Leeds
CITY COUNCIL

Originator: Paul Kendall
Tel: 0113 222 4409

Report of the Chief Planning Officer

CITY PLANS PANEL

Date: 30th January 2020

Subject: Major planning application for demolition of existing buildings, construction of two residential (Use Class C3) buildings including communal areas for residential use, servicing, basement car parking, landscaping, public open space and highway works at land off Marsh Lane, Saxton Lane and Flax Place, Leeds, LS9 8HE (Application reference 19/01010/FU)

Applicant – Court Collaboration

Electoral Wards Affected:	**Specific Implications For:**
Burmantofts and Richmond Hill	Equality and Diversity ☐
	Community Cohesion ☐
No — Ward Members consulted	Narrowing the Gap ☐

RECOMMENDATION: To agree a revision to the obligations agreed at City Plans Panel on 10th October 2019 in respect of affordable housing i.e. from 15 affordable units to be provided on site to an off-site commuted sum of £1,084,881.

1.0 INTRODUCTION:

1.1 Background

Members considered this scheme at City Plans Panel on 10th October 2019 and the recommendation was agreed. This was to:

> Defer and delegate to the Chief Planning Officer for approval subject to the draft conditions and the completion of a Section 106 Agreement.

1.2 One of the obligations to be included in this agreement was to provide 15no. affordable housing units on site. This figure was the result of the independent review (attached at appendix 1), undertaken by the District Valuer's Office, of a Development Viability Appraisal submitted by the applicant. The way this was reported to Members in the October Panel report is set out below:

‘The applicant has submitted a viability appraisal which has been independently reviewed by the District Valuer. The DV has provided a report which concludes that although the applicant cannot afford the full policy compliant position of 7% of the total units as affordable housing the applicant can afford to provide 4.23% (15) of the total units as affordable housing in addition to the other S106 and CIL obligations……The units would be provided at the Council’s adopted affordable benchmark rents and proportionally reflect the mix of accommodation type and unit sizes proposed within the overall development.

The applicant has accepted this appraisal and agreed to provide the affordable units on site.

Whilst the full provision of affordable housing cannot be delivered it is clear from policy H5 and also government guidance that where a viability case is verified, affordable housing provision can be reduced, and accordingly the DV’s conclusions should be accepted.’

1.3 Since this time, officers have been working closely with the applicant, however, the delivery of the scheme includes both the applicant as developer, Long Harbour as principal funder and eventual owner as well as further funding from a Canadian Pension Fund. Notwithstanding the work undertaken by the Council and the applicant, the resolution of the affordable housing contribution in detail has been dependent on other parties. Accordingly, the applicant has not been able to agree to the details of this obligation with Long Harbour, the funder and eventual owner and manager of the Built to Rent (BtR) development. Long Harbour has provided the following explanation as to why this is the case.

‘Institutional investors see the BtR market as a long-term income product for 15 plus years whereby returns need to be forecasted using standard metrics like inflation to underwrite future returns going into perpetuity and a fixed starting point to base those assumptions off. This includes a certain level (%) of rent that can be charged in correlation to market rents being achieved. The current proposal uses a per square meter multiplier which changes annually by instruction of the local authority and therefore provides no certainty to the level being achieved. Using a percentage rate gives a clear benchmark rent which is affordable in relation to market rents and will move up and down in line with market rents in perpetuity.

Service charge costs are not fixed for a BtR scheme and any residential scheme for that matter and will change annually based on a huge range of factors, for example and not limited to, age of a building and changes in on-site staff personnel. It is therefore not appropriate to charge rents on the changing levels of a service charge because in some years pricing could dramatically change. A private rented tenant in the BtR sector is not going to see the effect of these changes in price to the service charge because they pay one flat all-inclusive rent that is in line with the current market rent and the risk on the increase in management cost is absorbed by the Landlord. In using the current system put forward by the Council the affordable tenants would be negatively impacted because their rent could significantly increase and rise to an unaffordable level due to the service charge costs being able to be charged, even when fairly split between all apartments, be that on a per Sq ft basis or another. On this basis the affordable tenants suffer as a result of increased service charge as it is not absorbed in their “all in” rent, but added to their £/sqm rent.

Furthermore, service charge costs are open for debate even when they are fair and reasonable because of the fluctuation in costs. Even if an affordable tenant is only given one rent which does not show the split between actual rent and service charge they can always work it out by finding out the multiplier rates put forward by the council and then challenge the total rent being charged to them. Whereby using a system that does not depend on service charge costs and is linked to the market rent on a straight percentage basis means there is little confusion and challenge possible which is a better working solution for both the operator, tenant and council. The institutional investor takes the risk on these costs increasing significantly and is comfortable to do so.

All the points raised above give an institutional investor a fair and reasonable base assumption to form investment rationale and therefore make an investment decision. They set out a clear proposal as to how returns can be driven into perpetuity providing the investor with as much certainty as possible even when investment returns are never guaranteed. The current proposal for the charging of rents to affordable tenants is not clear cut and provides many opportunities for confusion, uncertainty and debate.'

Both the applicant and Long Harbour are committed to investing in Leeds and to make a start on this site as soon as possible. The applicant, Court Collaboration, has provided the following statement in respect of development timing:

"Court Collaboration and Long Harbour are now compiling construction contract documents with the main building contractor; Torsion Construction Ltd a local Leeds based construction company. Torsion are mobilising their internal team and sub-contractors to commence enabling works in February 2020 this work will involve the demolition of the existing buildings and the clearance of the site. Following completion of the enabling works package; main construction works and a hard start on site will commence in March 2020. The construction phase will be project managed by the developer Court Collaboration and the whole scheme is due to be completed in May 2022, following hand over of the completed Build to Rent development it will be owned, manged and operated by Long Harbour to provide high quality purpose built homes in Leeds."

1.4 Policy

Given the above, current policy has been used to guide an alternative, but still policy compliant, solution. The relevant policy is that recently approved by the Core Strategy Selective Review. In respect of Build to Rent schemes Core Strategy Policy H5 sets out affordable housing requirements, noting that one of the following three options should be provided:

(i) on site provision according to national policy advice (currently 20% of the total proposed units to be provided as Affordable Private Rent dwellings at 80% of local market rents); or
(ii) on site provision of 7% of the total units as affordable dwellings, to be provided at the Council's adopted affordable benchmark rents for BtR development; or
(iii) a commuted sum in lieu of on-site provision of option (ii).

The supporting text at Core Strategy para 5.2.16 states that:

> ‘Build to rent developments in Leeds can either provide affordable housing on-site as advised in national guidance or in line with the first paragraphs of Policy H5. If developers prefer to pay a commuted sum in lieu of on-site provision, this should be calculated on the basis of paragraph 5.2.17.4 (the differential between affordable price and market price (free of restrictions) with adjustment for any locality delivery costs)’

Policy H5 does not outline a hierarchy or preferred approach, instead confirming that each of the three options are appropriate and accepted for developments of this nature as alternatives. This offers full flexibility for the applicant to choose in the case of BtR schemes whether to provide the affordable housing requirement on site or to offer an off-site contribution in lieu of on-site provision. The rationale for this approach was set out in the report to Executive Board in March 2017 which stated at paras 3.1-3.12:

> ‘…it is proposed that the Council recognises that the payment of a commuted sum in lieu of on-site provision is likely to be more in line with the funding model which underpins Build to Rent delivery. Further, that the Council accepts that the Build to Rent funding model can be taken into account as a justification which supports the financial contribution. This would reflect the practicality of delivering Build to Rent housing whilst supporting the delivery of affordable housing within the city centre housing offer as a whole. Significant resources could be generated through the acceptance of Commuted Sums for investment in affordable housing……The authority can use these resources alongside other funding to maximise investment in affordable homes.’

National Government Guidance also accepts that BtR schemes are a ‘specific asset class’ with a funding model that is distinct from Build for Sale developments. The specific guidance offered on provision of affordable units, set against commuted sums, is as follows:

> ‘It is expected that developers will usually meet their affordable housing requirement by providing affordable private rent homes. However, if agreement is reached between a developer and a local authority, this requirement can be met by other routes, such as a commuted payment and/or other forms of affordable housing as defined in the National Planning Policy Framework glossary. The details of this must be set out in the section 106.’

1.5 <u>Appraisal</u>

Given the difficulties highlighted of providing on-site affordable housing in this case, and taking into account the flexibility provided for affordable housing on BtR schemes by the Council’s adopted policy, it has been concluded that the commuted sum option is now the preferred route. The applicant has also stated that the timetable for the commencement of construction is to be on site in Q2 of this year, and so the requirement to receive planning permission is now urgent.

1.6 The amount of contribution is set out in the original DV appraisal and is a figure of £1,084,881 based on the approach advocated in the Core Strategy policy.

1.7 In respect of where this could be spent in the vicinity of the site, L.C.C. is currently in the process of selecting a preferred developer for the site of the former Yorkshire Rider Club immediately of the east to the Leeds Pipes booster station which is within

100m of the application site. This is in the same ward of Richmond Hill and Burmantofts as the application site. As this selection process is on-going, details of the schemes cannot be set out here. However, the site is estimated to be able to provide upwards of 50 affordable units and clearly a contribution of the size proposed by the current scheme would make a considerable contribution to these units being provided at an affordable rate.

1.8 Recommendation

In light of the above, and the urgency of timescales to secure that the scheme is constructed, it is recommended that the obligation requiring on-site affordable housing provision is amended to require the provision of a commuted sum in the value of 1,084,881.

Background Papers:

Application ref. 19/01010/FU

Appendix 1 – District Valuer's Review of Development Viability Appraisal

DVS Property Specialists for the Public Sector

Leeds Valuation Office
Castle House
Lisbon Street
Leeds
LS1 4DR

Paul Kendal
Principle Planner
City Centre Team
Development Management
Leeds City Council
Merrion House
LEEDS

Our Reference : 1722443/BM/BAE
Your Reference: 19/01010/FU
Please ask for : Brian Maguire
Tel : 03000 503008
Mobile : 07919 001703
E Mail : brian.maguire@voa.gsi.gov.uk

Date : 17 September 2019

IN CONFIDENCE

Dear Paul

DVS Independent Review of a Development Viability Appraisal

Proposed Development: 349 Apartments, Saxton Lane, Leeds, LS9 8HE

Scheme:	**Development of 349 Dwellings**
Planning Ref:	**19/01010/FU**
Applicant:	**Court Collaboration (Public) Limited**
Applicant's Advisor	**Affordable Homes Options LLP**

1.0 Introduction

Further to your instructions dated 20 August 2019, and my terms of engagement of 20 August 2019. I have now inspected the site and reviewed the viability assessment prepared by Affordable Homes Options LLP on behalf of the applicant, and I am pleased to supply my report.

It is understood that Leeds City Council Planning Authority require an independent opinion on the viability information provided by Affordable Homes Options LLP, in terms of the extent to which the accompanying appraisal is fair and reasonable and whether the assumptions made are acceptable and can be relied upon to determine the viability of the scheme.

This is a report, it gives both your authority and the applicant opportunity to consider the recommendations and impact of the assumptions and to revert back if there are any discrepancies or clarifications needed.

The report gives overview of the applicant's viability appraisal, then provides advice on those areas of the appraisal which I consider to be incorrect, along with justifications where appropriate. A summary of the key differences of opinion and impact is then provided.

1.2 Viability Conclusion

This report explains that it is my independent conclusion that a scheme fully compliant with planning policy is unviable

It is my independent opinion that this scheme can viably provide the whole of the required CIL/Section 106 contributions and 4.23% (15 units) on site affordable housing.

1.3 Executive Summary Viability Assessment Inputs (summary)

Appraisal Input	Applicant (proposes to deliver)	DVS (conclusion)
Gross Development Value	£63,696,089	£64,172,009
Net Rental Income	£2,866,324	£2,887,740
Affordable Housing	Sub Policy 4.87% (17 units)	Sub Policy 4.23% on site (15 units)
CIL / S 106	£339,873	£316,781
Build Costs	£47,581,022	£47,581,022
Professional Fees	£3,901,644 (8.2%)	£3,806,480 (8.5%)
Finance	£3,455,191	£3,755,264
Developer's return	6.02%	8.0%
Benchmark Land Value (basis)	EUV Plus	EUV Plus
Benchmark Land Value (figure)	£1,150,000	£1,150,000

For full details please refer to body of the report

2.0 Assumptions and Limitations

This is a final report is for the purposes of determining viability it is not a Red Book valuation report.

2.1 Date of Viability Review

The viability review has been assessed at the current date as the applicant's appraisal and adopts values and build costs at this time.

2.2 Validity

This report remains valid for 6 (six) months from the date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

2.3 Conflict of Interest

In accordance with the requirements of the RICS standards, the VOA has checked that no conflict of interest arises before accepting this instruction. It is confirmed that I am unaware of any previous conflicting material involvement and am satisfied that no conflict of interest exists. Should any such difficulty subsequently be identified, you will be advised at once and your agreement sought as to how this should be managed.

In accordance with the requirements of the recent RICS professional standard 'Financial viability in planning: conduct and reporting', (effective from 1st September 2019) it is confirmed that:

- In carrying out this viability assessment review the valuer has acted with objectivity impartiality, without interference and with reference to all appropriate sources of information.

- The professional fee for this report is not performance related and contingent fees are not applicable.

- DVS are not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.

- The appointed valuer, Brian Maguire MRICS is not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.

2.4 Restrictions on Disclosure and Publication

The report has been produced for Leeds City Council only.

DVS permit that this report may be shared with the applicant and their viability advisor Affordable Homes Options LLP, listed above, as named third parties.

The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers and solely for the purposes of the instruction to which it relates. Our report may not, without our specific written consent, be used or relied upon by any third party, permitted or otherwise, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our report. No responsibility whatsoever is accepted to any Third Party who may seek to rely on the content of the report.

It is agreed that your authority and applicant / their viability advisor will neither make available to any other third party nor reproduce the whole or any part of the report, nor make

reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

None of our employees individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.

This report is considered Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006 and your council is expected to treat it accordingly.

2.5 Status of Valuer

It is confirmed that the viability assessment has been carried out by myself, Brian Maguire MRICS, RICS Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the viability assessment competently and is in a position to provide an objective and unbiased viability assessment.

The assessment of the applicant's Viability Assessment has been prepared in accordance with: the recommended practice set out in the Royal Institution of Chartered Surveyors (RICS) Financial Viability in Planning Guidance Note (1st Edition) the National Planning Policy Framework and NPPG on Viability (July 2018);

As part of the DVS Quality Control procedure, this report and the appraisal has been reviewed by Cecilia Reed MRICS, Registered Valuer.

2.6 Inspection and Background - if applicable

Brian Maguire has inspected the site and is familiar with the area and property values in the locality.

The development site currently comprises industrial premises which may be demolished to make way for a scheme of 349 PRS apartments which will be made available for rental only as opposed to sale to owner occupiers.

3.0 The Development Proposed

3.1 The Scheme

The proposed development totals 349 apartments, of varying types and sizes. The total floor area of the development is 27,344m^2 GIA. Site area of 1.15 acres.

I make no comment about the density, design, efficiency, merit or otherwise, of the suggested scheme.

3.2 Applicant's Assessment

I refer to the Applicant's surveyor's report Saxton Lane, Leeds, LS9 8HE financial viability appraisal dated 19 August 2019 an appraisal therein which contains one development appraisal assuming provision of 5% affordable housing.

I have not conducted any negotiations with Affordable Homes Options LLP, the applicant or advisors. I have contacted the applicant's surveyor to obtain additional information regarding the scheme costs and revenues.

In summary the applicant's advisor concludes the scheme cannot support a policy compliant provision of affordable housing. Their development appraisal assumes the scheme cannot provide 5% affordable housing which is based on the benchmark land value of £1,150,000

with a Section106 payment of £183,831 but delivers a profit on cost of 6.024% which they state is below their target profit level of 8%.

To review the reasonableness of this conclusion I have considered each appraisal input in turn.

3.3 Development Period

The applicant's surveyor has adopted a 27 month construction, comprising a 6 month period of mobilisation and site operation preparation. The entire scheme will be sold on practical completion of the construction works.

This development programme is considered reasonable.

3.4 Gross Development Value (GDV)

I have considered the applicant's Gross Development Value of £63,696,089

Comprising:

Market housing	£62,207,911
Affordable housing	£ 1,487,540

3.5 Market Housing Revenue

I have first considered the reasonableness of the value of Market Housing.

I refer you to the table below which summarises the rental value of each apartment type adopted by the applicant.

Apartment type	GIA m2	Market rent PCM
1 bedroom	43	£825.00
2 bedroom	67	£975.00
2 bedroom	70	£1,025.00
3 bedroom	88	£1,500.00

The VOA holds details of all sales of residential properties in the region including referencing information such as accommodation, floor areas etc. I have analysed rental evidence for apartments since 2018.

I have adopted the same rental values for 1 bed apartments and adopted £1,025 per month to all 2 bed apartments. However, further to the evidence available to me I have adopted a lower rent of £1,300 per month for three bedroom units.

I have approached the valuation of car parking differently to the applicant by valuing it in isolation and not attributing parking to apartment types. I estimate the total rental value of parking is £79,500 assuming 53 basement spaces at £1,500 pa.

Net Rental Income Capitalisation Yield

The manner in which the revenue is assessed for a PRS Scheme it is essential to consider the total rental value of the accommodation and then make an adjustment for the running costs for the entire development. For instance, the landlord will receive rent from tenants, however, the landlord is also required to pay for all of the operational costs in relation to heating, cleaning, maintenance and general management of communal areas.

I summarise below the applicant's surveyor's allowance for running costs within the scheme:

Property Management Item	Cost expressed as a percentage of gross revenue in applicants report
Operational Expenditure	8.5%
Ancillary Allowances	8%
Management Fees	7.5% Plus VAT (9%)

Therefore, the rental value of each apartment builds up a total gross revenue for the development after which it is important to make a deduction to the gross rent for the ongoing management of the property including cleaning, maintenance, utilities costs and voids/lettings these.

The applicant has subsequently allowed for a deduction to gross rents of 24% which covers site staff, building operations, tenancy operational expenditure and management fees.

I have adopted a lower percentage for calculating the net rental income of 23% as I consider that there is some double counting/excessive allowance summarised in the applicants report.

I accept there is likely to be a permanent void within the building of approximately 9 units, (2.50% of Gross income).

However, the allowances for Void utilities and Vacant Council Tax do not follow the same logic.

The applicants allowance for Council Tax voids is £92,852 per annum, whereas, the corresponding council tax liability for 9 units of Council Tax band D would be approximately £15,000 per annum.

Similarly, the allowance for Void Utilities is £92,852 which accounting for communal areas means each vacant unit (9 units a year) will have contributed over £10,000 per annum to void utilities. I consider this to be disproportionate.

I have therefore adjusted the gross to net rental calculation to reflect 1% for Council Tax Voids and 1.5% for utilities as summarised below:

Operation Voids	2.5%
Bad Debt	0.5%
Council Tax Voids	1%
Void Utilities	1.5%
Management Fees	9% inclusive of VAT
Operational Expenditure	8.5%
Total	**23%**

Capitalisation Yield

Following a deduction for operational costs a valuer is then required to capitalise the net rent to arrive at a value at which the completed scheme will be sold. The applicants has adopted an initial yield of 4.5% which I consider reasonable and supported by comparable information available to me, I have adopted the same within my appraisal.

Market Value Units

REVENUE

Rental Area Summary					
		m²	**Rent Rate m²**	**Initial MRV/Unit**	**Net Rent at Sale**
All Apartments		27,344.00	131.93	3,607,410	2,777,706
Car Park		1.00	79,500.00	79,500	61,215
Totals		**27,345.00**			**2,838,921**
Investment Valuation					
All Apartments					
Current Rent	2,777,706	YP @	4.5000%	22.2222	61,726,793
Car Park					
Current Rent	61,215	YP @	4.5000%	22.2222	1,360,333
					63,087,127

3.6. Affordable Housing - Proportion

The applicant's surveyor has adopted an affordable housing proportion of 5%. It is important to note that this is not the policy compliant contribution which has been confirmed by Leeds City Council as 7% of all units.

In addition, the applicant's surveyor has adjusted market rents to account for the likely rental receivable from the affordable units. However, the calculation is incorrect.

The applicant has made an adjustment in line with regional norms, whereby there is a 60% discount to market rents for rented affordable units and a deduction of 48% for intermediate units. However I have adopted the published policy rents for affordable units, as summarised later within this report.

3.7 Affordable Housing Revenue

Summarised below are the policy compliant transfer rates for affordable units for PRS schemes.

Table 2 below sets out affordable rent benchmarks. These apply in situations where a Private Rented Scheme Provider and the City Council have agreed that affordable housing provision will be provided on-site, or in buildings off-site. Management companies responsible for administering the rental of dwellings would be expected to rent the affordable dwellings at rents that accord with the benchmarks subject to arrangements agreed with the City Council.

Table 2: Affordable Rents for PRS Schemes

Dwelling Type	Affordability	Benchmark £/sqm/week	Benchmark £/sqm/mth
Apartment	Lower Decile	1.26	5.45
	Lower Quartile	1.61	6.99

DVS Lower Decile

REVENUE

Rental Area Summary					
	Units	**m²**	**Rent Rate m²**	**Initial MRV/Unit**	**Net Rent at Sale**
LD 1 Bed	3	150.00	82.20	4,110	9,494
LD 2 Bed	1	67.00	82.20	5,507	4,241
LD 3 Bed	1	86.00	82.20	7,069	5,443
Totals	**5**	**303.00**			**19,178**
Investment Valuation					
LD 1 Bed					
Current Rent	9,494	YP @	4.5000%	22.2222	210,980
LD 2 Bed					
Current Rent	4,241	YP @	4.5000%	22.2222	94,238
LD 3 Bed					
Current Rent	5,443	YP @	4.5000%	22.2222	120,962
					426,180

DVS Lower Quartile

REVENUE					
Rental Area Summary					
	Units	**m²**	**Rent Rate m²**	**Initial MRV/Unit**	**Net Rent at Sale**
LQ 1 Bed	5	235.00	63.84	3,000	11,552
LQ 2 Bed	3	210.00	63.84	4,469	10,323
LQ 3 Bed	1	85.00	63.84	5,426	4,178
LQ 2 Bed	1	73.00	63.84	4,660	3,588
Totals	**10**	**603.00**			**29,642**
Investment Valuation					
LQ 1 Bed					
Current Rent	11,552	YP @	4.5000%	22.2222	256,708
LQ 2 Bed					
Current Rent	10,323	YP @	4.5000%	22.2222	229,398
LQ 3 Bed					
Current Rent	4,178	YP @	4.5000%	22.2222	92,852
LQ 2 Bed					
Current Rent	3,588	YP @	4.5000%	22.2222	79,743
					658,701

3.8. Ground Rent Revenue

Further to the evidence regarding the tenure on disposal of PRS apartments in Leeds ground rent investment value is excluded. In reality an institutional investor acquires the entire building and collects the rents from individual tenants, therefore it is not appropriate to adopt an additional revenue as the business model does not conjunctionally support a grant of long ground leases.

3.9 DVS Conclusion Gross Development Value (GDV)

My opinion of GDV for a planning sub policy compliant scheme is summarised below based on the as referred to above. Firstly:

1) 4.23% of a total units based on transfer values published by Leeds City Council Comprising:

Market Value Apartments	£63,087,127	
Affordable Apartments	£ 1,084,881	(15 units – 4.23%)

4.0 Gross Development Costs

4.1 Construction Cost

The applicant has used a cost estimate prepared by consultants which estimates the base build cost for the entire scheme (exclusive of developers' fees and contingency) is £47,581,000.

The build cost has been considered by Leeds City Councils cost consultant Rex Proctor and Partners (RPP). RPP have concluded the costs is acceptable subject to some allowances for potential double counting for contingencies and professional fees.

The cost estimate prepared by Torsion (applicant's consultant) includes a contingency for Design Development Contingency of 2.00% which equates to £766,113. In addition, the viability appraisal allows for a further scheme contingency of 5% which combined results on contingencies of 7% which is excessive.

Following consultation with RPP we have concluded the design development consultant should remain unchanged, however, we have reduced the scheme contingency to 3%.

Following discussions, with RPP I have also reduced professional fees from 8.5% to 8.2% to reflect the fact that the Torsion cost estimate includes some costs which will in effect be "on account" and deducted from professional fees when the scheme proceeds. The Torsion plan refers to these costs under the heading Design fees and surveys at cost validation stage £328,995. Any queries on this section should be directed to Rex Proctor.

4.2 Contingency

The applicant's advisor has also allowed a 5% contingency, applied to both base and external construction costs and in addition to Design Development Contingency.

I regard this to be high for the reasons outlined above. I have allowed 3%.

The aggregate of scheme contingency 3% and Design Development Contingency 2% is reasonable.

4.3 Planning Obligations

CIL

Leeds City Council has provided an estimate of the CIL contribution which when accounting for affordable housing is £138,444.

In addition to the requirement for affordable housing contributions, and CIL the applicant has allowed £183,831 of Section 106 costs

The contributions are not accepted as Leeds City Council have provided the following updated estimate of contributions which have been adopted in my appraisal.

Council S106 Monitoring	3,000
TRO	20,000
Resi Transport Plan	87,337
Pay & Display Loss of Parking	36,000
Wayfinding Public Realm	32,000

4.4 Section 106 Hierarchy and Timing

Regarding the timing of these contributions, I have sought guidance from your Authority and consequently I agree with the applicants' cash-flow assumption for the Section 106 costs.

4.5 Professional Fees

The applicant has used 8.2% for professional fees, applied to build cost and externals as explained above under section 4.1 Construction Cost.

4.6 Finance

The debit rate of 5% is considered below the normal level expected from a lender dealing with a typical developer therefore I have adopted 6% which has resulted in a higher finance cost than the applicant by approximately £300,000.

It is important to note the applicant's adviser has allowed for finance on 95% of costs. In addition they have used a different software package to DVS and there are likely to be differences in the manner each software package computes finance interest.

5.0 Profit

Affordable Home Options LLP are seeking a minimum profit margin equivalent to 8% of total development costs.

Paragraph 18 of the NPPG Viability & Plan Making states:

For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to

support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.

When assessing a scheme with affordable housing it is recognised by the NPPG, that lower profit should be applied to reflect the different risk levels associated with disposing of affordable homes compared to general market housing.

For my review I have also adopted 8% of revenue for the private rented and affordable homes. I consider profit margins at these levels to be well supported by other similar PRS developments DVS have appraised and reviewed in Leeds and that 8% profit is acceptable for determining the viability of the scheme.

6.0 Benchmark Land Value

6.2 Applicant's Benchmark Land Value

The applicant has adopted a fixed land value of £1,150,000 which equates to approximately £1,100,000 per gross acre.

I have reviewed information available to me and I agree that the Benchmark Land Value is in the region of £1,150,000 and I have adopted the same amount in my appraisal.

I have considered the existing built accommodations Existing Use Value which comprise an industrial unit and a place of worship.

I have not been provided with a detailed survey or measurement of the buildings. However, I have measured the gross external area of the buildings which I estimate is 24,300 sq. ft. in total.

I have referred to the comparable rental evidence below:

	Sign Date	Start Date	Address	City	Floor	Total SF Leased	Rent/SF/Yr	Service	Rent Type	Use
☐	Jan 2018	Jan 2018	Torre Rd	Leeds	GRND	9,308	£4.29	FRI	Effective	Industrial
☐	Oct 2017	Oct 2017	Cross Green Garth	Leeds	GRND	9,350	£3.56	FRI	Effective	Industrial
☐	Apr 2017	Jul 2017	Leathley Rd	Leeds	GRND	11,276	£1.31	FRI	Effective	Industrial
☐	Jan 2017	May 2017	169 Meanwood Rd	Leeds	GRND,M...	10,080	£5.10		Effective	Industrial
☐	May 2016	May 2016	16 Cross Green Way	Leeds	1st	9,400	£3.07		Effective	Industrial
☐	Feb 2016	Feb 2016	Bridgewater Rd	Leeds	GRND	10,720	£6.05		Effective	Industrial
☐	Apr 2015	Apr 2015	Bridgewater Rd	Leeds	GRND,M...	10,751	£4.67	FRI	Effective	Industrial
☐	Jan 2015	Jan 2015	Carlisle Rd	Leeds	GRND,1	12,740	£3.77	FRI	Effective	Industrial
☐	Jan 2014	Feb 2014	Meanwood Rd	Leeds	GRND,M...	10,780	£2.93	FRI	Effective	Industrial
☐	Feb 2013	Feb 2013	Cross Green Approach	Leeds	GRND	9,601	£0.99	FRI	Effective	Industrial
☐	Mar 2005	Mar 2005	16 Cross Green Way	Leeds	GRND	11,352	£6.52		Effective	Industrial

After considering the current rental value of the properties I have concluded the likely rents are in the region of £3.50 per sq. ft. with reference to comparables at Cross Green and Torre Lane Leeds.

I have also considered a vacant possession value and applied a capitalisation yield of 8% (12.5 YP). My yield is based on evidence held confidentially which results in a EUV of £1,063,125 (£43.75 psf).

In order to check the reliability of Yield evidence I have also considered published evidence of industrial sales on the edge of the City Centre and within 3 miles of the subject site.

In order to determine the benchmark land value I have then made an allowance for an incentive for the landowner to sell the property for development.

In this instance, and based on similar development sites, in the area I consider a uplifts of 10% which gives a benchmark land value of £1,169,437. I have rounded the BMLV to £1,150,000 as it is at a similar level to that adopted by the applicant.

7.0 Remaining Appraisal Inputs

Outlined below is a list of appraisal inputs which are agreed and not agreed:

Appraisal Input	Applicant (proposes to deliver)	DVS (conclusion)	Inputs Agreed or Not Agreed
Gross Development Value	£63,696,089	£64,172,009	Not Agreed
Net Rental Income	£2,866,324	£2,887,740	Not Agreed
Affordable Housing	Sub Policy 4.87% (17 units)	Sub Policy 4.23% on site (15 units)	Not Agreed
CIL / S 106	£339,873	£316,781	Not Agreed

Build Costs	£47,581,022	£47,581,022	Agreed
Professional Fees	£3,901,644 (8.2%)	£3,806,480 (8.5%)	Not Agreed
Finance	£3,455,191	£3,755,264	Not agreed
Developer's return	6.02%	8.0%	Not Agreed
Benchmark Land Value (basis)	EUV Plus	EUV Plus	Agreed
Benchmark Land Value (figure)	£1,150,000	£1,150,000	Agreed

8.0 Key Differences

The key differences for a planning compliant scheme are summarised below:

	Applicant (proposes to deliver)	DVS (conclusion)	Effect on Viability
Gross Development Value	£63,696,089	£64,172,009	+£475,920
CIL / S 106	£339,873	£316,781	+£23,092
Professional Fees	£3,901,644 (8.2%)	£3,806,480 (8.5%)	+95,164
Developers Contingency	£2,569,374	£1,427,431	+£1,141,943
Finance	£3,455,191	£3,755,264	-£300,073

9.0 DVS Conclusion

For ease of reference I have presented my appraisals in the same way as applicant's surveyor by fixing the benchmark land value and the profit and reporting on the section 106 pot , where it is in excess of the requirements it is viable.

9.1 Policy Compliant Appraisal

I have considered a fully policy compliant scheme i.e a scheme with 7% AH and full CIL/ S106 as above, but the scheme makes a profit less than the target profit of 8% and is unviable.

I have prepared a policy compliant scheme which results in a profit on Gross Development Cost of 6.74%.

It is my conclusion a fully planning compliant scheme is not viable.

9.2 Viable scheme

As the scheme cannot meet full policy requirements I have therefore considered the maximum contributions that the scheme could viably provide.

Further to the hierarchy listed above I understand that CIL, S106 are required before AH, I have therefore considered the maximum AH units that the scheme could provide.

I attach my planning sub policy compliant appraisal with 4.23% affordable housing (15 units) and £348,275 CIL S106.

It is my independent opinion that this scheme can viably provide the whole of the required CIL/Section 106 contributions and 4.23% (15 units) on site affordable housing.

A copy of my appraisal is included.

9.3 Scenario Test

Further to the RICS professional statement requirements I have carried out sensitivity tests to test the robustness of my viability conclusion.

I have carried out sensitivity tests by varying inputs of revenue. I can report that in order for a full policy compliant scheme to be viable, market value gross rental values will need to increase by 1.225%. Please note the applicant has not allowed for inflation in their build costs and an increase in rental values is likely to be cancelled out by increases in build costs.

This is not considered to be a significant movement and, in my objective and impartial opinion, and the likelihood of market conditions producing such a movement is considered remote as at the date of assessment.

Having reviewed the sensitivity test it is my considered conclusion that a fully planning policy compliant scheme is not viable.

If you require any further sensitivity tests, these can be provided subject to additional fees,

10.0 Recommendations

10.1 In the Event of Incorrect Assumptions:

If any of the assumptions stated herein this report and/or in the attached appraisal are incorrect the matter should be referred back to DVS as a re-appraisal may be necessary.

I emphasise that my appraisal embraces the costs and revenues appropriate to the review date and is therefore valid only if the building construction work commences within 12 months and proceeds at a rate consistent with achieving sales in the market.

If commencement of the works were to be delayed and is then undertaken at some other time when market conditions may be different, then I believe a re-appraisal will be required adopting the costs and revenues then obtaining.

10.2 Overage Clause in Section 106 Agreement

Given that, based on my advice, your Council's policy requirements will not be met, an overage clause might be appropriate as a condition of the permission. DVS can advise on the detail of the overage mechanism if you choose to follow this route.

However, it should be noted that an overage clause can be challenging to administer with significant constraints regarding professional fees and practical issues regarding transparency of development costs.

Some of the content of this report may be regarded by DVS, Applicant's surveyor or the applicant as commercially confidential and, in this regard, I assume that you will restrict the report's circulation as appropriate.

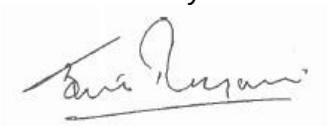
I would be pleased to discuss any of the foregoing with your Authority if you wish. My instruction does not extend to negotiations with the applicant / applicant's surveyor however if

your authority think that this would be of benefit this can be facilitated through a separate instruction.

Should the applicant disagree with the conclusions of our assessment, we would recommend that they provide further information to justify the values and costs they have adopted. Upon receipt of further information and with your further instruction, we would be happy to review the information and reassess the schemes viability.

We will keep the file open for 6 weeks

Yours sincerely



Brian Maguire MRICS
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DVS

Report reviewed by

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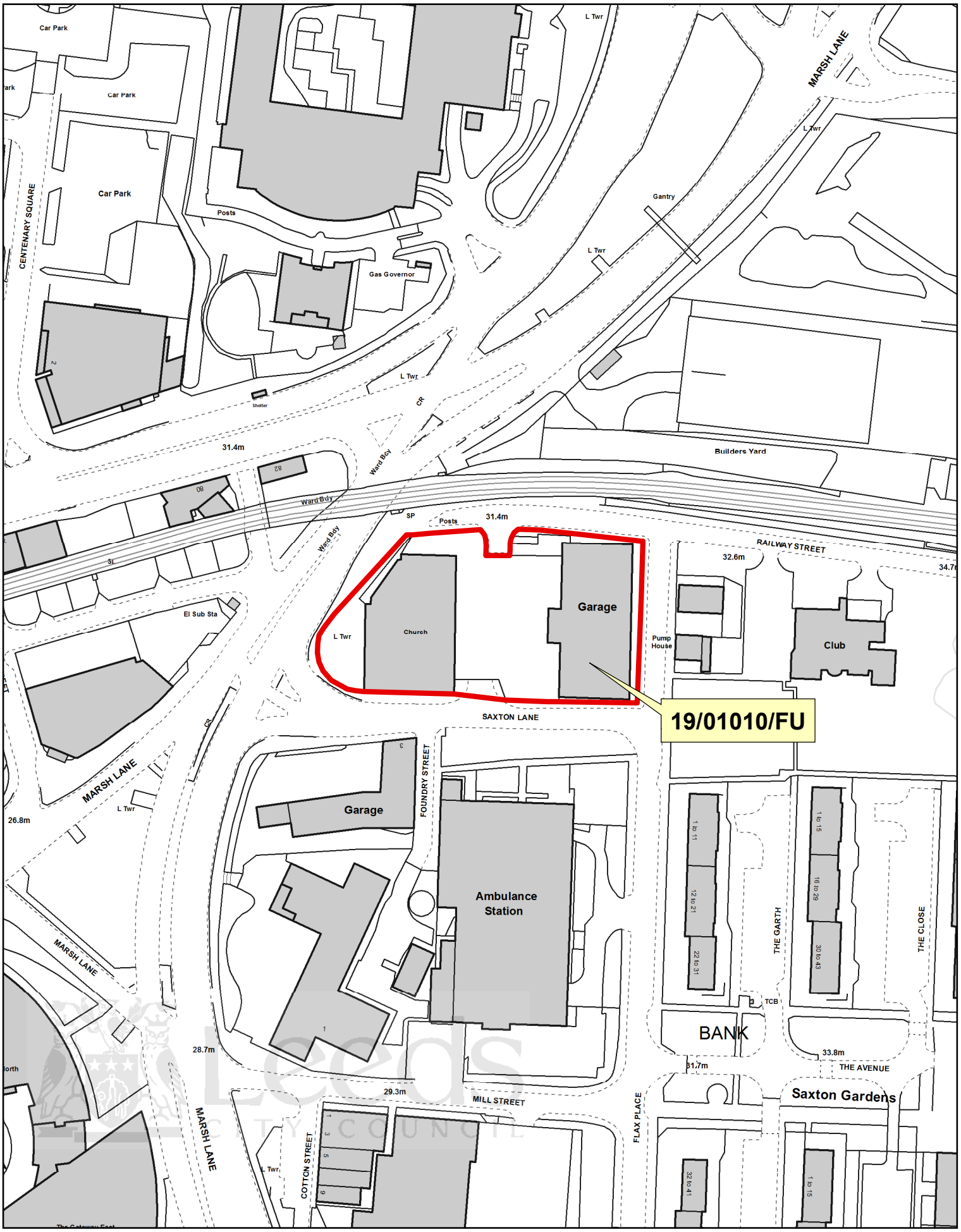
Principal Surveyor DVS
Sector Leader Viability (North)



CITY PLANS PANEL

PRODUCED BY CITY DEVELOPMENT, GIS MAPPING & DATA TEAM, LEEDS CITY COUNCIL

SCALE : 1/1500