

## VIABILITY APPRAISAL ADDENDUM

Former Beales Hotel  
Comet Way  
Hatfield

24<sup>th</sup> January 2024

### 1. Introduction

We report further to our recent viability submission which was agreed by Aspinall Verdi, Welwyn Hatfield's Independent Viability Assessor, demonstrating that even with a reduced Section 106 contribution of £250,000 it remained unviable for the proposed scheme to provide an affordable housing contribution either on-site or as an off-site contribution on a 100% private sale scheme. It remained in deficit by -£889,712 with a reduced developer's profit of 15.45%.

We have now been asked to assess the viability of the scheme on the basis of the introduction of an on-site affordable housing contribution of 10% shared ownership tenure, equating to 15 units.

We set out the values and costs adopted below:-

### 2. Gross Development Value

We have continued to adopt Aspinall Verdi's opinion on private sale GDV at £473.67 per square foot, although as previously stated this is higher than that considered to be achievable by ourselves.

In assessing the value of the shared ownership units we have, for illustrative purposes only\*, assumed that 15 units within Core A will form the shared ownership units. We have based this on 6 no. 1 bed units and 9 no. 2 bed units.

\*These units have been assumed for illustrative purposes only and do not necessarily reflect the exact units to be provided, which will need to be agreed between the parties within the S106 drafting.

We have adopted a value for the shared ownership units at 65% of market value (£307.89 psf), in line with our experience of values paid by Housing Associations for shared ownership units.

This therefore equates to a total private GDV for 127 units of £38,662,366 and a total affordable GDV for 15 units of £3,090,663, equating to an overall total of £41,753,229.

### 3. Developer's Profit

As affordable housing is perceived to carry a lower risk to the developer, it is necessary to adjust the level of profit for the affordable housing units to a lower level. We have therefore adopted a developer's profit of 6% for the shared ownership units, reflecting an industry accepted percentage.

Therefore, adopting a developer's profit of 17.5% for the private sale units and 6% for the shared ownership units, this equates to a blended profit of 16.65% of GDV.

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### 4. Appraisal Results

It can therefore be seen from our attached appraisal that the introduction of 10% shared ownership units has decreased the Residual Land Value of the proposed scheme to £1,477,508. This equates to a viability position as follows:-

Residual Land Value:	£1,477,508
Less Existing Use Value:	<u>£3,093,750</u>
Deficit:	-£1,616,242

When this deficit is deducted from the developer's profit, this leaves an Adjusted Developer's Profit of 12.78%. This is a reduction in profit of 2.67% from the 100% private sale scheme (15.45%) and falls below that which is deemed to be the minimum viable level by NPPG Guidance (15%).

### 5. Further Matters

We also understand that there have been some queries from the LPA as to how the scheme can afford to provide even a £250,000 S106 contribution if the scheme is already in deficit. We believe there may be some confusion between the scheme being in deficit and showing a loss. When a scheme is in deficit it simply means that the level of profit achievable is less than the normally required level, in this case being 17.5% (as acknowledged by Aspinall Verdi as being the necessary level of profit for this type of scheme), it does not mean that there is no profit at all (clearly depending upon the level of deficit). However, when the level of profit is so far reduced it will be difficult for the Developer to secure finance for the purchase of the land/construction of the scheme. Therefore, the provision of a Section 106 contribution of £250,000 within our appraisal is shown to equate to, at best, at the lower end of the level of profit acknowledged to be required by NPPG Viability Guidance.

It is then demonstrated that when a 10% affordable housing contribution is further introduced the profit level (12.78%) reduces to a level lower than the minimum profit level acknowledged to be viable (15%). At this point it is a commercial decision for the applicant to decide whether they are prepared to cut their profit to this significantly lower level.

In this event, the applicant is optimistic that over the course of the lifetime of the planning permission that build costs may decrease and property values may increase, enabling the scheme to become more viable, and they are therefore prepared to take the commercial risk that the shortfall in profit may eventually be recovered.

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### 5. Conclusions

We set out below a summary of our appraisals comparing the difference between a 100% private sale scheme with a S106 contribution of £250,000 against the updated proposal for the scheme with 10% affordable housing units (shared ownership), also with a S106 contribution of £250,000. This demonstrates the effect that the necessary values and costs have on the viability of the proposed development.

	<b>All Private Sale Scheme</b>	<b>Scheme with 10% affordable housing</b>
Gross Development Value, (Based on development of 145 residential units with a gross sales area of 104,206 sq ft)	£43,417,500	£41,753,229
Total costs (Inc. construction, land acquisition fees, professional fees, disposal fees, CIL/S106, finance and profit)	£41,213,462	£40,275,721
Net Land Value	<b>£2,204,038</b>	<b>£1,477,508</b>
LESS: EXISTING USE VALUE	<b>£3,093,750</b>	<b>£3,093,750</b>
Deficit	<b><u>-£889,712</u></b>	<b><u>-£1,616,242</u></b>
Adjusted Developer's Profit	<b><u>15.45%</u></b>	<b><u>12.78%</u></b>

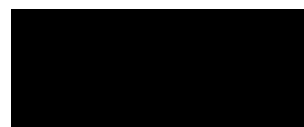
The above summary table demonstrates that the introduction of a 10% (15 unit) affordable housing contribution (shared ownership tenure), reduces the viability of the scheme further with the developer's profit reducing by a further 2.67%.

However, we understand that the applicant is prepared to take a commercial risk on this occasion and further reduce their profits in order to provide this affordable housing contribution in the hope that market conditions may improve over the lifetime of the planning permission and that this reduction in profits may be recovered.

We trust the foregoing report is sufficient for your purposes, and if you require any further information or clarification, please do not hesitate to contact the undersigned.



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Senior Development & Viability Surveyor  
**FOR KEMPTON CARR CROFT**



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RICS Registered Valuer  
**FOR KEMPTON CARR CROFT**

Viability Appraisal  
10% shared ownership units  
Aspinall Verdi Figures - £250K S106

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Former Beales Hotel  
Comet Way  
Hatfield  
AL10 9NG

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Development Appraisal  
Kempton Carr Croft Ltd  
23 January 2024

**APPRAISAL SUMMARY****KEMPTON CARR CROFT LTD**

**Viability Appraisal**  
**10% shared ownership units**  
**Aspinall Verdi Figures - £250K S106**

**Appraisal Summary for Phase 1 Phase 1**

**Currency in £**

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Sales Rate ft<sup>2</sup></b>	<b>Unit Price</b>	<b>Gross Sales</b>
Private residential units	127	81,623	473.67	304,428	38,662,366
Shared Ownership Units	<u>15</u>	<u>10,039</u>	307.89	206,058	<u>3,090,863</u>
<b>Totals</b>	<b>142</b>	<b>91,662</b>			<b>41,753,229</b>

**NET REALISATION**

**41,753,229**

**OUTLAY****ACQUISITION COSTS**

Residualised Price			1,477,508		1,477,508
Stamp Duty			144,188		
Effective Stamp Duty Rate		9.76%			
Agent Fee		1.00%	14,775		
Legal Fee		0.50%	7,388		
					166,351

**CONSTRUCTION COSTS**

<b>Construction</b>	<b>ft<sup>2</sup></b>	<b>Build Rate ft<sup>2</sup></b>	<b>Cost</b>	
Construction Costs	130,293	204.46	26,640,000	
Contingency		5.00%	1,332,000	
Section 106			250,000	
				28,222,000

**PROFESSIONAL FEES**

Professional Fees		6.00%	1,598,400		1,598,400
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**DISPOSAL FEES**

Effective Purchaser's Costs Rate		0.00%			
Private Sales & Marketing		2.50%	966,559		
Legal Costs			127,000		
Affordable Transfer		1.50%	46,363		
					1,139,922

**FINANCE**

<b>Timescale</b>	<b>Duration</b>	<b>Commences</b>
Preconstruction & demo	6	Apr 2023
Construction	18	Oct 2023
Sale	20	Apr 2025
<b>Total Duration</b>	<b>44</b>	

Debit Rate 6.500%, Credit Rate 0.000% (Effective)

Land	210,888
Construction	1,307,320
Other	678,929

**APPRAISAL SUMMARY****KEMPTON CARR CROFT LTD****Viability Appraisal****10% shared ownership units****Aspinall Verdi Figures - £250K S106**

Total Finance Cost	2,197,136
<b>TOTAL COSTS</b>	<b>34,801,317</b>
<b>PROFIT</b>	<b>6,951,913</b>

**Performance Measures**

Profit on Cost%	19.98%
Profit on GDV%	16.65%
Profit on NDV%	16.65%
IRR% (without Interest)	21.13%
Profit Erosion (finance rate 6.500)	2 yrs 10 mths