be noted from the viability assessment, this generates a residual value of minus £2,126,033 which when compared to the benchmark land value utilised provides a loss of £3,556,033.
- 5.4 This provides our client with a lower than industry-accepted margin on the development, however, it is at a level that they are prepared to proceed with due to their financial commitment to the land.

## **6. Company Experience and Contact Details**

- 6.1 Housing Expectations Ltd., formed in 2005 has the foundations of considerable numbers of years of experience of affordable housing delivery.
- 6.2 The Company, consisting of seven members of staff, specialises in providing consultancy services for house builders, RSLs, LAs, contractors and land owners. We operate throughout the majority of the country providing advice in relation to affordable housing generally. As indicated within our website (which can be found at [www.housingexpectations.com](http://www.housingexpectations.com)) our role is to work in partnership with RPs, LAs, house builders and vendors to provide mutually beneficial affordable housing solutions for all.
- 6.3 Operating on a national basis, we have gained considerable experience advising our clients (RPs, LAs, house builders and land owners) regarding planning policy relating to the provision of affordable housing and specifics relating to sect 106 agreements.
- 6.4 As a part of this overall process we regularly undertake financial viability exercises on behalf of our clients using HCA recognised toolkits and our own viability toolkit. We work in partnership with LAs and the HCA to use this information to assist in providing a 'reasonable' solution for all parties to sect 106 obligations and as a tool to assist our RSL partners in obtaining grant support for the much needed affordable housing provided.

### **6.5 Contact Details**

Should any further information be required or you would like to discuss the contents of this proposal further please contact [REDACTED], details as set out below:-

[REDACTED] [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

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## 7. Appendices