

Residential Development Viability Study Guidance

Developer's Guide

November 2017

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Background

Slough Borough Council (SBC) is getting a number of requests to assess the viability of residential schemes for development so that below policy levels of s.106 and affordable housing can be negotiated to bring forward development sites for housing.

The purpose of this guidance is to set out standard requirements, parameters and assumptions for a number of the variables within residential development viabilities to standardise and speed up the process.

Applicants should consult with SBC's planning department to establish:

- i) the policy compliant level of s.106 obligations required prior to the submission of a viability; and
- ii) the current priority in terms of affordable provision relative to financial contributions.

Viability Consideration Fees

The Council usually uses an external consultant to assess submitted viability studies. Applicants will be expected to pay the Council's consultant's reasonable costs. The Council will invoice the applicant once a viability study has been submitted and the consultant has assessed the scale of work involved. The cost is unlikely to be less than £4,500. If there are a number of re-submissions over a prolonged period of time SBC reserve the right to seek further consideration fees.

Benchmark Value

The benchmark value for viability will be the Existing Use Value without any premiums.

This value will be used as the benchmark against which residual land values created by scheme viabilities are measured against.

If in the unusual situation the Existing Use Value is negative (i.e. significant remediation for any alternative use) the benchmark value should be taken as zero.

Any development value should be calculated in accordance with RICS Guidance Note: Viability in Planning (June 2014) i.e. "Site Value should equate to the market value subject to the following assumptions: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan"

Scheme Information

Information needs to be provided on the form of construction (traditional, reinforced concrete frame, timber frame etc), storey heights and method of parking.

Appraisal need to be accompanied with a full schedule of accommodation detailing Net Internal Areas (NIA's) and Gross Internal Areas (GIA's).

Gross Development Value

A detailed pricing for the residential and commercial accommodation within the scheme should be submitted with supporting information from new build comparables.

Affordable housing values should be justified with offers from three local Registered Providers (previously know as Registered Social Landlords or Housing Associations) active in the area.

Build Cost

Build costs should be based on Gross Internal Area (GIA) with reference to BCIS rates re-based to Slough.

Site Costs/External Works should be based on 10% of the Build Cost unless detailed quotations indicate otherwise.

If a detailed build cost is provided these should set out clear reasons for deviation from the Median average values achieved in the BCIS figures.

Demolition Costs

If these are to be included they should be justified by an appropriate quotation from a local contractor.

Net to Gross

If a detailed build cost has not been undertaken to accompany the viability the following circulations should be added to NIAs.

Houses - 0% Circulation (100% Net to Gross)

Low Density Flats (No lifts) - 10% Circulation (91% Net to Gross)

Mid Density Flats (with lifts) - 20% Circulation (83% Net to Gross)

High Density Flats (Lifts/ Basement Parking - 25% Circulation (80% Net to Gross)

Commercial - 10% Circulation (91% Net to Gross)

If a detailed measurement has been undertaken of the GIA (signed by an RICS qualified surveyor) for high density scheme the council will accept up to circa 27% circulation if it can be demonstrated and justified.

Developers Profit

The profit margin required to access funding to deliver schemes varies depending on market conditions and perceived risk. The council will currently accept the following developers profit levels:

Private Housing - 17.5% of Private Residential Gross Development Value.

Ancillary Commercial - 17.5% of Commercial Gross Development Value.

Affordable - No profit margin.

If the combination of the above does not equate to at least 20% of total cost then profit on cost will be acceptable as the funding threshold.

Residential Sales and Marketing

Sales Agent - 1% of Private Residential GDV

Sales Legals - 0.5% of Private Residential GDV

Marketing - 2% of Private Residential GDV

On high density internationally marketed schemes 3% of Private GDV will be considered acceptable for Marketing.

Ancillary Commercial Sales and Marketing

Commercial Letting Agent - 10% of Rent Passing

Rent Commercial Legal Fees - 5% of Rent Passing

Sales Agent - 1% of Investment Value

Legals - 0.5% of Investment Value

Ground Rents

For each private leasehold residential unit we would expect:

Studio/ 1 Bedroom Unit - £200 per annum.

2 Bedroom Unit - £250 per annum.

3 Bedroom Unit and over - £300 per annum.

The rate of capitalisation is very sensitive to movements in interest rates but in the absence of alternative evidence a rate of 5% (Multiplier of 20) should be adopted.

Finance

Finance costs can vary depending on prevailing base rates and the finance market. They tend to be very specific to the individual covenant strength/ financial health of the developer seeking finance.

In the current market the council will seek viabilities to be based on 7% interest pa (internal and external funding) with no arrangement fees, bank monitoring costs or in and out fees.

Professional Fees

Professional fees can vary significantly depending on the complexity and context of a development but in most cases the local authority will expect to see the following levels adopted:

Greenfield Housing Development -
1.5% of Build Cost Pre-planning fees
3 % of Build Cost Post-planning fees

Brownfield Housing Development -
3% if Build Cost Pre-planning fees
4% of Build Cost Post-planning fees

Acquisition Costs

Stamp Duty - to be applied at the relevant HMRC Stamp Duty and Land Tax and thresholds.

Agent Fee - to be applied at 1% of net (residual) land value.

Legal Fee - to be applied at 0.8% of net (residual) land value.

Contingencies

If BCIS figures are being used a Contingency of 5% of Build Cost will be considered acceptable on brownfield sites.

Contingencies on Greenfield sites should be an allowance of 2% of Build Cost.

If a detailed current build cost has been prepared there should be no provision of additional contingencies as risk is priced into the Developers Profit figure and SBC is not requiring sales growth to be factored into viabilities.

Inflation/Forecasting

Viabilities should be based on present build costs and sales values and anticipated uplifts in build costs and values should not be incorporated into the viabilities.

Clawback/Overage Provisions

On most occasions SBC will seek clawback/ overage provisions based on the final agreed viability so that the balance of policy compliant Section 106 contributions can be recovered if the actual Gross Development Value is higher than the figures agreed in the viabilities.

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If you would like assistance with the translation of the information in this document, please ask an English speaking person to request this by calling 01753 875820.

यदि आप इस दस्तावेज़ में दी गई जानकारी के अनुवाद किए जाने की सहायता चाहते हैं तो कृपया किसी अंग्रेजी भाषी व्यक्ति से यह अनुरोध करने के लिए 01753 875820 पर बात करके कहें.

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Aby uzyskać pomoc odnośnie tłumaczenia instrukcji zawartych w niniejszym dokumencie, należy zwrócić się do osoby mówiącej po angielsku, aby zadzwoniła w tej sprawie pod numer 01753 875820.

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اگر آپ کو اس دستاویز میں دی گئی معلومات کے ترجمے کے سلسلے میں مدد چاہئے تو، براہ کرم ایک انگریزی بولنے والے شخص سے 01753 875820 پر کال کر کے اس کی درخواست کرنے کے لئے کہیں۔

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