



Bondfield Avenue

Level 1 - Development Appraisal

NORTHAMPTON BOROUGH COUNCIL

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EXECUTIVE SUMMARY

1. Architecturally, the team have developed two separate options for the site. The higher density scheme contains 6 * 4b7p houses. The lower density scheme contains one unit less with 5 * 4b7p houses and is more likely to be acceptable to the planners. An alternative site layout is provided for the five unit option.
2. The estimated works cost have been estimated by using the BCIS database. Works costs for similar projects were adjusted for both time and location to obtain a m2 rate. This have given us likely works cost in the range of £1,152 to £1,181 per m2 GIA.
3. Construction for the various options is likely to take approximately 12 months from start on site.
4. An RP could expect grant of £16,000 per person for social rented based on grant levels achieved during the most recent bid round. However, it should be noted that grant levels are currently in a state of flux due to the HCA's spending targets. Higher grant levels could potentially be supported although the most recent edition of Inside Housing (Friday 14th August) reported that the HCA will be driving down grant levels in the future.
5. NBC could expect to receive grant of £16,000 per person for social rented schemes. However, this will be limited to 50% of total scheme costs if lower, in line with LA bidding guidance. In terms of this site, the NBC grant is capped at 50% and therefore RSLs do achieve substantially higher grant rates compared to NBC.
6. NBC have provided the authors with their chosen financial assumptions for key elements. Assumptions have been made on some of the more minor financial assumptions such as long term rent and cost inflation.
7. The open market value for the completed units is £200,000 per 4 bed house. As this is a level 1 appraisal, these have not been verified by an independent valuer and are based on internet research and a chat with a local agent.
8. The scheme has been appraised using the Net Present Value method on a discounted cash-flow model.
9. For all options, the scheme costs are approximately 80% to 85% of open market sales values.
10. Both options for the site are comfortable viable to NBC if 50% grant can be obtained. Therefore, we recommend that NBC proceed with a funding bid.
11. The site is viable for all RPs at £16,000 per person grant if land is provided free. However, if land is provided free, grant should be reduced.
12. With NBCs assumptions set as detailed in the report, NBC are between an average and competitive Registered Provider in terms of competitiveness.

SITE OPTIONS

A feasibility study has been undertaken by Bell Phillips Architects to ascertain possible mixes of accommodation for the site. They have proposed two options for the site. The first is 6 no 4 bed houses and the second is 5 no 4 bed houes.

For the second option, there is an alternative layout which is called option 3. However, as the mix of accommodation is exactly the same as option 2, the 3rd option is not appraised separately.

The site layouts and other architectural details of these various options are attached as Appendix D.

The options are summarised below together with our estimate of the open market value for each property type. Comparables are shown in Appendix C.

OPTION 1								
TYPE	UNITS	BEDS	PERSONS	HAB ROOMS	NIA	CIRC'	GIA	OMV
4BH	6	4	7	5	115	0	115	£200,000
TOTALS	6	24	42	30	690	0	690	£1,200,000

OPTION 2								
TYPE	UNITS	BEDS	PERSONS	HAB ROOMS	NIA	CIRC'	GIA	OMV
4BH	5	4	7	5	115	0	115	£200,000
TOTALS	5	20	35	25	575	0	575	£1,000,000

WORKS COSTS

Works costs are the major cost item by far given that there is no land value. A search has been undertaken on the Building Cost Information Service (BCIS) to gather details from comparable projects. The results gathered from BCIS are shown in Appendix A for reference

Residential construction projects were searched using the following criteria which found 14 matching projects on BCIS:

- Houses only
- New Build Only
- Gross Internal Floor Area (GIFA) between 300 & 1200
- No Air Conditioning
- No Basement
- Sites from 2001 onwards
- 2 Story only

The results were then adjusted to current prices (Q3 2009) and also adjusted for location (Northamptonshire) to get equivalent M2 rates.

The range of M2 rates ranged from £578 to £956. However, most projects were within the range of £700 to £850 looking at the graph in Appendix A.

Given the higher specification of social housing, we have made adjustments below, but used the average (median) as a basis for building up the works costs. The median works costs has a M2 rate of £740 per m2, which excludes external works, uplifts for Code for sustainable homes and contractors contingencies. Note that this is almost £200 less than the previous analysis which reflects the fact that houses cost less than flats to build and prices have fallen.

The works costs used in the appraisals is calculated on the following basis:

- Demolition: £25,000
- External Works: £50,000
- Main Works: £740 per M2
- CSH Level 4: £12,500 per unit
- Performance Bond £10,000
- Building Insurance £1,000 per unit
- Contractors Design: 7.5%
- Contractor Contingencies: 10% (Design & Build)

Using the above calculations we arrived at the following works costs.

	Option 1 - Six Unit Scheme	Option 2 - Five Unit Scheme
Works	£795,005	£679,150
Gross Internal Area	690m2	575m2
Works per M2 GIA	£1,152	£1,181
Works cost per unit	£132,501	£135,830

CODE FOR SUSTAINABLE HOMES - LEVEL 3

The above calculations assumed that a CSH level 4 would be required. An allowance of £12,500 per unit was allowed for this above the non-CSH schemes used as comparables.

The cost for obtaining the various CSH levels varies dramatically with unit types, each site and how the code is achieved. Therefore, for an initial appraisal such as this, the figures will be somewhat ballpark.

The typical cost per unit of achieving the various CSH levels is shown below.

Code level	Likely Costs per unit
CSH Level 1	£0
CSH Level 2	£1,000 to £1,800
CSH Level 3	£1,600 to £4,400
CSH Level 4	£5,000 to £16,000
CSH Level 5	£14,000 to £30,000

If CSH level 3 were obtained instead of CSH level 4, then I would expect the works cost to fall by approximately £8,000 per unit. This would therefore reduce the works cost by £48,000 for the 6 unit option and £40,000 for the 5 unit option.

The increase in NPV as a result of these changes would be about £50,000 for the 6 unit scheme and £42,000 for the 5 unit scheme. The reason for the increase being greater than the change in works levels is due to the fact that some professional fees based on works will reduce and so will interest costs.

ON-COSTS ESTIMATES

The On-Cost levels vary widely depending on how consultants are procured, the volume of work and complexity and schedule of services required on each project. The on-cost levels in the following table have been used in the feasibilities.

ON COST HEADING	AMOUNT OR RATE	BASIS
Soil Survey	£3,000 up to 20 units £4,000 for 20 to 50 units £5,000 above 50 units	Typical rates for Soil Surveys
Topographical Survey	£2,000 up to 20 units £2,500 for 20 to 50 units £3,000 above 50 units	Typical rates for Topographical Surveys
Other Surveys	£10,000	Allowance for other surveys that may be required such as asbestos surveys etc...
Valuation	£75 per unit	Achievable rate for ad hoc valuations
Legal Fees (Acquisition)	£5,000	Although land is already owned, work may be required concerning statutory services, covenants etc...
Legal Disbursements	£400	For searches, environmental reports etc...
Stamp Duty	Zero	No land transaction, and RPs are exempt if building for social housing
Land Finder	Zero	Not used
Planning Application Fee	£335 per unit	Rate per unit for submission fees
s106 Contribution	£3,000 per unit	Allowance for any s106 commuted sum
Architect	2.0% of works costs	Allowance for work to Stage D
Architect Disbursement	£1,000	Allowance for any models required or specialist presentation drawings
Employers Agent	2% of works	Based on Contract Sum Excluding VAT
Employers Agent Disbursement	Zero	No foreseeable disbursements
CDM Coordinator	0.5% of works	Achievable rate
CDM Coordinator Disbursements	£500	For H&S manual printing and other disbursements
Clerk of Works	0.75% of works	Achievable rate for weekly inspections
Building Regs	Zero	Included within works costs
NHBC/Zurich...	Zero	Included within works costs
Party Wall Fees	£5,000 per site	Estimate
Performance Bond	Zero	Included within works costs
Marketing Allowances	£5,000 per unit	Reasonable allowance for shared ownership/private units
Sales/Legal Fees	£600 per unit	Reasonable allowance for legal fees to sell shared ownership/private units
Contingency	3% of works	Normally within 2%-5% for D&B projects
Development Allowances	4%	Normally within 3% to 5%
Capitalised Interest	Various	Scheme specific based on cost/income profile and interest rate

TIMETABLE

The timing of the project and the drawdown of grant will have an effect on the amount of capitalised interest paid.

If NBC are to develop the site themselves or via an agent, there will be no acquisition sum. Therefore, in this instance, the duration of the works contract and letting period post completion will be the major factors in the determination of interest.

For a simple scheme under 25 units with no unusual site constraints it is reasonable to assume that the scheme can be delivered within a 12 month build period. Therefore, a period of 12 months has been assumed for all options irrespective of whether NBC develop the site themselves or sell it on to a RP.

There are lead-in periods for obtaining planning permission and some fees will be paid prior to start on site. However, these are relatively small amounts and have no significant impact the interest charged.

The assumed timetable for the development is detailed below

Event	Date
Exchange of Contracts	September 2009
Purchase Completion	September 2009
Planning Consent	December 2009
Start on Site	March 2010
Practical Completion	March 2011
Letting	April 2011

GRANT ASSUMPTIONS

Grant obtainable from the HCA can be estimated by looking at previous allocations and making a judgement if more or less grant is obtainable in the current market.

GRANT OBTAINABLE BY REGISTERED PROVIDERS

The last major bid round was for funding in 2008/2011 and therefore the allocations received following that bid round have been used as a basis to calculate the grant obtainable.

The tables below show the allocations awarded in Northampton for both rent and shared ownership bids together with the total allocations and average grant per person & per unit.

2008-2011 - RENTED NEWBUILD ALLOCATIONS ACHIEVED						
Lead Partner Organisation Name	Project Description	Grant	No of Units	No of Persons	Grant per Unit	Grant per Person
PCHA	Booth Rise	2,550,000	54	255	47,222	10,000
The Guinness Trust	MID Hazelwood Road	540,000	12	26	45,000	20,769
Orbit	Spencer St, Northampton	480,000	12	24	40,000	20,000
PCHA	Royal Mail Sorting Office,	4,158,000	77	254	54,000	16,370
Metropolitan	Upton Phase 2	2,378,000	41	173	58,000	13,746
Longhurst Group Limited	Arlington Mercedes	2,100,000	54	162	38,889	12,963
Logic Homes Ltd	Gate Lodge, Thorpeville	940,000	19	100	49,474	9,400
	TOTAL	13,146,000	269	994	48,870	13,225

2008-2011 - LCHO NEWBUILD ALLOCATIONS ACHIEVED						
Lead Partner Organisation Name	Project Description	Grant	No of Units	No of Persons	Grant per Unit	Grant per Person
PCHA	Booth Rise,	1,080,000	54	214	20,000	5,047
The Guinness Trust	MID Hazelwood Road,	126,000	6	17	21,000	7,412
PCHA	Royal Mail Sorting Office,	608,000	32	130	19,000	4,677
Metropolitan	Upton Phase 2	360,000	12	42	30,000	8,571
Longhurst Group Limited	Arlington Mercedes	675,000	24	72	28,125	9,375
Logic Homes Ltd	Gate Lodge, Thorpeville,	332,500	19	76	17,500	4,375
	TOTAL	3,181,500	147	551	21,643	5,774

It is assumed that the above allocations included an acquisition element as the allocation statement did not show any free land or other public subsidy. Therefore, the figures above are likely to be for acquisition and works schemes.

Given the slippage in grant take up and the desire for the HCA to deliver as many units as possible, it is assumed that higher grant rates could be achieved by Registered Providers for current schemes compared to those achieved in 2008/11. Therefore, for the purpose of this appraisal exercise, we have uplifted the grant achieved in 2008/11 by 20% and then rounded it to the nearest £500 on a per person basis. This gives us the following grant rates which we have used in our appraisals.

TENURE	GRANT PER PERSON FOR REGISTERED PROVIDERS
Social Rented	£16,000
LCHO	£7,000

It should be noted that anecdotally there are some very high grant levels being supported currently as the HCA concentrates on attempting to bring forward stalled projects and RSLs are re-profiling their financial appraisals and appetite for risk. Therefore it is difficult to estimate grant levels that could potentially be achieved in this economic climate when expectations are shifting very rapidly in the market.

NBC GRANT OBTAINABLE

It is assumed that NBC will not be able to achieve a grant per person in excess of that obtainable by the registered providers. This is a reasonable assumption not in the least because the schemes will be works only instead of acquisition and works.

In addition to the above, the HCA's bidding guidance for Local Authorities states that grant will be a maximum of 50% of total costs with the rest supported by borrowing.

Therefore, the grant rates used in the appraisals where NBC develop the land themselves (either via an agent or direct) will be as follows.

TENURE	GRANT PER PERSON NBC
Social Rented	lowest of 50% or £16,000
LCHO	Not an option for NBC

FINANCIAL ASSUMPTIONS USED

The financial assumptions used in undertaking a site assessment vary hugely across the social housing sector. The levels of some of these assumptions are more important than the capital costs themselves in determining site feasibility.

The key assumptions which determine the viability of social rented schemes if using the NPV method are the discount rate, cashflow projection period and on-going running costs. The other assumptions will have a significant effect, but less so.

In regards to shared ownership products, the assumption of whether or not staircasing occurs combined with the predicted house price inflation factor has a dramatic impact on scheme viabilities. Those developers that assume staircasing will occur will be able to pay dramatically higher prices for land or develop with dramatically reduced grant levels compared to those that assume staircasing will not occur.

	RP CAUTIOUS	RP TYPICAL	RP BULLISH	NBC
Rent Inflation (social rent)	2.5%	2.5%	2.5%	2.5%
Rent Inflation (shared ownership)	3.0%	3.0%	3.0%	3.0%
Management Cost Inflation	4.0%	3.5%	3.0%	3.0%
Maintenance Cost Inflation	4.0%	3.5%	3.0%	3.0%
Major Repairs Cost Inflation	4.0%	3.5%	3.0%	3.0%
Property Value Inflation	2.5%	3.5%	5.0%	3.5%
Target Rent Inflation to initial letting	2.5%	2.5%	2.5%	2.5%
NPV Period in years	30	45	60	50
Discount rate	6.5%	6.0%	5.5%	4.79%
Long Term Interest Rate	6.5%	6.0%	5.5%	4.79%
Standard Repayment Mortgage Length	30	45	60	50
Short Term Interest Rate (for cap int)	6.5%	6.0%	5.5%	4.79%
Short Term Deposit Rate (for cap int)	0%	0%	0%	0%
Weeks Per Year	52.18	52.18	52.18	52.18
VAT Standard Rate	15%	15%	15%	0%
Management Costs (Social Rent)	£700	£550	£400	£0
Maintenance Costs (New Build)	£700	£550	£400	£1,000
Maintenance Costs (Refurbishment)	£800	£600	£400	N/A
Sinking fund (Unit based option)	N/A	N/A	N/A	£838
Rebuild Costs (£/m2)	£1,300	£1,100	£900	N/A
Sinking Fund Start Year	1	3	5	11
Sinking fund rate (New Build)	0.8%	0.6%	0.4%	N/A
Sinking fund rate (Refurbishment)	1.0%	0.8%	0.6%	N/A
Void rate	3%	2%	2%	2.0%
Bad Debts	1%	1%	1%	1.0%
Void Period from PC (Rent)	1	1	1	1
Development Allowance	4%	4%	4%	4%

RESULTS FOR SOCIAL RENTED SCHEMES

Financial appraisals of the five and six unit options have been done using cautious, typical and bullish RP assumptions as well as NBC assumptions. These appraisals are all based on a 100% socially rented units. Therefore, 8 appraisals were done in total. A summary of the results are below, but details of each appraisal can be seen in Appendix B.

In order to compare like with like, the land value has been kept at zero in all options.

OPTION 1 - 6 UNITS				
	RP CAUTIOUS	RP TYPICAL	RP BULLISH	NBC
Works	£795,005	£795,005	£795,005	£795,005
On-Costs	£170,300	£169,107	£167,919	£160,254
TOTAL COSTS	£965,305	£964,112	£962,924	£955,259
Grant	£672,000	£672,000	£672,000	£477,629
Borrowing	£293,305	£292,112	£290,924	£477,630
TOTAL FINANCE	£965,305	£964,112	£962,924	£955,259
Cost/Value Ratio	80%	80%	80%	80%
NPV	£147,602	£360,829	£606,082	£281,999
1st Year Net Rent	£25,445	£27,598	£29,398	£28,374
1st Year Interest	£19,065	£17,527	£16,001	£22,878
Surplus/Deficit per unit	£1,063	£1,679	£2,233	£916

OPTION 2 - 5 UNITS				
	RP CAUTIOUS	RP TYPICAL	RP BULLISH	NBC
Works	£679,150	£679,150	£679,150	£679,150
On-Costs	£150,367	£149,284	£148,205	£140,571
TOTAL COSTS	£829,517	£828,434	£827,355	£819,721
Grant	£560,000	£560,000	£560,000	£409,861
Borrowing	£269,517	£268,434	£267,355	£409,860
TOTAL FINANCE	£829,517	£828,434	£827,355	£819,721
Cost/Value Ratio	83%	83%	83%	83%
NPV	£97,906	£275,684	£480,149	£223,164
1st Year Net Rent	£21,204	£22,998	£24,498	£23,645
1st Year Interest	£17,519	£16,106	£14,705	£19,632
Surplus/Deficit per unit	£737	£1,378	£1,959	£803

From the tables above, it is clear as expected that both options are similar in terms of financial viability. There is a financial advantage in building the larger scheme as each unit generates a return, so the more units, the higher the return. In addition some efficiencies are achieved on the on-costs.

Although option 1 is better than option 2, it is clear in the report by Bell Phillips Architects that the six-unit option may be tricky to get through planning as there are issues regarding distances to boundaries, parking and the size of gardens. If the six unit scheme is achievable, then that should be the preferred option from a financial perspective as it houses more people and has the greatest NPV.

Despite the six unit option performing best financially, the five unit option still performs well. The design of the 5 unit scheme would seem to generate a better quality development with its large gardens that would obviously improve quality of life for the seven-person households that the units house.

In all options, any RSL and NBC obtain a positive NPV which would indicate that the scheme is viable to those organisations. This is stark contrast to the site at Woodfield Way where the finances did not stack up as well.

This is good news and it means that NBC would be on a sound financial footing if they were to submit a bid for grant and based on the work undertaken within this report, we would therefore recommend that NBC do submit a bid for grant on this scheme.

If NBC were to sell the site to a competitive RP which used the same financial assumptions that we have, NBC **may** be able to obtain a land receipt roughly equivalent to the Net Present Value. I.e., NBC could receive approximately £606k for the 6 unit scheme, or £480k for the 5 unit.

To pay NBC the above land values, it would require the RP in question to be unconcerned about a cost/value ratio above 100%. It is common for RPs to limit the maximum cost to value for rented housing to a level between 100% and 120%. The table below shows the maximum land offer NBC could expect to receive if cost/value was limited at 110%.

	Option 1 - 6 Units	Option 2 - 5 Units
Open market value	£1,200,000	£1,000,000
110% of open market value	£1,320,000	£1,100,000
Maximum Scheme Costs	£1,320,000	£1,100,000
All cost except land	£962,924	£827,355
Residual Land Value	£357,076	£272,645

How do NBC compare?

Comfort can be taken from the financial appraisal results as NBC are between a typical and a bullish RPs in terms of competitiveness. The borrowing over 50 years combined with the lower discount rate of 4.79% results in an increased capitalised value of the rental stream. However, the higher maintenance costs of £1,000 per unit go against NBC, but this is offset by the absence of management costs.

As the NBC calculations involve a lower grant rate (capped at 50% instead of £16,000 per person for an RSL), the NPV does not tell the full story in terms of the value of the revenue stream. Instead, the competitiveness of NBCs assumptions are best examined by looking at the capitalised value of the rental stream, i.e., the 'Affordable loan'.

	Option 1 - Six Units	Option 2 - Five Units
Cautious RSL Affordable loan	£440,907	£367,422
Average RSL Affordable loan	£652,942	£544,118
Bullish RSL Affordable loan	£897,006	£747,505
NBC RSL Affordable loan	£759,629	£633,024

The table above shows that the financial assumptions used by NBC result in them being towards the higher end of the market in terms of competitiveness. Therefore, there can be little doubt that NBC are being over cautious in their approach, whilst it is clear that NBC are not being too bullish as some of the extremely bullish RSLs would still be able to outbid them in a competitive situation.

CONCLUSION & RECOMMENDATIONS

The report has shown that five or six four-bedroom houses can be built on the site.

If the site was to be sold to an RSL, NBC could expect to receive a land receipt in the region of £250,000 to £400,000 if grant were available.

Based on the assumptions given, NBC could comfortably develop the site themselves; constructing either 5 or 6 units on the site with a strong net present value.

We conclude by recommending as before that NBC should consider the financial assumptions used in this report and decide if they need to be tweaked. The key assumptions have been provided by NBC, but there are still others made here such as rent inflation and maintenance inflation.

Subject to agreement of the financial assumption levels, we would recommend that NBC move forward with either scheme.

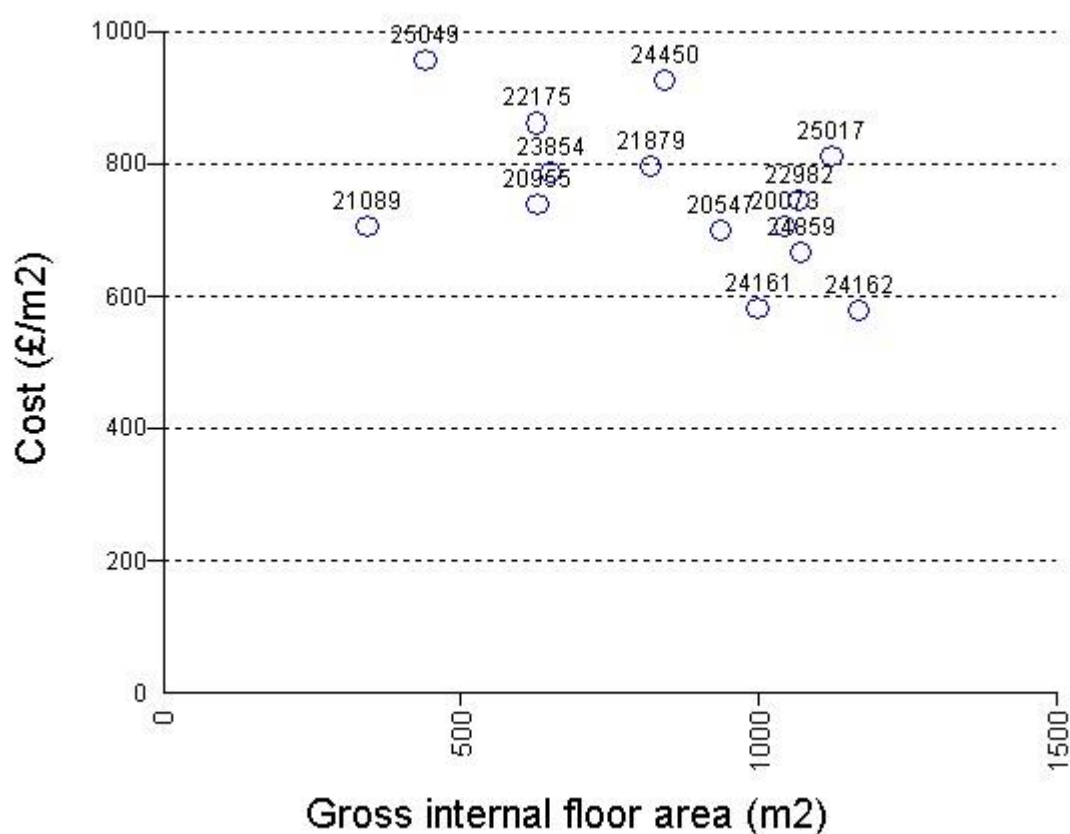
APPENDIX A

BCIS RESULTS: Statistical Summary

Price per m² gross internal floor area for the building, excluding external works and contingencies and with preliminaries apportioned by cost. Adjusted to a location index of 95 (Northamptonshire (Index: 95, Sample: 137)) . 14 Projects found

Mean	Median	Range	Standard Deviation	Sample
753	740	578 - 956	113	14

Deciles									Quartiles	
1	2	3	4	5	6	7	8	9	1 st	3 rd
607	685	704	711	740	778	797	831	907	700	807



SITE APPRAISALS