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David Elmore,
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Our ref: 231026 Former Beales Hotel, Hatfield FVA_S106 Contribution Review_v0.1

Your ref:

Dear David,

27 October 2023

RE: Former Beales Hotel, Comet Way, Hatfield (6/2022/1355/MAJ) – S106 Contributions

Further to our recent correspondence, this letter sets out our assessment of the additional information submitted by the Applicant in respect of the Section 106 contributions for the proposed scheme at the Former Beales Hotel, Comet Way, Hatfield.

In an email dated 16th October 2023, the Applicant's consultant, Kempton Carr Croft (KCC), set out their position which demonstrates that the proposed Section 106 contribution of £250,000 is not viable. KCC have run two separate appraisals – one which assumes their own cost and value assumptions, and another which adopts AspinallVerdi's assumptions from our June 2023 assessment. Both scenarios demonstrate that the proposed scheme cannot viably support an S106 contribution of £250,000. Below, we review the inputs adopted in our June 2023 assessment to ensure they remain reasonable and reflective of current market conditions.

Analysis

We have updated our development appraisals to determine whether the proposed S106 contribution of £250,000 is viable. On the basis that our June 2023 assessment concluded the scheme could not viably support any on-site affordable housing, we have only tested a private scenario (i.e. 0% AH). Our comments on the appraisal inputs are set out in Table 1-1.

Table 1-1 – Assessment of Appraisal Inputs

Component	Input / Assumption	Comments
GDV	£43,417,500 / £471 psf	Land Registry House Price Index has shown that flatted prices have decreased since June 2023 by 1.23%. There have been no further new-build flatted transactions recorded on Land Registry since June 2023. Listing prices for new-build flats in Hatfield are consistent with the ranges identified in our June 2023 assessment. Uphold that AspinallVerdi GDV is reasonable.

Construction Costs	£26,640,000 / £204 psf	The RICS Tender Price Index reports that costs increased by 0.52% from Q3 2023 to Q4 2023. BCIS upper quartile rates as of 26th October 2023 are reported at £2,131 psm (£197 psf) for flatted construction of 6+ storeys. This represents a small increase of £3.26 psf since our June 2023 assessment. No further evidence has been provided in support of the external works costs. Please refer to Paragraph 5.7 of our June 2023 assessment in this respect. We uphold that the construction costs are reasonable.
Contingency	5.0%	Brownfield site, remains reasonable.
Professional Fees	6.0%	Uphold comments from our previous review: *'The professional fees allowance of 6.0% is shown to be at the lower end of the range typically advised. If these were to increase, this would reduce viability by increasing costs.'*
Residential Marketing & Agency	2.5%	Remains reasonable
Residential Sales Legal	£1,000 per unit	As above
Finance Rate	6.5%	Uphold comments from June 2023 assessment: *'The Applicant has retained the same finance rate of 6.5% despite subsequent increases to the Bank of England base rate. If this was to be increased, this would reduce viability by increasing costs.'*
Private Profit	17.5% on GDV	Remains reasonable
Benchmark Land Value	£3,093,750	We would reiterate the comments made in our previous report: *'Through further correspondence with the Council, we understand that the YMCA remain in situ and the temporary use licence remains valid for another c. 1-year. We have been informed that the original purpose of the temporary use application was to rehouse residents at the YMCA Hostel in Welwyn Garden City whilst the site was being redeveloped. As such, it could be argued that there is likely to come a point where the income-generating capacity of the Former Beales Hotel will cease and with that, a revised EUV assessment may be required. However, in line with the RICS guidance on viability in planning, it would not be appropriate to penalise the landowner for the decision not to renew any leases in the preparation of the site for development.'*

Source: AspinallVerdi, 2023.

Outcome

With the exception of the Section 106 contribution, the appraisal inputs remain unchanged from our June 2023 assessment. The S106 costs in our previous assessment were assumed at £2,265,384 based on figures received from the Council, however we have reduced this to £250,000 as per the Applicant's appraisals. The outcome is that the scheme remains unviable, generating a reduced viability deficit of c. £928,000. We provide a copy of our updated appraisal in Appendix 1, with a summary of the outcome compared to our June 2023 assessment shown in Table 1-2.

Table 1-2 – Appraisal Outcome Comparison

Assessment	Deficit
Jun 2023	-£3,219,854
Oct 2023	-£927,725
Difference	**£2,292,128**

Source: AspinallVerdi, 2023.

Our updated appraisals show an improvement in viability of c. £2.29m, although the scheme remains unviable when judged against the target return. In other words, whilst the target profit is 17.50% on GDV, the actual return equates to 15.35% on GDV and therefore below the Applicant's threshold. On this basis, the scheme is considered unviable as the Applicant cannot meet their minimum target return.

It is worth noting that, if the S106 contributions were to be removed from the appraisal altogether, then the scheme remains in a deficit against the target return. The equivalent profit amounts to 16.01% on GDV and therefore 1.49% on GDV below their target (equivalent to £644,318). A similar observation is made by KCC in their email, where they estimate a reduced return of 16% on the basis of a nil S106 contribution. It may be the case that the Applicant is willing to deliver the scheme on the basis of a lower return, and we recommend the Council seek further justification on how to Applicant intends to deliver the scheme to help inform decision making.

Sensitivity Analysis

As per our June 2023 assessment, we have run a sensitivity analysis to demonstrate how the outcome of the appraisal can change in response to adjustments in the cost and values assumed. Again, this has been done solely for a private scenario and assumes a fixed Section 106 contribution of £250,000. The analysis is shown in Table 1-3.

Table 1-3 – Sensitivity Analysis

		Construction Costs				
		-2.50%	**-1.25%**	**0.00%**	**+1.25%**	**+2.50%**
Sales Values	**-2.50%**	-1,012,784	-1,417,994	-1,823,204	-2,228,634	**-2,636,039**
	-1.25%	-565,691	-970,254	-1,375,464	-1,780,674	-2,185,884
	0.00%	-120,382	-523,432	**-927,725**	-1,332,935	-1,738,145
	+1.25%	324,927	-78,124	-481,174	-885,195	-1,290,405
	+2.50%	**770,235**	367,185	-35,865	-438,915	-842,665

Source: AspinallVerdi, 2023.

With fairly minor adjustments of between +/- 1.25 – 2.50%, the scheme becomes viable. For example, with a 2.50% increase in sales values and corresponding decrease in construction costs, the scheme generates a surplus of £770,235 above the target return (shown green). This amount could be used to fund further S106 contributions or as an off-site affordable housing payment in lieu of on-site provision. Conversely, if sales values were to decrease by 2.5% and construction costs increased by the same amount, the deficit against the target return would increase to c. -£2.64m (shown red).

Conclusion

Our independent review has shown that the delivery of an entirely private scheme is not viable with a £250,000 Section 106 contribution. The equivalent profit of 15.35% on GDV (i.e. return less deficit) falls below the target return of 17.5% on GDV, which is considered to be a reasonable benchmark for this viability assessment (i.e. based on 100% private delivery). Through further correspondence with the Council, we understand that the Applicant is willing to deliver the scheme with a Section 106 Contribution of £250,000 on the basis that a lower return will be achieved (i.e. towards the bottom end of the 15 – 20% range advised in the Viability PPG).

We uphold that the Council's should seek to include early and late stage viability review mechanisms within the Section 106 agreement. Our sensitivity analysis has shown that relatively small improvements in market conditions could make the scheme viable, and the review mechanisms will allow the Council to benefit from any favourable uplifts.

I trust the above is clear but please let me know if you have any comments or questions.

Yours sincerely,

Matthew Olive MRICS
Associate Director

Encs. Appendix 1 – AVL Updated Appraisal

Appendix 1 - AVL Updated Appraisal

2310 Former Beales Hotel FVA
Private Scheme (0% AH)

Development Appraisal
AspinallVerdi
26 October 2023

2310 Former Beales Hotel FVA
Private Scheme (0% AH)

Appraisal Summary for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Market Sale	142	91,661	470.73	303,856	43,147,500
NET REALISATION				**43,147,500**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price		3,093,750			
Fixed Price			3,093,750		
				3,093,750	
Stamp Duty			144,188		
Effective Stamp Duty Rate		4.66%			
Agent Fee		1.00%	30,938		
Legal Fee		0.50%	15,469		
				190,594	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Construction Costs	130,293	204.46	26,640,000		
Contingency		5.00%	1,332,000		
				27,972,000	
Section 106 Costs					
Section 106 Costs			250,000		
				250,000	
PROFESSIONAL FEES					
Professional Fees		6.00%	1,598,400		
				1,598,400	
MARKETING & LETTING					
Marketing		1.50%	647,213		
				647,213	
DISPOSAL FEES					
Sales Agent Fee		1.00%	431,475		
Sales Legal Fee	142 un	1,000.00 /un	142,000		
				573,475	
Additional Costs					
Private Profit		17.50%	7,550,813		
				7,550,813	
TOTAL COSTS BEFORE FINANCE				**41,876,244**	
FINANCE					
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)					
Land			432,139		
Construction			1,355,008		
Other			411,834		
Total Finance Cost				2,198,981	
TOTAL COSTS				**44,075,225**	
PROFIT					
				(927,725)	
Performance Measures					
Profit on Cost%		-2.10%			

2310 Former Beales Hotel FVA
Private Scheme (0% AH)

Profit on GDV%	-2.15%
Profit on NDV%	-2.15%
IRR% (without Interest)	3.80%
Profit Erosion (finance rate 6.500)	N/A