Affordable Housing Viability Assessment Procedures

Where an applicant indicates that they are unable to provide the full affordable housing requirement on viability grounds, they will need to submit a detailed financial appraisal of the proposed development.

As part of the referral, the applicant agrees to provide all the information required within the Viability Assessment Guidance Notes (see Page 3).

Any applicant who is not prepared to submit a Development Appraisal for verification via an open book approach will nullify any rationale for lowering the percentage of affordable housing. The presumption will be that without verifiable evidence relating to site specific economics, there is no justification for reducing the s.106 requirements and the scheme will be considered viable and will meet all required planning obligations.

The Planning Officer will offer the applicant the opportunity to refer their appraisal to the Council’s Valuation Officer or to an independent valuation expert from the Valuation Office.

Neath Port Talbot County Borough Council's Valuation Officer

The purpose of this service is to provide a cost-effective route for applicants who are confident that they can show that affordable housing will have an adverse effect on viability.

This will be subject to the following initial fixed fees:

- 3 to 10 Units - £250
- 11 to 20 Units - £500
- 21 plus Units - £1000

The cheque is to be paid in advance by the applicant and made payable to Neath Port Talbot County Borough Council.

Where the applicant does not provide sufficient evidence to allow the Council’s Valuation Officer to make a satisfactory assessment, the Valuation Officer will advise the Planning Officer, who will then inform the applicant of the further evidence required to enable the assessment to continue. If, at this stage, the applicant still wants the Valuation Officer to assess their Viability Assessment, there may be a charge for any additional work undertaken. The Council will consult with the Applicant before any additional expense is incurred.

If agreement cannot be reached on any part of the applicant’s submission, then a second opinion will be sought from the Valuation Office. The cost of this will be borne by the applicant. If the applicant does not agree to a second opinion then this will result in the scheme being considered viable and the applicant will have failed to prove that the affordable housing contribution should be lowered on the grounds of viability.

NPTCBC – Affordable Housing Viability Assessment Procedures – March 2014
The applicant should be aware that any reliance on so-called abnormal costs as the basis for requesting a reduction in the affordable housing contribution will require those costs to be considered by an independent specialist at the applicant’s expense.

**Valuation Office**

The Local Authority also offers the applicant the opportunity to have their Viability Assessment considered directly by the Valuation Office without prior consideration by the Local Authority’s Valuation Officer. The full cost of the assessment by the Valuation Office will be borne by the Applicant.

The applicant will be required to provide the same level of information as requested by the ‘Viability Assessment – Guidance Notes’, even if they chose to go directly to the Valuation Office.

**Confidentiality / Use of Information**

The information provided by any applicant will be handled in accordance with Neath Port Talbot County Borough Council’s Confidentiality and Use of Information Policies. No information will be discussed with any third party. However, in the event of a dispute, external independent valuers will be employed to assess the figures supplied. If this situation arises, the applicant will be notified accordingly.
Viability Assessment – Guidance Notes

The following notes are intended to help the applicant provide a comprehensive Viability Assessment. A failure by the applicant to provide all the information specified below will result in unnecessary delays and potentially lead to additional costs.

If an applicant requests an opportunity to demonstrate that a site is not viable at the level of affordability required by the Local Authority, then they must provide a suitably detailed Viability Assessment to support their claim. Within the Viability Assessment, the applicant will be expected to provide, where necessary, information from a professionally qualified source at their own expense. Finally, the applicant will be expected to demonstrate that the Viability Assessment is based upon reasonable and realistic assumptions and expectations.

For ease of reference, a checklist of the information required for all Assessments can be found at Page 7 of this document. Please ensure that this is cross referenced prior to submitting your Viability Assessment.

Viability Test

Viability is defined as follows:

‘An objective financial test of the ability of a development to meet its costs (including the cost of planning obligations), whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer.’

Valuation

The viability appraisal should be undertaken on a residual valuation basis, using a recognised methodology that accords with RICS guidance for assessing the viability of residential developments.

The methodology used will adopt current costs and values in relation to the proposed scheme and assume that affordable housing and other s.106 requirements are met in full within the overall development costs.

Development Proposal – Overview

A brief description of the scheme together with a full explanation of why the applicant considers that there is an economic case for lowering the levels of affordable housing should be submitted.

Density

The appraisal and supporting evidence should include the overall gross site area (in hectares), the net developable area, the dwelling and non-residential density per net hectare and the floorspace per net hectare.
**Number of Units**
This will also include the size of each unit in square metres (gross and net), number of beds and mix, car parking provision & number of storeys.

**Sale Prices**
The viability appraisal should be supported by evidence from comparable development schemes after taking into account the type of property, location and delivery. Appraisal comparables should be “achieved” rather than “asking” prices and should exclude marketing incentives (e.g. fit out, payment of stamp duty). Where comparability is an issue, these can be benchmarked against published sources e.g. Land Registry, Valuation Office Agency or agents’ market reports.

**Other Values**
The value of any ground rents, car parking, temporary income, etc. should be included within the assessment.

**Commercial element – Sale Prices**
Valuation evidence must be supplied. Whilst in some cases, freehold evidence may be available, most commercial space will be valued on the basis of rents being achieved, capitalised by an appropriate yield. Both rental and yield evidence will be required to substantiate value.

The build costs should not exceed the current rates published by the BCIS for New Build units in the appropriate categories and adjusted for location factor. If the build costs for the development exceed the BCIS rates, then the applicant will be required to provide a professionally prepared cost plan, including written evidence to justify the increased costs.

The rates are based on Gross Internal Floor Area (RICS definition) and exclude external works and contingencies; these should be costed and added separately within the calculation.

**Site Investigation, Preparation and Infrastructure Costs**
The applicant will be required to provide site specific evidence (reported cost estimates or invoices) for site infrastructure costs / external works. These costs may include demolition; ecological, geotechnical, archaeological and other site investigations (including those undertaken before site purchase or for planning); basic on-site infrastructure and services. These costs may need to be verified by independent cost consultants.

In most cases these costs should be reflected in the land value and the applicant should ensure that these costs are not double counted.
Legal Fees
These should reflect the charging rates of local Solicitors and Conveyancers.

Sale Fees
These should reflect the charging rates of local Agents (although it is recognised that larger house builders may provide this service in-house).

Professional Fees
Where relevant, these can include Architect, Quantity Surveyor, Structural Engineer, Mechanical and/or Electrical Engineer, Project Manager, CDM Management, and other necessary consultants. Evidence should be provided.

Cost of Finance
For most developments, a rate of 3-5% above Bank of England Base Rate is expected but applicants unable to borrow at this level should provide evidence of the actual rate applicable.

Development Period
It is accepted that this will vary from project to project, a reasonable and realistic estimate should be provided.

Contingency
The more complex the project, the more likely it is that there will be difficulties or delays. Therefore, contingencies should be calculated at between 2% and 5% of total costs (i.e. building costs, ancillaries and professional fees) depending on the complexity of the development. Where costs are more certain then the percentage should be reduced.

Developer’s Return (Profit Margin)
A typical margin in the region of 15-20% of GDV is expected. However, higher/lower profit levels may be appropriate to reflect the size and risk profile of the developer and the risks related to the development project.

If the applicant requires a higher developer’s return, then they will need to provide a full explanation together with evidence from comparable schemes or data sources.

Landowner’s Return
This will usually be addressed in the land purchase price or market value and will not normally be included in the appraisal.

Site Acquisition Costs
This should include Planning and Survey Costs, Agent and Legal fees, Stamp Duty etc. The fee levels should reflect local rates where appropriate.
Abnormal/Exceptional Costs
Any abnormal/exceptional build costs must be itemised in the appraisal and fully explained in the supporting evidence. The Local Authority considers that costs incurred in delivering a workable, high quality development are to be expected and any works which should have been identified prior to acquisition should be reflected in the price paid for the land.

Standard development costs such as demolition works, landscaping, noise bunds, archaeological and ecological surveys, drainage and flood prevention measures, noise and other environmental attenuation, and appropriate infrastructure provision, which may include highway and public transport measures, will not usually be considered abnormal/exceptional site costs.

In the event that an applicant considers that abnormal/exceptional development costs have been incurred, it will be the responsibility of the applicant to demonstrate how the costs have been derived. A site investigation report, remediation statement, detailed drawings and calculations of how the abnormal/exceptional costs have been derived must be submitted with the application.

It is expected that the applicant will have accounted for the costs involved with any site constraints and the requirement of the Affordable Housing Policy in the purchase of a site. A reduced contribution will only be considered where the policy requirement is demonstrated to threaten the viability of the development due to exceptional development costs resulting from unusual site constraints such as decontamination, reclamation requirements or access difficulties unforeseen at the time of site purchase.

Planning Contributions and other Obligations
Anticipated or agreed costs of delivering planning conditions or obligations for planning and highways agreements should be included.

Site Value
Site Value should equate to the market value providing that the value has regard to development plan polices and all other material planning considerations and disregards that which is contrary to the development plan.

Any purchase price should have regard to the development plan policies and all other material planning considerations, including planning and affordable housing obligations, whilst providing a competitive return to a willing landowner and a willing developer to enable the development to be deliverable.

When a site has been acquired by the applicant in advance of planning permission, the basis of the acquisition cost must be fully explained in the supporting evidence.

When a development site is subject to an Option to Purchase agreement, if the development cannot meet policy requirements and the option is subject to fixed returns to the landowner(s); where appropriate, the Council will expect the Option to be re-negotiated.
The cost of providing affordable housing, together with any other planning obligations and overcoming development constraints and land assembly, should be accounted for in the land purchase price. The Council does not accept situations where the applicant purchases land with the assumption that the requirement for affordable housing will be waivered or reduced in order to ensure financial viability.
Breakdown of information required for submission with a Viability Assessment

(A) Value

• The gross and net internal area of the properties.

• The value or values used per unit area. This should include ground rents. (Evidence must be provided for deductions for incentives)

• Anticipated sales rate (per month)

(B) Costs

• Site acquisition costs and date of acquisition (an acquisition cost, which does not reflect current planning policies in the valuation, is not a reason to reduce the affordable housing element required. The amount paid for the site should reflect the requirement for affordable housing provision to be made).

• Costs associated with acquisition (broken down into legal fees, stamp duty etc)

• Build Costs (say whether these are a tendered sum or an estimates.)

• Preliminaries allowed for (state what is included).

• External Works (state what is included).

• Planning Costs (planning and building regulation fees, any commuted sum money for open space etc)

• Fees (architect, designer, QS etc)

• Cost of finance (indicate period and interest rate)

• Community Benefits (if the scheme includes any benefits in kind, for example the restoration of a listed building, include the cost of providing this).

• Abnormal Costs (these are additional costs required to bring the site forward, over and above those that could reasonably be expected. Abnormals exclude all known costs that should have been reflected in the site acquisition cost.)

• Developers Profit Margin.
VIABILITY ASSESSMENT CHECKLIST:

- Site plan showing the cleared site (include site size in hectares and square metres)
- Full set of plans showing the proposed development
- Number of residential units proposed
- Schedule of both gross and net internal floor areas
- Land price (with proof)
- Date of land purchase
- Schedule of development costs (normals)
- Schedule of development costs (abnormals)
- Proof of development costs (normals / abnormals)
- Reasons why full costs (including abnormals) were not reflected in the purchase price
- Expected sale price of each dwelling and total
- Intended profit level/s
- Level/s of affordable housing (%) that could be provided
- Detailed Section 106 costs
- Any other costs or income included within your calculation (with proof)
- A residual valuation for providing full affordable housing requirement against a diminished profit level

The required information will be submitted in a hard copy and digital form.

Please note that even if part of the required information above has already been submitted to the Planning section as part of your planning application, it should be resubmitted with your viability assessment to reduce potential delays and the need to collate information from various sections of the Authority.
Viability Report (Basic Outline)

- Summary
- Contents
- Introduction and background
- Description of site location
- Planning policy context
- Description of scheme
- Market information summary
- Build cost and programme
- Methodology and approach
- Outputs and results
- Concluding statement