



Affordability and financial viability impact of First Homes



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London Borough of Wandsworth

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1 Introduction

The London Borough of Wandsworth ('the Council') has commissioned BNP Paribas Real Estate to provide an assessment of the affordability and financial viability impact of the government's proposed 'First Homes' ('FH') tenure.

The Government has recently consulted on the FH programme¹. In this consultation, the Government indicates that it intends to require that developers provide 25% of the affordable housing secured through planning obligations on their developments as FHs. The consultation also indicates that FHs should have market values not exceeding £600,000 and the price to first and subsequent purchasers should not exceed 70% of market value. Purchasing households should be in receipt of household incomes not exceeding £90,000 per annum.

We have tested the following issues posed by the Council using four scheme appraisals that we have previously reviewed for development management purposes:

1. Establish the types of properties (i.e. number of bedrooms) that would meet the FH criteria of £600,000 market value;
2. Establish the household income required to afford FHs, assuming a 30% discount to market value, by using standard affordability metrics (typically requiring that all housing costs do not exceed 40% of net household incomes);
3. Establish the impact of other levels of discount to market value on the range of household incomes that would be required to afford FHs and whether this would expand the types of properties eligible households could access;
4. Using the four sample schemes, establish the impact of the FHs requirement on the overall level and tenure mix of affordable housing, in comparison to the level and mix actually permitted on the sites. In this exercise, the Council has indicated that the FHs requirement should account for 25% of the affordable housing provision.
5. Again using the four sample schemes, establish the impact on the overall level and tenure mix of affordable housing if the Council sought to apply its intermediate housing policy on the FHs. This may require FHs to be sold at a higher discount than 30%.
6. If the scenarios in points 4 and 5 indicate that the FH requirement would have a significant impact on overall affordable housing delivery, consider whether there is a reduced percentage that could be delivered which would reduce the impact on other affordable tenures.
7. Repeat the analysis above using an emerging mix of 50% Low Cost Rent; 25% Intermediate; and 25% FHs in addition to the current mix of 60% Low Cost Rent; and 40% Intermediate (which would need to be split 15% Intermediate and 25% FHs).
8. Advise on appropriate profit levels to be applied to FH in financial appraisals.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 34 countries in Europe, Middle East, India and the United States of America, including 18 wholly owned and 16 alliances.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ('RPs').

¹ MHCLG 'First Homes: Getting you on the ladder – Consultation on the design and delivery of First Homes', February 2020

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

The Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the provision of affordable housing.

In 2007, we were appointed by the Greater London Authority ('GLA') to review its 'Development Control Toolkit Model' (commonly referred to as the 'Three Dragons' model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model and advising on areas that required amendment in the re-worked toolkit and other available appraisal models and submitted our report in February 2012.

Anthony Lee was a member of the working group under the chairmanship of Sir John Harman that drafted '*Viability testing local plans: Advice for planning practitioners*'. He was also a member of the MHCLG '*Developer Contributions Expert Panel*' which advised on the viability section of the 2019 PPG. He is a member of the RICS Working Group producing guidance on the valuation of affordable housing.

In addition, we were retained by Homes England to advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report structure

This report is structured as follows:

- Section two outlines our analysis of the property types meeting the FH criteria across the borough;
- Section three sets out our analysis of the incomes required to access FHs;
- Section four summarises the results of our appraisals testing the impact of FHs on scheme viability;
- Section five outlines our advice on appropriate profit margins applied to FHs in financial viability appraisals carried out to inform planning decisions;
- Finally, in Section six, we draw conclusions from the analysis.

1.3 The Status of our advice

This report is not a valuation and should not be relied upon as such. In accordance with PS1 (5.2) of the RICS Valuation – Professional Standards – Global Standards 2020 (the 'Red Book'), the provision of VPS1 to VPS5 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation.

This report is addressed to the Council only and should not be reproduced without our prior consent.

2 Property types meeting FH criteria

2.1 FH criteria

2.1.1 Qualifying criteria

On 21 May 2021, the government issued guidance on FHs and their implementation. This guidance defines FHs as

“a specific kind of discounted market sale housing and should be considered to meet the definition of ‘affordable housing’ for planning purposes”.

The guidance goes on to lay down four criteria which FHs must meet, as follows:

“a) must be discounted by a minimum of 30% against the market value;

b) are sold to a person or persons meeting the First Homes eligibility criteria (see below);

c) on their first sale, will have a restriction registered on the title at HM Land Registry to ensure this discount (as a percentage of current market value) and certain other restrictions are passed on at each subsequent title transfer; and,

d) after the discount has been applied, the first sale must be at a price no higher than £250,000 (or £420,000 in Greater London)”.

The guidance indicates that FHs should account for at least 25% of all affordable housing units delivered by developers through planning obligations. Further, it indicates that in addition to restrictions on title, FHs should be secured as such through planning obligations.

Local authorities can apply higher discounts above the minimum 30% at (a) above *“if they can demonstrate a need for this”* through housing needs assessments. Discounts can be increased to 40% or 50% *“and should not be set to any other value”*.

2.1.2 Eligibility criteria

The guidance sets out the following eligibility criteria for prospective purchasers of FHs:

- First time buyer;
- Purchasers must have a combined annual household income not exceeding £90,000 in Greater London;
- Purchasers must have a mortgage to fund a minimum of 50% of the discounted purchase price.

The guidance gives planning authorities discretion to add their own eligibility criteria, including lower income caps, local connection tests, and prioritising key workers.

2.2 Applying the FH criteria in Wandsworth

Property values in Wandsworth range from circa £8,000 to £11,000 per square metre, with higher values achieved in some parts of Nine Elms. Outside Nine Elms, values are within a range starting at £8,000 per square metre and increasing to circa £9,600 per square metre, as follows:

Table 2.2.1: Average values in Wandsworth

Submarket	Ave value per sqm
Nine Elms	£10,997
Battersea	£9,655

Submarket	Ave value per sqm
Wandsworth	£8,075
South of the borough	£9,343
Putney	£9,878

Applying these average values to unit London Plan minimum space standards for one, two, three and four bedroom properties would result in the average values in Table 2.2.2. The properties with green shading would meet the FH criteria of a price before discount not exceeding £600,000. The remaining properties, shaded yellow, would exceed the £600,000 undiscounted property price.

Table 2.2.2: Average property values and capped price at £600,000

	Studio	1 bed	2 bed	3 bed	4 bed
	39 sqm	50 sqm	70 sqm	86 sqm	116 sqm
Nine Elms	£428,883	£549,850	£769,790	£945,742	£1,275,652
Battersea	£376,545	£482,750	£675,850	£830,330	£1,119,980
Wandsworth	£314,925	£403,750	£565,250	£694,450	£936,700
South of Borough	£364,377	£467,150	£654,010	£803,498	£1,083,788
Putney	£385,242	£493,900	£691,460	£849,508	£1,145,848

This table indicates that, in broad terms, only studios and one bed properties will qualify as FHs. However, the £600,000 property price used in the table above is merely a product of the £420,000 price *after discount* in the guidance, assuming a 30% discount has been applied. If higher discounts were to apply, more property types would fall within the £420,000 price cap, as shown in Table 2.2.3 (which applies a 40% discount) and Table 2.2.4 (which applies a 50% discount).

Table 2.2.3: Purchase price with 40% discount showing eligible properties shaded green

	Studio	1 bed	2 bed	3 bed	4 bed
	39 sqm	50 sqm	70 sqm	86 sqm	116 sqm
Nine Elms	£257,330	£329,910	£461,874	£567,445	£765,391
Battersea	£225,927	£289,650	£405,510	£498,198	£671,988
Wandsworth	£188,955	£242,250	£339,150	£416,670	£562,020
South of Borough	£218,626	£280,290	£392,406	£482,099	£650,273
Putney	£231,145	£296,340	£414,876	£509,705	£687,509

Table 2.2.4: Purchase price with 50% discount showing eligible properties shaded green

	Studio	1 bed	2 bed	3 bed	4 bed
	39 sqm	50 sqm	70 sqm	86 sqm	116 sqm
Nine Elms	£214,442	£274,925	£384,895	£472,871	£637,826
Battersea	£188,273	£241,375	£337,925	£415,165	£559,990
Wandsworth	£157,463	£201,875	£282,625	£347,225	£468,350
South of Borough	£182,189	£233,575	£327,005	£401,749	£541,894
Putney	£192,621	£246,950	£345,730	£424,754	£572,924

In addition, we provide in Table 2.2.6 the discounted unit values assuming a 60% discount to market value. It should be noted that this exceeds the maximum discount currently indicated by the government's guidance.

Table 2.2.6: Purchase price with 60% discount showing eligible properties shaded green

	Studio	1 bed	2 bed	3 bed	4 bed
	39 sqm	50 sqm	70 sqm	86 sqm	116 sqm
Nine Elms	£171,553	£219,940	£307,916	£378,297	£510,261
Battersea	£150,618	£193,100	£270,340	£332,132	£447,992
Wandsworth	£125,970	£161,500	£226,100	£277,780	£374,680
South of Borough	£145,751	£186,860	£261,604	£321,399	£433,515
Putney	£154,097	£197,560	£276,584	£339,803	£458,339

The analysis above indicates that a 40% discount would be sufficient to ensure that studios, one and two bedroom properties would be eligible for FHs across most of the borough, with the exception of Nine Elms, where a discount of 50% would be required. 50% discounts would also be required to bring three bedroom properties into scope for FHs.

3 Incomes required to access FHs

In this section, we establish the household incomes required to access FHs using standard affordability metrics.

3.1 Affordability metrics

The Council uses a commonly deployed set of metrics for determining the affordability of housing products available to those deemed to be eligible for intermediate affordable housing, summarised as follows:

- Housing costs (aggregate of mortgage and service charges) should not exceed 40% of net household income. Household income for these purposes can be taken to include all members of the household (e.g. a couple purchasing together).
- Net income is determined as 70% of gross income.
- Interest rate of 4.5%. This is lower than currently available rates, but provides sufficient scope for future increases. Furthermore, lenders will be unfamiliar with FHs and may charge higher interest rates than those for 'conventional' housing property.
- Deposit of 10% of purchase price.
- Mortgage term of 25 years in line with standard terms for most buyers.

As an example, a household in receipt of a gross annual income of £50,000 could afford to spend £14,000 per annum on housing costs (net income equates to 70% of £50,000 = £35,000. 40% of £35,000 = £14,000).

3.2 Household incomes required to access FHs (30% discount)

In order to determine the household incomes required to access FHs, it is necessary to calculate the mortgage payments required for the various property types. We have assumed that purchasers will pay a 10% deposit and fund the remaining 90% through a standard repayment mortgage repaid over a 25 year term, which will attract an interest rate of 4.5%. In addition to mortgage costs, we have added a service charge at an assumed cost of £1,250 per annum.

We have then calculated the income required by a household, assuming that the mortgage and service charge payments equate to 40% of their net household income. Gross income is then identified based on an effective tax and NI rate of 30%.

For example, the mortgage payment and service charges on a one bedroom property in Battersea would be £24,611 per annum. This must not exceed 40% of net income, so a net household income of £61,528 would be required. This equates to a gross household income of £87,897.

The results of our calculations are summarised in the following tables, showing the impact of property value discounts of 30%, 40%, 50% and 60%.

Table 3.2.1: Household gross income required to fund property purchase at 30% discount

	Studio	1 bed	2 bed	3 bed	4 bed
Nine Elms	£69,542	£87,897	£121,271	£147,969	£198,029
Battersea	£61,600	£77,716	£107,016	£130,457	£174,408
Wandsworth	£52,250	£65,728	£90,234	£109,839	£146,597
South of Borough	£59,754	£75,349	£103,702	£126,385	£168,916
Putney	£62,920	£79,408	£109,385	£133,367	£178,333

Table 3.2.2: Household gross income required to fund property purchase at 40% discount

	Studio	1 bed	2 bed	3 bed	4 bed
Nine Elms	£60,245	£75,978	£104,584	£127,468	£170,377
Battersea	£53,438	£67,251	£92,366	£112,458	£150,130
Wandsworth	£45,424	£56,976	£77,981	£94,785	£126,292
South of Borough	£51,856	£65,222	£89,525	£108,968	£145,423
Putney	£54,569	£68,701	£94,396	£114,952	£153,494

Table 3.2.3: Household gross income required to fund property purchase at 50% discount

	Studio	1 bed	2 bed	3 bed	4 bed
Nine Elms	£50,948	£64,059	£87,897	£106,968	£142,725
Battersea	£45,276	£56,787	£77,716	£94,459	£125,852
Wandsworth	£38,597	£48,224	£65,728	£79,732	£105,988
South of Borough	£43,957	£55,096	£75,349	£91,551	£121,930
Putney	£46,218	£57,995	£79,408	£96,537	£128,656

Table 3.2.4: Household gross income required to fund property purchase at 60% discount

	Studio	1 bed	2 bed	3 bed	4 bed
Nine Elms	£41,652	£52,140	£71,211	£86,467	£115,073
Battersea	£37,113	£46,322	£63,065	£76,460	£101,575
Wandsworth	£31,771	£39,472	£53,476	£64,678	£85,683
South of Borough	£36,058	£44,970	£61,172	£74,133	£98,437
Putney	£37,868	£47,289	£64,419	£78,123	£103,818

As can be noted from the tables above, a 30% discount to market value would only be sufficient to keep the income required to purchase studios and one bedroom properties within the £90,000 per annum gross household income limit set in government guidance. A 40% discount would open two bedroom properties in lower value parts of the borough. However, in order to make two bedroom properties available as FHs across the borough, a 50% discount would be required.

4 Impact of FH requirement on viability

In this and section, we consider the impact of the emerging FH requirement on the viability of developments in Wandsworth, using four sample schemes that we have previously assessed at the application stage, as follows:

Table 4.1.1: Sample schemes used to test the impact of FH requirement

Scheme	Total units	Affordable housing	Of which rented	Of which shared ownership
Randall Close	106	49 (46%)	27 (55%)	22 (45%)
Fallsbrook Road	29	9 (31%)	6 (67%)	3 (33%)
Yelverton Road	74	21 (28%)	13 (62%)	8 (38%)
Ponton Road	357	105 (29%)	63 (60%)	42 (40%)

Each scheme was assessed at the application stage to determine the maximum viable proportion of affordable housing. In order to simplify the exercise, we have assumed that the starting residual land value with the original mix needs to be maintained when the FH requirement is factored in.

The inputs to the appraisals have been updated and further adjustments have been applied when FHs are incorporated, as follows:

- **Timing of income:** developers normally receive the agreed contract sum for the affordable housing from the Registered Provider over the construction period. Developers will normally take responsibility for selling FHs themselves, so sales receipts will not be received until Practical Completion. This has an adverse cashflow impact.
- **Marketing fees/sales agents fees:** we have assumed that FHs will incur sales agent's fees and marketing costs at the same rates as private housing (generally 1.5% and 1.0% of GDV respectively).
- **Profit:** as discussed in the previous section, profit on FHs will be higher than other affordable housing as there is no disposal to a Registered Provider. We have applied a profit of 12.5% of GDV to the FHs.

4.1 Appraisal results with reflecting current tenure mix

The residual land values for each scheme, starting with the residual generated by the original mix and then showing the residuals for the revised mix incorporating FHs, are summarised in tables 4.1.2 to 4.1.5. In some cases, the tenure mix agreed at the application stage did not reflect the 60%/40% rented to intermediate tenure split in the current Local Plan. Where the tenure mix departs from the standard split, this was as a result of negotiations between the applicants and the Council.

Randall Close (Table 4.1.2) provided 46% affordable housing, with a tenure split of 55% rented and 45% shared ownership, generating a residual land value of £2.0 million. Incorporating 25% of the affordable units as FHs increases the residual value to £2.64 million. When the Council's affordability criteria is applied to the FHs, the discount required increases from 30% to 40%, which reduces the residual land value to £2.33 million. No reduction in affordable housing is required to accommodate the 25% FH requirement.

Table 4.1.2: Appraisal results for Randall Close

	Rented units	Shared Ownership	First Homes	Residual land value
Original	27 (55%)	22 (45%)	-	£2,026,495
Revised (FH £90,000 cap)	27 (55%)	10 (20%)	12 (25%)	£2,643,945
Revised (FH LBW Int Hsg Policy) 40% FH discount required	27 (55%)	10 (20%)	12 (25%)	£2,328,262

Fallsbrook Road (Table 4.1.3) provided 33% affordable housing, with a tenure split of 67% rented and 33% shared ownership, generating a residual land value of £3.78 million. Incorporating 22% of the affordable units as FHs (the closest possible percentage to 25%) increases the residual value to £3.99 million. When the Council's affordability criteria is applied to the FHs, the discount required increases from 30% to 50%, which reduces the residual land value to £3.97 million. No reduction in affordable housing is required to accommodate the 22% FH requirement as the residual land value remains above the original residual.

Table 4.1.3: Fallsbrook Road

	Rented units	Shared Ownership	First Homes	Residual land value
Original	6 (67%)	3 (33%)	-	£3,776,601
Revised (FH £90,000 cap)	6 (67%)	1 (11%)	2 (22%)	£4,104,492
Revised (FH LBW Int Hsg Policy) 50% FH discount required	6 (67%)	1 (11%)	2 (22%)	£3,966,870

Yelverton Road (Table 4.1.4) provided 35% affordable housing, with a tenure split of 62% rented and 38% shared ownership, generating a residual land value of £0.45 million. Incorporating 24% of the affordable units as FHs (the closest possible percentage to 25%) increases the residual value to £0.79 million. When the Council's affordability criteria is applied to the FHs, the discount required increases from 30% to 50%, which reduces the residual land value to £0.40 million. In order to increase the residual value above the original residual, the affordable housing has to be reduced by 1 unit (from 5 to 4 FHs).

Table 4.1.4: Yelverton Road

	Rented units	Shared Ownership	First Homes	Residual land value
Original (35% AH)	13 (62%)	8 (38%)	-	£531,770
Revised (FH £90,000 cap)	13 (62%)	3 (14%)	5 (24%)	£787,678
Revised (FH LBW Int Hsg Policy)	13 (62%)	3 (14%)	5 (24%)	£396,356
Revised (FH LBW Int Hsg Policy) (reduced AH percentage – 27%) 50% discount required	13 (65%)	3 (15%)	4 (20%)	£604,999

Ponton Road (Table 4.1.5) provided 29% affordable housing, with a tenure split of 60% rented and 40% shared ownership, generating a residual land value of £25.19 million. Incorporating 25% of the affordable units as FHs increases the residual value marginally to £26.01 million. When the Council's affordability criteria is applied to the FHs, the discount required increases from 30% to 50%, which reduces the residual land value to £25.15 million. In order to maintain the residual value at the same level of the original residual, the affordable housing has to be reduced by 5 units (from 26 to 21 FHs).

Table 4.1.5: Ponton Road

	Rented units	Shared Ownership	First Homes	Residual land value
Original (29% AH)	63 (60%)	42 (40%)	-	£25,187,120
Revised (FH £90,000 cap)	63 (60%)	16 (15%)	26 (25%)	£26,006,680
Revised (FH LBW Int Hsg Policy) (reduced AH percentage – 28%) 50% discount required	63 (63%)	16 (16%)	21 (21%)	£25,147,481

4.2 Appraisals with emerging Local Plan tenure split

We have also run the appraisals reflecting the mix in the Council's emerging Local Plan (50% rented and 50% intermediate). When the FH requirement is factored into the mix, the split is 50% rented; 25% intermediate; and 25% FHs. The results are summarised in tables 4.2.1 to 4.2.4.

The reduction in rented housing (from 60% to 50% of the affordable housing) and the consequential increase in intermediate tenures which has a higher capital value increases the residual land values in comparison to the original mix. As a result of this increase in value, the appraisals with FHs reflecting the Council's intermediate housing policy generate residual land values which remain above the residual land values generated by the original appraisals. Consequently, no adjustment to the overall level of affordable housing is necessary, as was the case in the previous section with a 60%/40% tenure split.

Table 4.2.1: Appraisal results for Randall Close (emerging LP tenure split)

	Rented units	Shared Ownership	First Homes	Residual land value
Original	27 (55%)	22 (45%)	-	£2,008,134
Revised (FH £90,000 cap)	25 (50%)	12 (25%)	12 (25%)	£2,835,554
Revised (FH LBW Int Hsg Policy) 40% FH discount required	25 (50%)	12 (25%)	12 (25%)	£2,519,871

Table 4.2.2: Appraisal results for Fallsbrook Road (emerging LP tenure split)

	Rented units	Shared Ownership	First Homes	Residual land value
Original	6 (67%)	3 (33%)	-	£3,776,601
Revised (FH £90,000 cap)	4 (44%)	3 (33%)	2 (22%)	£4,398,303
Revised (FH LBW Int Hsg Policy) 50% FH discount required	4 (44%)	3 (33%)	2 (22%)	£4,260,755

Table 4.2.3: Yelverton Road (emerging LP tenure split)

	Rented units	Shared Ownership	First Homes	Residual land value
Original (35% AH)	13 (62%)	8 (38%)	-	£453,240
Revised (FH £90,000 cap)	10 (50%)	5 (25%)	5 (25%)	£964,004
Revised (FH LBW Int Hsg Policy) 50% FH discount required	10 (50%)	5 (25%)	5 (25%)	£561,886

Table 4.2.4: Ponton Road (emerging LP tenure split)

	Rented units	Shared Ownership	First Homes	Residual land value
Original (29% AH)	63 (60%)	42 (40%)	-	£25,187,120
Revised (FH £90,000 cap)	50 (50%)	25 (25%)	25 (25%)	£28,215,404
Revised (FH LBW Int Hsg Policy) 50% discount required	50 (50%)	25 (25%)	25 (25%)	£26,428,939

5 Profit level to be applied to FHs in appraisals

5.1 General principles

Profit margins in appraisals serve two primary purposes. Firstly, they provide a developer with a return to cover internal company costs and overheads; generate a return on capital; and to provide working capital for future developments. Secondly, profit margins provide developers and their funders with a hedge against risk; land is purchased on the basis of estimated values that may be achieved when a development is sold. However, there is often a long period between site purchase and completion of construction and market conditions may change during that time. Consequently, values estimated at the outset may not be achieved and the profit margin would cover some or all of the resulting shortfall. Developers will rarely fund all of the development costs themselves and rely upon banks and other investors to provide funding; these parties also need to be satisfied that there is sufficient margin in case estimated values are not realised.

The Planning Practice Guidance recognises the need for development appraisals undertaken to inform planning decisions to include reasonable profit margins. It indicates that profits for private housing may be between 15% and 20% of GDV, but that margins applied to other types of housing (including affordable housing) may sit outside this range.

In London, profit margins applied to private housing in development appraisals range from 17.5% to 20% of GDV, depending on the perceived risk. Risk factors include relative price point; complexity of construction method; and development period/capital lockup.

In any development, the private housing units are built speculatively. Some may be sold off-plan during the construction period, but many will not be sold after practical completion. In contrast, affordable housing units in a development will be sold in a single transaction to a Registered Provider prior to construction commencing. This de-risks this element of a development. Furthermore, the Registered Provider will normally pay the agreed contract sum over the build period, which reduces the amount the Developer needs to borrow to meet its outgoings during the construction period. Consequently, it is generally accepted practice in viability assessments that the profit margin applied to the affordable housing should be lower, almost akin to a contractor's profit. Typically, a profit margin of 6% is applied to the affordable housing, reflecting limited price risk and the timing of the sale prior to construction commencing.

5.2 Profit margins and FHs

Clearly FHs differ from mainstream affordable housing in several key respects. Firstly, it is not envisaged at this stage that FHs will be sold to Registered Providers and developers will market these units themselves to eligible purchasers. Secondly, FHs do not require any part to 'hold' retained equity in the units that are sold, unlike shared ownership products. As a consequence, FH units can be marketed in the same way as unrestricted private housing units.

For these reasons, it is currently envisaged that developers will market FHs themselves. This means that a Developer will retain full risk of selling the FH units, which makes them more akin to private housing than affordable for the purposes of assessing an appropriate profit margin.

Broadly, the same risk factors that apply to market housing (i.e. price point, complexity of construction method; capital lock up) will also apply to FHs. However, as the prices are heavily discounted (with a minimum discount of 30%), the potential market to which developers can market FHs will be wider than for private housing. The approach to setting profit margins for FHs should therefore be that a discount should be applied to the profit margin for the unrestricted private housing, as this will reflect the scheme-specific risk factors (which will apply to all units). The discount to profit margin for FHs will ultimately be a matter of judgement, but we consider that a discount of 4% to 5% would be appropriate. So as an example, if the profit applied to unrestricted market housing is 17.5% of GDV, the profit applied to FHs would be 12.5% to 13.5% of GDV.

6 Conclusions

The government's recently issued guidance on FHs recognises sets four key criteria which local authorities will need to observe when implementing the programme at local level. The first is that 25% of the affordable housing delivered should be provided as FHs. Secondly, a minimum discount of 30% should apply to FHs. Thirdly, the value of FHs after the discount is applied should not exceed £420,000. Fourthly, to be eligible to access FHs, household incomes should not exceed £90,000 per annum in London.

In the Borough of Wandsworth, a 30% discount would only allow purchasers to access studios and one bedroom properties in all but the lowest value areas. Higher discounts of 40% and 50% would facilitate access to a wider range of property types, including two and three bedroom properties. A 60% discount would be required to make three bedroom properties accessible across the whole borough. High discounts will reduce the value of FH units and this is likely to adversely impact on the viability of schemes already on the margins of viability.

Our appraisals of sample schemes indicates that introducing a requirement for FHs in place of some of the existing intermediate housing units is unlikely to have an adverse impact on viability. Indeed, if FHs are targeted at households in receipt of the maximum £90,000 incomes, introducing FHs would improve viability, offering the possibility of increasing the number of rented units. However, on the basis of the currently adopted tenure split (60% rented and 40% intermediate) if the Council's intermediate housing policy is applied to the FHs, residual land values would fall below the level previously achieved, necessitating a reduction in the level of affordable housing provided. When the tenure split in the emerging Local Plan is applied (50% rented and 50% intermediate), the Council's affordability criteria can be applied to the FHs without any need to adjust the overall affordable housing percentage.

In order to minimise the impact of FHs on viability, the Council will need to ensure that they are provided as smaller units (i.e. studios and one beds) so that the amount of discount required can be minimised. This has a logical fit with the overall aims of the programme, as first time buyers will typically purchase the smallest unit types and then trade up as their needs change over time. It would be unrealistic to expect the FH programme to provide access to larger units.

With regards to testing the viability of developments following the introduction of FHs, a number of changes to inputs will be required. Although FHs are classified as affordable housing, they are in effect a form of discounted market sale housing, which developers will dispose of themselves (i.e. without the involvement of registered providers). Consequently, the profit margins applied to FHs will need to be higher than the profit applied to affordable housing (we consider a profit of 12.5% will normally be appropriate). Secondly, developers will need to make allowances for sales agents fees and marketing costs for FHs, whereas such costs are not normally applied to other forms of affordable housing. Thirdly, the timing of receipts will differ from other forms of affordable housing, the latter being disposed of pre-construction to registered providers, who then pay the agreed contract sum during the construction period. In contrast, the revenue from FHs will commence from Practical Completion. However, the higher capital values generated by FHs should offset these negative impacts in most cases.

Appendix 1 - Affordability calculations

LB Wandsworth - First Homes Analysis (30% discount)

Table with columns: Ave value per sqm, Studio, 1 bed, 2 bed, 3 bed, 4 bed. Rows: Nine Elms, Battersea, Wandsworth, South of Borough, Putney.

Discounted values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Discount: 30%.

Incomes required table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: 40% of net income, 30% effective tax rate.

Workings table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: Term (years) 25, Interest rate 4.50%, Deposit 10%, Mortgage payment SC £1,250.

Capital values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Values range from £6,914.60 to £7,697.90.

LB Wandsworth - First Homes Analysis (40% discount)

Table with columns: Ave value per sqm, Studio, 1 bed, 2 bed, 3 bed, 4 bed. Rows: Nine Elms, Battersea, Wandsworth, South of Borough, Putney.

Discounted values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Discount: 40%.

Incomes required table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: 40% of net income, 30% effective tax rate.

Workings table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: Term (years) 25, Interest rate 4.50%, Deposit 10%, Mortgage payment SC £1,250.

Capital values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Values range from £5,926.80 to £6,598.20.

LB Wandsworth - First Homes Analysis (50% discount)

Table with columns: Ave value per sqm, Studio, 1 bed, 2 bed, 3 bed, 4 bed. Rows: Nine Elms, Battersea, Wandsworth, South of Borough, Putney.

Discounted values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Discount: 50%.

Incomes required table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: 40% of net income, 30% effective tax rate.

Workings table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: Term (years) 25, Interest rate 4.50%, Deposit 10%, Mortgage payment SC £1,250.

Capital values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Values range from £4,939.00 to £5,498.50.

LB Wandsworth - First Homes Analysis (60% discount)

Table with columns: Ave value per sqm, Studio, 1 bed, 2 bed, 3 bed, 4 bed. Rows: Nine Elms, Battersea, Wandsworth, South of Borough, Putney.

Discounted values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Discount: 60%.

Incomes required table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: 40% of net income, 30% effective tax rate.

Workings table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Parameters: Term (years) 25, Interest rate 4.50%, Deposit 10%, Mortgage payment SC £1,250.

Capital values table with columns: Studio, 1 bed, 2 bed, 3 bed, 4 bed. Values range from £3,951.20 to £4,398.80.

Appendix 2 - Appraisals (original mix)

**Randall Close
Original mix**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m²	Rate m²	Unit Price	Gross Sales
Private residential units	57	3,930.15	9,655.00	665,712	37,945,598
Intermediate units	22	858.00	4,249.00	165,711	3,645,642
London Affordable Rent units	<u>27</u>	<u>2,064.15</u>	1,969.80	150,591	<u>4,065,963</u>
Totals	106	6,852.30			45,657,203

NET REALISATION **45,657,203**

OUTLAY

ACQUISITION COSTS

Residualised Price			2,026,495		
Stamp Duty		4.00%	81,060		
Agent Fee		1.00%	20,265		
Legal Fee		0.50%	10,132		
				2,137,952	

CONSTRUCTION COSTS

Borough CIL			1,910,868		
Mayoral CIL			407,652		
Monitoring costs			8,996		
Carbon off-setting			85,915		
CCTV Contribution			40,000		
Public Art			50,000		
Car Club			4,000		
				2,507,431	

Other Construction

Construction costs			27,848,263		
				27,848,263	

PROFESSIONAL FEES

Professional fees		10.00%	2,784,826		
				2,784,826	

MARKETING & LETTING

Marketing		1.50%	569,184		
				569,184	

DISPOSAL FEES

Sales Agent Fee		1.50%	569,184		
Affordable housing disposal costs			30,000		
Sales Legal Fee	57.00 un	800.00 /un	45,600		
				644,784	

**Randall Close
Original mix**

Additional Costs

Profit on private	17.50%	6,640,480	
Profit on affordable	6.00%	462,696	
			7,103,176

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)			
Land		318,666	
Construction		1,624,965	
Other		117,956	
Total Finance Cost			2,061,587

TOTAL COSTS

45,657,203

PROFIT

0

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
IRR	6.10%
Profit Erosion (finance rate 6.500%)	N/A

**Fallsbrook Road
Original mix**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private residential sales values	20	1,466.00	9,343.00	684,842	13,696,838
Shared ownership	3	227.00	4,112.00	311,141	933,424
Rented	<u>6</u>	<u>403.00</u>	1,969.00	132,251	<u>793,507</u>
Totals	29	2,096.00			15,423,769

NET REALISATION **15,423,769**

OUTLAY

ACQUISITION COSTS

Residualised Price			3,776,601		
Stamp Duty			64,026		
Agent Fee		1.00%	37,766		
Legal Fee		0.50%	18,883		
				3,897,276	

CONSTRUCTION COSTS

Contingency		5.00%	330,200		
Mayoral CIL			58,707		
Borough CIL			276,423		
Carbon off-setting payment			39,780		
Monitoring costs			1,989		
Electric vehicle charging points			7,500		
Controlled parking zone			5,000		
				719,599	

Other Construction

Construction costs			6,604,009		
				6,604,009	

PROFESSIONAL FEES

Professional fees		10.00%	693,421		
				693,421	

MARKETING & LETTING

Marketing		1.50%	205,453		
				205,453	

DISPOSAL FEES

Sales Agent Fee		1.50%	205,453		
Sales Legal Fee	20.00 un	800.00 /un	16,000		
Affordable housing disposal fee			20,000		
				241,453	

**Fallsbrook Road
Original mix**

Additional Costs

Profit on Private	17.50%	2,396,947	
Profit on Affordable	6.00%	56,005	
			2,452,952

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)			
Land		371,846	
Construction		231,245	
Other		6,515	
Total Finance Cost			609,606

TOTAL COSTS

15,423,769

PROFIT

0

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
IRR	6.01%
Profit Erosion (finance rate 6.500%)	N/A

APPRAISAL SUMMARY**LICENSED COPY**

2-18 Yelverton Road
Original mix

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private housing	54	3,390.00	9,655.00	606,119	32,730,450
Shared ownership units	7	392.00	4,249.00	237,944	1,665,608
Rented units	<u>13</u>	<u>838.00</u>	1,929.00	124,346	<u>1,616,502</u>
Totals	74	4,620.00			36,012,560

Rental Area Summary

	Units	m ²	Rate m ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Cultural Workspace	1	230.77	258.33	59,615	59,615	59,615
Office - Ground	1	252.97	322.92	81,689	81,689	81,689
Office - Basement	<u>1</u>	<u>96.43</u>	161.46	15,570	<u>15,570</u>	<u>15,570</u>
Totals	3	580.17			156,873	156,873

Investment Valuation**Cultural Workspace**

Market Rent	59,615	YP @	6.5000%	15.3846	
(10yrs Rent Free)		PV 10yrs @	6.5000%	0.5327	488,590

Office - Ground

Market Rent	81,689	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	1,180,052

Office - Basement

Market Rent	15,570	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	224,913
					1,893,555

GROSS DEVELOPMENT VALUE**37,906,115**

Purchaser's Costs	6.80%	(128,762)	(128,762)
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NET DEVELOPMENT VALUE**37,777,353****NET REALISATION****37,777,353****OUTLAY****ACQUISITION COSTS**

Residualised Price		531,770
Stamp Duty	4.00%	21,271
Agent Fee	1.00%	5,318

APPRAISAL SUMMARY**LICENSED COPY****2-18 Yelverton Road****Original mix**

Legal Fee		0.50%	2,659	561,018
CONSTRUCTION COSTS				
Mayoral and Borough CIL			1,851,500	
Section 106 payment			250,000	2,101,500
Other Construction				
Construction costs			23,456,615	23,456,615
PROFESSIONAL FEES				
Professional fees		10.00%	2,345,661	2,345,661
MARKETING & LETTING				
Residential marketing		1.50%	490,957	
Commercial marketing	483.74 m ²	32.29 pm ²	15,620	
Letting Agent Fee		10.00%	9,726	
Letting Legal Fee		5.00%	4,863	521,166
DISPOSAL FEES				
Residential sales agency fee		1.50%	490,957	
Commercial sales agency fee		1.00%	17,648	
Affordable housing disposal costs			40,000	
Residential sales legal fee	54.00 un	1,000.00 /un	54,000	
Commercial sales legal fee		0.50%	8,824	611,429
Additional Costs				
Profit on private residential		17.50%	5,727,829	
Profit on commercial		15.00%	284,033	
Profit on affordable		6.00%	196,927	6,208,789
FINANCE				
Debit Rate 6.500% Credit Rate 0.000% (Nominal)				
Land			86,396	
Construction			1,392,353	
Other			492,426	
Total Finance Cost				1,971,176
TOTAL COSTS				37,777,353
PROFIT				0
Performance Measures				
Profit on Cost%		0.00%		

2-18 Yelverton Road**Original mix**

Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.42%
Equivalent Yield% (Nominal)	6.50%
Equivalent Yield% (True)	6.77%
IRR	6.28%
Profit Erosion (finance rate 6.500%)	N/A

**46 Ponton Road
Original mix**

Summary Appraisal for Phase 1 Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private resi	252	17,728.00	10,997.00	773,630	194,954,816
Intermediate	42	2,324.00	4,840.00	267,813	11,248,160
Rented	63	4,786.00	1,969.00	149,581	9,423,634
Car parking	<u>84</u>	<u>0.00</u>	0.00	35,000	<u>2,940,000</u>
Totals	441	24,838.00			218,566,610

Rental Area Summary

	Units	m ²	Rate m ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	462.01	269.10	124,327	124,327	124,327
Gym	1	153.01		0	0	0
Community	<u>1</u>	<u>310.02</u>	134.55	41,713	<u>41,713</u>	<u>41,713</u>
Totals	3	925.04			166,040	166,040

Investment Valuation

Commercial						
Market Rent	124,327	YP @	7.0000%	14.2857		
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	1,717,019	
Community						
Market Rent	41,713	YP @	7.0000%	14.2857		
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	576,081	
					2,293,100	

GROSS DEVELOPMENT VALUE

220,859,710

Purchaser's Costs	5.80%	(125,709)	(125,709)
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NET DEVELOPMENT VALUE

220,734,001

NET REALISATION

220,734,001

OUTLAY

ACQUISITION COSTS

Residualised Price			25,187,120
Stamp Duty	4.00%	1,007,485	
Agent Fee	1.00%	251,871	
Legal Fee	0.80%	201,497	
			26,647,973

46 Ponton Road

Original mix

CONSTRUCTION COSTS

Construction	m ²	Rate m ²	Cost	
Commercial	629.35 m ²	3,092.04 pm ²	1,945,975	
Gym	208.43 m ²	3,092.04 pm ²	644,474	
Community	422.31 m ²	3,092.04 pm ²	1,305,799	
Private resi	24,059.00 m ²	3,092.04 pm ²	74,391,390	
Intermediate	3,154.00 m ²	3,092.04 pm ²	9,752,294	
Rented	<u>6,496.00 m²</u>	3,092.04 pm ²	<u>20,085,892</u>	
Totals	34,969.09 m²		108,125,825	108,125,825

Contingency		5.00%	5,406,291	5,406,291
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Other Construction

CIL			8,395,292	8,395,292
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PROFESSIONAL FEES

Professional fees		10.00%	10,812,583	10,812,583
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MARKETING & LETTING

Marketing		1.50%	2,958,719	
Letting Agent Fee		15.00%	24,906	
Letting Legal Fee		5.00%	6,216	
				2,989,841

DISPOSAL FEES

Residential sales agent fee		1.25%	2,695,333	
Residential sales legal fee	252.00 un	600.00 /un	151,200	
Commercial sales legal fee		0.50%	11,466	
				2,857,998

MISCELLANEOUS FEES

Profit on private		20.00%	39,334,367	
Profit on affordable		6.00%	1,240,308	
				40,574,675

FINANCE

Debit Rate 7.000% Credit Rate 0.000% (Nominal)				
Land			4,684,990	
Construction			7,436,148	
Other			2,802,385	
Total Finance Cost				14,923,523

TOTAL COSTS

220,734,000

PROFIT

1

46 Ponton Road**Original mix****Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.08%
Equivalent Yield% (Nominal)	7.00%
Equivalent Yield% (True)	7.32%
IRR	6.88%
Rent Cover	0 yrs 0 mths
Profit Erosion (finance rate 7.000%)	0 yrs 0 mths

Appendix 3 - Appraisals (revised mix including FHs)

**Randall Close
With FHs**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private residential units	57	3,930.15	9,655.00	665,712	37,945,598
Intermediate units	10	390.00	4,249.00	165,711	1,657,110
London Affordable Rent units	27	2,104.00	1,969.80	153,498	4,144,459
First Homes	<u>12</u>	<u>468.00</u>	6,759.00	263,601	<u>3,163,212</u>
Totals	106	6,892.15			46,910,379

NET REALISATION

46,910,379

OUTLAY

ACQUISITION COSTS

Residualised Price			2,643,945		
Stamp Duty		4.00%	105,758		
Agent Fee		1.00%	26,439		
Legal Fee		0.50%	13,220		
				2,789,362	

CONSTRUCTION COSTS

Borough CIL			1,910,868		
Mayoral CIL			407,652		
Monitoring costs			8,996		
Carbon off-setting			85,915		
CCTV Contribution			40,000		
Public Art			50,000		
Car Club			4,000		
				2,507,431	

Other Construction

Construction costs			27,848,263		
				27,848,263	

PROFESSIONAL FEES

Professional fees		10.00%	2,784,826		
				2,784,826	

MARKETING & LETTING

Marketing		1.50%	616,632		
				616,632	

DISPOSAL FEES

Sales Agent Fee		1.50%	616,632		
Affordable housing disposal costs			30,000		
Sales Legal Fee	57.00 un	800.00 /un	45,600		

**Randall Close
With FHs**

692,232

Additional Costs

Profit on private	17.50%	6,640,480
Profit on affordable	6.00%	348,094
Profit on First Homes	12.50%	395,402

7,383,975

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)

Land		416,836
Construction		1,758,626
Other		112,194

2,287,657

TOTAL COSTS

46,910,379

PROFIT

0

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%

IRR 6.15%

Profit Erosion (finance rate 6.500%) N/A

**Fallsbrook Road
With FHs**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private residential sales values	20	1,531.00	9,343.00	715,207	14,304,133
Shared ownership	1	66.00	4,112.00	271,392	271,392
Rented	6	403.00	1,969.00	132,251	793,507
First Homes	<u>2</u>	<u>97.00</u>	6,540.00	317,190	<u>634,380</u>
Totals	29	2,097.00			16,003,412

NET REALISATION

16,003,412

OUTLAY

ACQUISITION COSTS

Residualised Price			4,104,492		
Stamp Duty			64,026		
Agent Fee	1.00%		41,045		
Legal Fee	0.50%		20,522		
				4,230,086	

CONSTRUCTION COSTS

Contingency	5.00%		330,200		
Mayoral CIL			58,707		
Borough CIL			276,423		
Carbon off-setting payment			39,780		
Monitoring costs			1,989		
Electric vehicle charging points			7,500		
Controlled parking zone			5,000		
				719,599	

Other Construction

Construction costs			6,604,009		
				6,604,009	

PROFESSIONAL FEES

Professional fees	10.00%		693,421		
				693,421	

MARKETING & LETTING

Marketing	1.50%		224,078		
				224,078	

DISPOSAL FEES

Sales Agent Fee		1.50%	224,078		
Sales Legal Fee	22.00 un	800.00 /un	17,600		
Affordable housing disposal fee			20,000		

**Fallsbrook Road
With FHs**

261,678

Additional Costs

Profit on Private	17.50%	2,503,223
Profit on Affordable	6.00%	16,284
Profit on First Homes	12.50%	79,298

2,598,804

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)

Land		404,310
Construction		259,901
Other		7,526

671,737

TOTAL COSTS**16,003,412****PROFIT****0****Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%

IRR 6.04%

Profit Erosion (finance rate 6.500%) N/A

**2-18 Yelverton Road
Inc FHs**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private housing	53	3,337.00	9,655.00	607,901	32,218,735
Shared ownership units	3	155.00	4,249.00	219,532	658,595
First Homes	5	290.00	6,759.00	392,022	1,960,110
Rented units	<u>13</u>	<u>838.00</u>	1,969.00	126,925	<u>1,650,022</u>
Totals	74	4,620.00			36,487,462

Rental Area Summary

	Units	m ²	Rate m ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Cultural Workspace	1	230.77	260.00	60,000	60,000	60,000
Office - Ground	1	252.97	330.00	83,480	83,480	83,480
Office - Basement	<u>1</u>	<u>96.43</u>	175.00	16,875	<u>16,875</u>	<u>16,875</u>
Totals	3	580.17			160,356	160,356

Investment Valuation

Cultural Workspace

Market Rent	60,000	YP @	6.5000%	15.3846	
(10yrs Rent Free)		PV 10yrs @	6.5000%	0.5327	491,749

Office - Ground

Market Rent	83,480	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	1,205,924

Office - Basement

Market Rent	16,875	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	243,774
					1,941,447

GROSS DEVELOPMENT VALUE

Purchaser's Costs	6.80%	(132,018)			
				(132,018)	

NET DEVELOPMENT VALUE

38,296,890

NET REALISATION

38,296,890

OUTLAY

ACQUISITION COSTS

Residualised Price			787,678
Stamp Duty	4.00%		31,507

APPRAISAL SUMMARY**LICENSED COPY****2-18 Yelverton Road****Inc FHs**

Agent Fee		1.00%	7,877	
Legal Fee		0.50%	3,938	
				831,000

CONSTRUCTION COSTS

Mayoral and Borough CIL			1,851,500	
Section 106 payment			250,000	
				2,101,500

Other Construction

Construction costs			23,456,615	
				23,456,615

PROFESSIONAL FEES

Professional fees		10.00%	2,345,661	
				2,345,661

MARKETING & LETTING

Residential marketing		1.50%	512,683	
Commercial marketing	483.74 m ²	32.29 pm ²	15,620	
Letting Agent Fee		10.00%	10,036	
Letting Legal Fee		5.00%	5,018	
				543,356

DISPOSAL FEES

Residential sales agency fee		1.50%	512,683	
Commercial sales agency fee		1.00%	18,094	
Affordable housing disposal costs			40,000	
Residential sales legal fee	53.00 un	1,000.00 /un	53,000	
Commercial sales legal fee		0.50%	9,047	
				632,824

Additional Costs

Profit on private residential		17.50%	5,638,279	
Profit on commercial		15.00%	291,217	
Profit on affordable		6.00%	138,517	
Profit on First Homes		12.50%	245,014	
				6,313,026

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)				
Land			128,930	
Construction			1,471,239	
Other			472,738	
Total Finance Cost				2,072,907

TOTAL COSTS**38,296,890****PROFIT****0**

**2-18 Yelverton Road
Inc FHs****Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.42%
Equivalent Yield% (Nominal)	6.50%
Equivalent Yield% (True)	6.77%
IRR	6.31%
Rent Cover	0 yrs 0 mths
Profit Erosion (finance rate 6.500%)	N/A

**46 Ponton Road
Incl FHs**

Summary Appraisal for Phase 1 Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private resi	252	17,728.00	10,997.00	773,630	194,954,816
Intermediate	16	946.00	4,840.00	286,165	4,578,640
Rented	63	4,786.00	1,969.00	149,581	9,423,634
Car parking	84	0.00	0.00	35,000	2,940,000
First homes	<u>26</u>	<u>1,378.00</u>	6,759.00	358,227	<u>9,313,902</u>
Totals	441	24,838.00			221,210,992

Rental Area Summary

	Units	m ²	Rate m ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	462.01	269.10	124,327	124,327	124,327
Gym	1	153.01		0	0	
Community	<u>1</u>	<u>310.02</u>	134.55	41,713	<u>41,713</u>	<u>41,713</u>
Totals	3	925.04			166,040	166,040

Investment Valuation

Commercial						
Market Rent	124,327	YP @	7.0000%	14.2857		
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	1,717,019	
Community						
Market Rent	41,713	YP @	7.0000%	14.2857		
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	576,081	
					2,293,100	

GROSS DEVELOPMENT VALUE

223,504,092

Purchaser's Costs	5.80%	(125,709)	(125,709)
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NET DEVELOPMENT VALUE

223,378,383

NET REALISATION

223,378,383

OUTLAY

ACQUISITION COSTS

Residualised Price		26,006,680
Stamp Duty	4.00%	1,040,267
Agent Fee	1.00%	260,067
Legal Fee	0.80%	208,053

**46 Ponton Road
Incl FHs**

27,515,067

CONSTRUCTION COSTS

Construction	m²	Rate m²	Cost	
Commercial	629.35 m ²	3,092.04 pm ²	1,945,975	
Gym	208.43 m ²	3,092.04 pm ²	644,474	
Community	422.31 m ²	3,092.04 pm ²	1,305,799	
Private resi	24,059.00 m ²	3,092.04 pm ²	74,391,390	
Intermediate	1,284.00 m ²	3,092.04 pm ²	3,970,179	
Rented	6,496.00 m ²	3,092.04 pm ²	20,085,892	
First homes	<u>1,870.00 m²</u>	3,092.04 pm ²	<u>5,782,115</u>	
Totals	34,969.09 m²		108,125,825	108,125,825

Contingency		5.00%	5,406,291	5,406,291
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Other Construction

CIL			8,395,292	8,395,292
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PROFESSIONAL FEES

Professional fees		10.00%	10,812,583	10,812,583
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MARKETING & LETTING

Marketing		1.50%	3,098,427	
Letting Agent Fee		15.00%	24,906	
Letting Legal Fee		5.00%	6,216	
				3,129,550

DISPOSAL FEES

Residential sales agent fee		1.25%	2,728,387	
Residential sales legal fee	278.00 un	600.00 /un	166,800	
Commercial sales legal fee		0.50%	11,466	
				2,906,653

MISCELLANEOUS FEES

Profit on private		20.00%	39,334,367	
Profit on affordable		6.00%	840,136	
Profit on first homes		12.50%	1,164,238	
				41,338,741

FINANCE

Debit Rate 7.000% Credit Rate 0.000% (Nominal)				
Land			4,837,765	
Construction			7,909,826	
Other			3,000,789	
Total Finance Cost				15,748,380

TOTAL COSTS

223,378,382

46 Ponton Road
Incl FHs
PROFIT

1

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.07%
Equivalent Yield% (Nominal)	7.00%
Equivalent Yield% (True)	7.32%
IRR	6.89%
Rent Cover	0 yrs 0 mths
Profit Erosion (finance rate 7.000%)	0 yrs 0 mths

Appendix 4 - Appraisals (revised mix, including FHs reflecting LBW affordability criteria)

**Randall Close
With FHs, LBW Intermediate Housing Policy**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private residential units	57	3,930.15	9,655.00	665,712	37,945,598
Intermediate units	10	390.00	4,249.00	165,711	1,657,110
London Affordable Rent units	27	2,104.00	1,969.80	153,498	4,144,459
First Homes	<u>12</u>	<u>468.00</u>	5,793.00	225,927	<u>2,711,124</u>
Totals	106	6,892.15			46,458,291

NET REALISATION

46,458,291

OUTLAY

ACQUISITION COSTS

Residualised Price			2,328,262		
Stamp Duty		4.00%	93,130		
Agent Fee		1.00%	23,283		
Legal Fee		0.50%	11,641		
				2,456,317	

CONSTRUCTION COSTS

Borough CIL			1,910,868		
Mayoral CIL			407,652		
Monitoring costs			8,996		
Carbon off-setting			85,915		
CCTV Contribution			40,000		
Public Art			50,000		
Car Club			4,000		
				2,507,431	

Other Construction

Construction costs			27,848,263		
				27,848,263	

PROFESSIONAL FEES

Professional fees		10.00%	2,784,826		
				2,784,826	

MARKETING & LETTING

Marketing		1.50%	609,851		
				609,851	

DISPOSAL FEES

Sales Agent Fee		1.50%	609,851		
Affordable housing disposal costs			30,000		
Sales Legal Fee	57.00 un	800.00 /un	45,600		

**Randall Close
With FHs, LBW Intermediate Housing Policy**

685,451

Additional Costs

Profit on private	17.50%	6,640,480
Profit on affordable	6.00%	348,094
Profit on First Homes	12.50%	338,891

7,327,464

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)

Land		366,892
Construction		1,758,626
Other		113,170

2,238,689

TOTAL COSTS

46,458,291

PROFIT

0

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%

IRR 6.14%

Profit Erosion (finance rate 6.500%) 0 yrs 0 mths

**Fallsbrook Road
With FHs, LBW Intermediate Housing Policy**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private residential sales values	20	1,531.00	9,343.00	715,207	14,304,133
Shared ownership	1	66.00	4,112.00	271,392	271,392
Rented	6	403.00	1,969.00	132,251	793,507
First Homes	<u>2</u>	<u>97.00</u>	4,671.00	226,544	<u>453,087</u>
Totals	29	2,097.00			15,822,119

NET REALISATION

15,822,119

OUTLAY

ACQUISITION COSTS

Residualised Price			3,966,870		
Stamp Duty			64,026		
Agent Fee		1.00%	39,669		
Legal Fee		0.50%	19,834		
				4,090,400	

CONSTRUCTION COSTS

Contingency		5.00%	330,200		
Mayoral CIL			58,707		
Borough CIL			276,423		
Carbon off-setting payment			39,780		
Monitoring costs			1,989		
Electric vehicle charging points			7,500		
Controlled parking zone			5,000		
				719,599	

Other Construction

Construction costs			6,604,009		
				6,604,009	

PROFESSIONAL FEES

Professional fees		10.00%	693,421		
				693,421	

MARKETING & LETTING

Marketing		1.50%	221,358		
				221,358	

DISPOSAL FEES

Sales Agent Fee		1.50%	221,358		
Sales Legal Fee	22.00 un	800.00 /un	17,600		
Affordable housing disposal fee			20,000		

**Fallsbrook Road
With FHs, LBW Intermediate Housing Policy**

258,958

Additional Costs

Profit on Private	17.50%	2,503,223
Profit on Affordable	6.00%	16,284
Profit on First Homes	12.50%	56,636

2,576,143

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)

Land		390,945
Construction		259,901
Other		7,385

658,231

TOTAL COSTS

15,822,119

PROFIT

0

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%

IRR 6.04%

Profit Erosion (finance rate 6.500%) N/A

APPRAISAL SUMMARY**LICENSED COPY**

2-18 Yelverton Road
Incl FHs, LBW Intermediate Housing Policy

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m²	Rate m²	Unit Price	Gross Sales
Private housing	54	3,399.96	9,655.00	607,901	32,826,636
Shared ownership units	3	155.00	4,249.00	219,532	658,595
First Homes	4	237.00	4,828.00	286,059	1,144,236
Rented units	<u>13</u>	<u>838.00</u>	1,969.00	126,925	<u>1,650,022</u>
Totals	74	4,629.96			36,279,489

Rental Area Summary

	Units	m²	Rate m²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Cultural Workspace	1	230.77	260.00	60,000	60,000	60,000
Office - Ground	1	252.97	330.00	83,480	83,480	83,480
Office - Basement	<u>1</u>	<u>96.43</u>	175.00	16,875	<u>16,875</u>	<u>16,875</u>
Totals	3	580.17			160,356	160,356

Investment Valuation**Cultural Workspace**

Market Rent	60,000	YP @	6.5000%	15.3846	
(10yrs Rent Free)		PV 10yrs @	6.5000%	0.5327	491,749

Office - Ground

Market Rent	83,480	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	1,205,924

Office - Basement

Market Rent	16,875	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	243,774
					1,941,447

GROSS DEVELOPMENT VALUE**38,220,935**

Purchaser's Costs	6.80%	(132,018)	(132,018)
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NET DEVELOPMENT VALUE**38,088,917****NET REALISATION****38,088,917****OUTLAY****ACQUISITION COSTS**

Residualised Price		604,999
Stamp Duty	4.00%	24,200

APPRAISAL SUMMARY**LICENSED COPY****2-18 Yelverton Road****Incl FHs, LBW Intermediate Housing Policy**

Agent Fee		1.00%	6,050	
Legal Fee		0.50%	3,025	
				638,274
CONSTRUCTION COSTS				
Mayoral and Borough CIL			1,851,500	
Section 106 payment			250,000	
				2,101,500
Other Construction				
Construction costs			23,456,615	
				23,456,615
PROFESSIONAL FEES				
Professional fees		10.00%	2,345,661	
				2,345,661
MARKETING & LETTING				
Residential marketing		1.50%	509,563	
Commercial marketing	483.74 m ²	32.29 pm ²	15,620	
Letting Agent Fee		10.00%	10,036	
Letting Legal Fee		5.00%	5,018	
				540,236
DISPOSAL FEES				
Residential sales agency fee		1.50%	509,563	
Commercial sales agency fee		1.00%	18,094	
Affordable housing disposal costs			40,000	
Residential sales legal fee	54.00 un	1,000.00 /un	54,000	
Commercial sales legal fee		0.50%	9,047	
				630,705
Additional Costs				
Profit on private residential		17.50%	5,744,661	
Profit on commercial		15.00%	291,217	
Profit on affordable		6.00%	138,517	
Profit on First Homes		12.50%	143,030	
				6,317,425
FINANCE				
Debit Rate 6.500% Credit Rate 0.000% (Nominal)				
Land			98,828	
Construction			1,471,239	
Other			488,434	
Total Finance Cost				2,058,501
TOTAL COSTS				38,088,917
PROFIT				0

2-18 Yelverton Road**Incl FHs, LBW Intermediate Housing Policy****Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.42%
Equivalent Yield% (Nominal)	6.50%
Equivalent Yield% (True)	6.77%
IRR	6.30%
Rent Cover	0 yrs 0 mths
Profit Erosion (finance rate 6.500%)	N/A

**46 Ponton Road
Incl FHs, LBW Intermediate Housing Policy**

Summary Appraisal for Phase 1 Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m ²	Rate m ²	Unit Price	Gross Sales
Private resi	257	17,992.00	10,997.00	769,876	197,858,024
Intermediate	16	946.00	4,840.00	286,165	4,578,640
Rented	63	4,786.00	1,969.00	149,581	9,423,634
Car parking	84	0.00	0.00	35,000	2,940,000
First homes	<u>21</u>	<u>1,112.00</u>	4,828.00	255,654	<u>5,368,736</u>
Totals	441	24,836.00			220,169,034

Rental Area Summary

	Units	m ²	Rate m ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	462.01	269.10	124,327	124,327	124,327
Gym	1	153.01		0	0	
Community	<u>1</u>	<u>310.02</u>	134.55	41,713	<u>41,713</u>	<u>41,713</u>
Totals	3	925.04			166,040	166,040

Investment Valuation

Commercial					
Market Rent	124,327	YP @	7.0000%	14.2857	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	1,717,019
Community					
Market Rent	41,713	YP @	7.0000%	14.2857	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	576,081
					2,293,100

GROSS DEVELOPMENT VALUE

222,462,134

Purchaser's Costs	5.80%	(125,709)	(125,709)
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NET DEVELOPMENT VALUE

222,336,425

NET REALISATION

222,336,425

OUTLAY

ACQUISITION COSTS

Residualised Price		25,147,481
Stamp Duty	4.00%	1,005,899
Agent Fee	1.00%	251,475
Legal Fee	0.80%	201,180

**46 Ponton Road
Incl FHs, LBW Intermediate Housing Policy**

				26,606,035
CONSTRUCTION COSTS				
Construction	m²	Rate m²	Cost	
Commercial	629.35 m ²	3,092.04 pm ²	1,945,975	
Gym	208.43 m ²	3,092.04 pm ²	644,474	
Community	422.31 m ²	3,092.04 pm ²	1,305,799	
Private resi	24,420.00 m ²	3,092.04 pm ²	75,507,617	
Intermediate	1,284.00 m ²	3,092.04 pm ²	3,970,179	
Rented	6,496.00 m ²	3,092.04 pm ²	20,085,892	
First homes	<u>1,509.00 m²</u>	3,092.04 pm ²	<u>4,665,888</u>	
Totals	34,969.09 m²		108,125,825	108,125,825
Contingency		5.00%	5,406,291	5,406,291
Other Construction				
CIL			8,395,292	8,395,292
PROFESSIONAL FEES				
Professional fees		10.00%	10,812,583	10,812,583
MARKETING & LETTING				
Marketing		1.50%	3,082,798	
Letting Agent Fee		15.00%	24,906	
Letting Legal Fee		5.00%	6,216	
				3,113,920
DISPOSAL FEES				
Residential sales agent fee		1.25%	2,715,363	
Residential sales legal fee	278.00 un	600.00 /un	166,800	
Commercial sales legal fee		0.50%	11,466	
				2,893,628
MISCELLANEOUS FEES				
Profit on private		20.00%	39,915,009	
Profit on affordable		6.00%	840,136	
Profit on first homes		12.50%	671,092	
				41,426,237
FINANCE				
Debit Rate 7.000% Credit Rate 0.000% (Nominal)				
Land			4,677,916	
Construction			7,909,826	
Other			2,968,870	
Total Finance Cost				15,556,613
TOTAL COSTS				222,336,424

46 Ponton Road
Incl FHs, LBW Intermediate Housing Policy
PROFIT

1

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.07%
Equivalent Yield% (Nominal)	7.00%
Equivalent Yield% (True)	7.32%
IRR	6.89%
Rent Cover	0 yrs 0 mths
Profit Erosion (finance rate 7.000%)	0 yrs 0 mths