



Affordable Housing Statement

Valley Drive, Gravesend



(Gravesham Borough Council)

31st August 2022

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Introduction

DJC Housing Consultants have been instructed by db architects ltd to issue an Affordable Housing Statement in respect of the revised proposed development at Valley Drive, Gravesend.

Affordable Housing Provision

It is proposed that no affordable housing provision is to be provided either on site or as an off-site contribution.

Justification for provision of nil affordable housing

In April 2022 we submitted a financial viability report which concluded the following:

*The appraisal shown at Appendix 1 which includes 32 open market units results in a **residual land value of £941,472** which when compared to the benchmark land value of £1,650,000, means that the scheme is not viable and cannot provide any affordable units.*

In order to achieve the RLV of £1,650,000 the profit level reduces to around 8%.

The applicants have indicated that they would proceed with the development on this basis and either sell the completed units or place them into their portfolio of rented units as a long-term investment.

It is our opinion, therefore, that the applicant should not be required to provide any affordable housing contribution on this scheme.

In response to our report Pathfinder carried out an assessment on behalf of the Council dated 1st June 2022.

In response to the Pathfinder rebuttal we provided our own rebuttal response, dated 4th July 2022, which concluded the following:

"We have carried out a revised appraisal using the toolkit provided by Pathfinder for consistency of approach. We have adjusted the floor areas of the flats to allow for the communal areas.

*The appraisal shown at Appendix 1 which includes 32 open market units results in a **residual land value of £979,351.79** which when compared to the benchmark land value of £1,650,000, means that the scheme is not viable and cannot provide any affordable units.*

The applicants have indicated that they would proceed with the development on this basis and either sell the completed units or place them into their portfolio of rented units as a long-term investment.

It is our opinion, therefore, that the applicant should not be required to provide any affordable housing contribution on this scheme."

We have appended our latest Financial Viability response (July 2022) to this statement. The main areas of difference between ourselves and Pathfinder are as follows:

- **Build Costs:**
 - Our allowance for the build costs relating to external works only covers the external works to each property and not the estate road and the works to the pocket park.
 - The Pathfinder appraisal only applies the BCIS build cost to the Net Internal Floor area and not the gross internal floor area. In our appraisal we have applied an factor of 15% to the flats to allow for corridors, staircases and communal areas.
- **Scheme timing**
 - In the appraisal carried out by Pathfinder they have assumed that the open market unit sales would commence half way through the build period and finish on the same date that the build period finishes. That is a wholly unrealistic assumption and results in a greatly reduced finance cost.
- **Existing Use Value / Benchmark Land Value**
 - The correct approach as outlined in the NPPF and PPG is that the benchmark land value should be assessed on an EUV + uplift approach.
 - As stated in our previous report (in October 2019) - the site currently comprises a detached 4 bed house. In addition to this the current occupier has obtained planning permission for and has built an annex. We can supply further details of this if required. We were previously supplied with 3 valuations of the existing property These showed a range for the existing use value from £1,300,000 to £1,500,000. The property sold in May 2012 for £703,000 and since that date the annex has been built which greatly adds to the value. Using the Nationwide House price Index the adjusted price would now be £1,223,732.

- This figure does not make any allowance for the annex. It remains our opinion that the existing property (**including the annex**) has a value of between £1,500,000 and £1,800,000. We adopted the **lower figure** of £1,500,000 for the existing use value.
- In line with the NPPF and PPG we applied an “uplift” to this EUV of 10% resulting in a Benchmark Land Value of **£1,650,000.**
- The Pathfinder report does not apply an uplift to the EUV which is contrary to Planning Practice Guidance. (see Paragraph: 016 Reference ID: 10-016-20190509 of the PPG - How should the premium to the landowner be defined for viability assessment?).

Description of the proposed scheme

The mix of units for the proposed 32 unit scheme is as follows:

Nr.	Unit Type	m2 £/sqft
2	1B2PF	41
2	1B2PF	46
2	2B3PF	63
2	2B3PF	65
1	2B4PF	76
1	2B4PF	87
2	3B6PH	124
8	3B5PH	97
1	3B5PH	97
9	2B4PF	70
1	2B4PF	73
1	1B2PF	44

All of the units are proposed to be for either open market sale or open market rent.

Other S106 contributions

The Pathfinder report for the Council said the following:

"We have made allowance for S106 contributions in line with the committee report of the 12th June 2019 for the previous application, totaling £1,723 per home."

We have included this in our revised appraisal but would request that the Council confirms this amount which totals £55,136.

Conclusion

It is our opinion that we have shown, via the financial viability reports provided to the Council that the scheme is unable to provide any affordable housing provision as part of the proposed development.

End of Report
DJC Housing Consultants Ltd
August 2022

Appendix 1 – DJC Response to FVA carried out by Pathfinder

APPENDIX 1



Response to FVA carried out by Pathfinder

Valley Drive, Gravesend

The logo for Gravesham Borough Council consists of a green rectangular box. Inside the box, the word 'Gravesham' is written in a white serif font, with 'Borough Council' in a smaller white sans-serif font below it. To the right of the text is a white crest featuring a sailing ship on waves.

Gravesham
Borough Council

(Gravesham Borough Council)

4th July 2022

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Introduction

DJC Housing Consultants were been instructed by db architects ltd to advise on the viability of the revised proposed development at Valley Drive, Gravesend with regard to Gravesham Borough Council's affordable housing requirements.

Our report was dated April 2022.

In response to our report Pathfinder carried out an assessment on behalf of the Council dated 1st June 2022.

This rebuttal is in response the Pathfinder report.

We have commented below on the main areas of disagreement:

Appraisal Inputs

We have considered the main inputs into a development appraisal as follows:

Sales Values

We are in agreement on the sales values

Build Costs

In our previous report we said the following:

BCIS figures rebased to the Gravesham area show a range of values for new build and refurbishment of houses and flats (See Appendix 2).

We have considered all of these figures and have applied the median rate for semidetached housing of £1,435 per m² and the median rate of £1,636 per m² for the new flats and a rate of £1,420 per m² for the conversion element.

It should be noted that build costs have risen sharply over the last 6 months

It should be noted that BCIS figures do not include standard external works for which we normally make an allowance of 15%.

Applying this figure would result in the following rates

New build - £1,650 per m²

New build flats - £1,881 per m²

Conversion rate of £1,693 per m²

The existing house is going to be converted to flats and there will also be a new-build element.

The existing house has a floor area of 283 m². We have shown some of the flats as phase 2 so they can have the refurbishment rate applied to them.

The existing bungalow is also being converted into flats and these are shown as phase 2 as well.

It is our opinion that the build cost estimate is a fair and reasonable assumption at this stage.

We have shown the build cost contingencies separately in the appraisal. These have been set at 5% which is a normal allowance for a scheme such as this.

Infrastructure and abnormal costs

BCIS rates do not include for the following elements which we have shown separately in our appraisal:

Estate road – 792m² - £350,000

Pocket Park - £200,000

Reduced level / fill - £75,000

Services - £150,000

Whilst Pathfinder agree with the use of BCIS rates and 15% for externals they go on to say the following:

"We have allowed for a 15% addition to cover all external works costs as proposed by the applicant and seen by as typical of modest scale developments. We have not made separate allowances for estate external costs unlike DJC, as we would generally see these contained within the 15% addition."

Abnormal and additional costs contained in the base estimate have been able to be allowed for on the basis of information available and at the same level as the DJC report. A £75,000 allowance identical to the DJC report has been made for cut and fill

We do not agree – the 15% for externals only covers the external works to each property and not the estate road and the works to the pocket park. We agree that the cost of the connections could be included in the 15% and we have removed this item from our appraisal.

The Pathfinder appraisal only applies the BCIS build cost to the Net Internal Floor area and not the gross internal floor area.

In our appraisal we have applied an factor of 15% to the flats to allow for corridors, staircases and communal areas.

Scheme timing

In our previous report we said the following:

"We assumed a 6-month lead-in period to allow for planning, building regulations, tendering, etc and an 18-month build period.

We have assumed a sales rate of 2 per month".

In our appraisal we showed the sales period commencing once the build period had finished.

In the appraisal carried out by Pathfinder they have assumed that the open market unit sales would commence half way through the build period and finish on the same date that the build period finishes. That is a wholly unrealistic assumption and results in a greatly reduced finance cost.

Additionally, the income from the affordable units has been cash flowed from month 3 to month 11 of the build period. Again, this is a wholly unrealistic assumption. Any affordable units on the scheme would normally be acquired on a turnkey basis at the end of the construction period.

The cashflow in the Pathfinder appraisal has completely underestimated the level of finance required for this scheme.

Having liaised with the applicant it is also our pinion that arrangement fees (1%), monitoring fees (2%) and exit fees (1%) should also be applied. We have not included these at this stage but reserve the right to include these in any further appraisals.

At this stage we have used the Pathfinder appraisal (for consistency of approach) and have updated the timings in line with our previous assumptions.

Professional Fees

In our previous report we made an allowance for the professional fees at 10%.

This is a standard allowance for viability appraisals and, in our opinion, due to the small and fairly complicated nature of the development involving newbuild and conversion elements, could be higher.

The Pathfinder report says the following:

"Allowances have been included to cover planning design and professional fees, at 8.5%. This is a typical allowance assumed in Financial Viability testing on projects of this size and reflects the developers likely costs, and takes into account the nature of the development, covering all surveys, enquires and design work pre and post planning, as well as statutory fees and consultants. "

It remains our opinion that 10% is a fair and reasonable assumption for the level of fees on this scheme.

Sales fees

We have assumed a 3% fee for sales and marketing and legal fees of £1,000 per unit on a sales basis.

The Pathfinder report says the following:

"We have adopted full marketing sales and disposals costs within the appraisal, including:

- Marketing costs of the private properties*
- Agent's fees*
- Legal fees associated with private sales*

On this basis we have assumed a sales and marketing cost of 2.5% of the gross development value of the open market sales properties, and £900 per home legal fees. "

It remains our opinion that 3% is a fair and reasonable assumption. There will be a need for a show home and a marketing suite. The allowance of £900 per home for legal fees is too low. We have maintained the level at £1,000 per home but this is likely to be higher.

CIL / S106

The Pathfinder report says the following:

"We note the CIL has not yet been introduced. We have made allowance for S106 contributions in line with the committee report of the 12th June 2019 for the previous application, totaling £1,723 per home."

We have included this in our revised appraisal but would request that the Council confirms this amount which totals £55,136.00

Profit

At Appeal and Local Planning Inquiries the level of profit a scheme should make has been the subject of debate with expert witnesses and Inspectors coming to the view that, if at all possible, schemes should make a minimum of 20% profit on sales over cost. There are reasons why schemes progress with lower levels of profit, equally some developer interests will not consider any scheme unless it makes a profit of at least 25%.

We have assumed a profit level of 17.5% on GDV for the open market units and 6% for the affordable units which is a reasonable and fair assumption.

The Pathfinder report agrees with this position.

Existing Use Value / Benchmark Land Value

The Pathfinder report says the following:

- *Cobham Lodge sold in May 2012 for £703,000 adjusted to reflect house price inflation would now be valued at £1,196,178. We note an annex has since been built but have been provided with no details.*
- *We note the DJC report concluded a higher BLV was appropriate relying on estate agents marketing advice, which contained no evidence of comparable transactions. No 'Red Book' valuation has been provided*

The recently published Planning Policy Guidance (July 2018) says the following:

"How should land value be defined for the purpose of viability assessment?"

*To define land value for any viability assessment, a benchmark land value should be established on the basis of the **existing use value (EUV)** of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+).*

In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process."

The correct approach as outlined in the NPPF and PPG is that the benchmark land value should be assessed on an EUV + uplift approach.

As stated in our previous report (in October 2019) - the site currently comprises a detached 4 bed house.

In addition to this the current occupier has obtained planning permission for and has built an annex. We can supply further details of this if required.

We were previously supplied with 3 valuations of the existing property

These showed a range for the existing use value from £1,300,000 to £1,500,000.

The property sold in May 2012 for £703,000 and since that date the annex has been built which greatly adds to the value.

Using the Nationwide House price Index the adjusted price would now be £1,223,732.

*This is the difference in valuation for a property in the **Outer Metropolitan** region, based on postcode **DA12 5RX**.*

*From Q2, 2012 - **£703,000***

*To Q2, 2022 - **£1,223,732***

*Percentage change in price - **74.07 %***

This figure does not make any allowance for the annex.

It remains our opinion that the existing property (**including the annex**) has a value of between £1,500,000 and £1,800,000.

For the purposes of this report, we adopted the **lower figure** of £1,500,000 for the existing use value.

In line with the NPPF and PPG we applied an "uplift" to this EUV of 10% resulting in a Benchmark Land Value of **£1,650,000**.

The Pathfinder report says the following:

"The application of a premium is interesting in situations where the Existing Use Value may exceed the residual value of a clean greenfield site. In this instance a good quality detached house in keeping with those in the immediate environment has a relatively high existing use value, higher than a clean greenfield development site. Such sites will only come forward with a willing seller and we see no argument for this to be incentivised by payment of a further premium, which would be the case if the existing use was other than residential, or the site was substantially underdeveloped in comparison to the immediate

neighbourhood. We note no market comparable evidence has been provided as suggested by the guidance"

We agree with the above statement that a premium should be applied. However, the Pathfinder report then goes on to say the following and doesn't apply an uplift over EUV in their appraisal:

We note that in the recent High Court decision relating to Parkhurst Road, Holgate J noted that Benchmark land values 'should reflect and not buck relevant planning policies.

Applying an uplift to the EUV of £1,500,000 is not "bucking" relevant planning policies. It is simply providing an uplift over EUV to arrive at the benchmark land value for the scheme.

A 10% uplift over the EUV will cover the moving expenses of the owner and the cost of acquiring a new property such as stamp duty, legal fees and removals.

It remains our opinion that a 10% uplift is fair and reasonable.

It should be noted that this "uplift" is again at the bottom of the standard range (10 to 40%) typically assumed in economic viability testing.

Conclusions

We have carried out a revised appraisal using the toolkit provided by Pathfinder for consistency of approach. We have adjusted the floor areas of the flats to allow for the communal areas.

The appraisal shown at Appendix 1 which includes 32 open market units results in a **residual land value of £979,351.79** which when compared to the benchmark land value of £1,650,000, means that the scheme is not viable and cannot provide any affordable units.

The applicants have indicated that they would proceed with the development on this basis and either sell the completed units or place them into their portfolio of rented units as a long-term investment.

It is our opinion, therefore, that the applicant should not be required to provide any affordable housing contribution on this scheme.

End of Report
DJC Housing Consultants Ltd
July 2022

Appendix 1 - Appraisal – 100% open market

APPENDIX 1



PATHFINDER
DEVELOPMENT CONSULTANTS

Pathfinder

SCHEME VIABILITY APPRAISAL

Cobham Lodge, Gravesend
BASE OPTION 01/06/2022
100% open market

OMV Houses for Sale:

Nr.	Unit Type	m2	£/sqft	£/Unit	GDV £
2	1B2PF	41.00	£498.50	£220,000.00	£440,000.00
2	1B2PF	46.00	£444.32	£220,000.00	£440,000.00
2	2B3PF	63.00	£353.91	£240,000.00	£480,000.00
2	2B3PF	65.00	£343.02	£240,000.00	£480,000.00
1	2B4PF	76.00	£293.38	£240,000.00	£240,000.00
1	2B4PF	87.00	£256.28	£240,000.00	£240,000.00
2	3B6PH	124.00	£374.61	£500,000.00	£1,000,000.00
8	3B5PH	97.00	£430.99	£450,000.00	£3,600,000.00
1	3B5PH	97.00	£454.93	£475,000.00	£475,000.00
9	2B4PF	70.00	£318.52	£240,000.00	£2,160,000.00
1	2B4PF	73.00	£305.43	£240,000.00	£240,000.00
1	1B2PF	44.00	£464.51	£220,000.00	£220,000.00
		0.00	£0.00	£0.00	£0.00
32		1685			£10,015,000.00

Appraisal Value of Affordable Homes:

Nr.	Unit Type	m2	£/m2	£/Unit	GDV £
0	1B2PF ART	41.00	£2,682.93	£110,000.00	£0.00
0	1B2PF ART	46.00	£2,391.30	£110,000.00	£0.00
0	2B4PF ART	70.00	£1,714.29	£120,000.00	£0.00
0	3B5PH ART	97.00	£2,319.59	£225,000.00	£0.00
0	2B4PF SO	70.00	£4,500.00	£315,000.00	£0.00
0		0			£0.00
32		1685			

Sub TOTAL GROSS VALUE **£10,015,000.00**

LESS

Residential & Commercial - Design & Build Costs (inc Abnormals)	£6,228,779.96	£3,696.61
S106 Contributions	£55,136.00	
Abnormals		
Marketing & Sales Costs (£1000 legals plus 3% GDV on private units)	£332,450.00	
Site Acquisition Costs (SDLT, Agents Fees & Legal Fees 1.5%)	£96,750.00	
Overheads & Profit (say 6% on GDV for affordables)	£0.00	£1,752,625.00
Overheads & Profit (say 17.5% on GDV for private units)	£1,752,625.00	
	£8,465,740.96	

Finance Costs 6.5% £692,444.84 £7,405,560.80

Sub TOTAL COSTS **£9,158,185.80**

£856,814.20

RESIDUAL LAND VALUE

£1,650,000.00

Target Value per hectare hec
£ 3,447,555 0.4786 **52%**

SDLT:			£1,650,000
Up to	£	150,000	0% £ -
next	£	100,000	2% £2,000
over	£	250,000	5% £70,000
		Total	£72,000

Base Build Nr.	Unit Type	m2	£/m2	£/Unit	GDV £	
2	1B2PF	47.15	£1,627.00	£76,713.05	£153,426.10	
2	1B2PF	52.90	£1,627.00	£86,068.30	£172,136.60	
2	2B3PF	72.45	£1,627.00	£117,876.15	£235,752.30	
2	2B3PF	74.75	£1,627.00	£121,618.25	£243,236.50	
1	2B4PF	87.40	£1,627.00	£142,199.80	£142,199.80	
1	2B4PF	100.05	£1,627.00	£162,781.35	£162,781.35	
2	3B6PH	124.00	£1,401.00	£173,724.00	£347,448.00	
9	3B5PH	97.00	£1,401.00	£135,897.00	£1,223,073.00	
9	2B4PF	80.50	£1,627.00	£130,973.50	£1,178,761.50	
1	2B4PF	83.95	£1,627.00	£136,586.65	£136,586.65	
1	1B2PF	50.60	£1,627.00	£82,326.20	£82,326.20	
		0.00	£0.00	£0.00	£0.00	
32		2662			£4,077,728.00	
External works	@15%				£713,602.40	
Abnormal Costs					£ 625,000.00	
					£5,416,330.40	
Contingency	@5%				£270,816.52	
Fees	@10%				£541,633.04	
Total D&B					£6,228,779.96	£2,339.89

[illegible]