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Establishing an approach to affordable housing payments in lieu in Royal Borough of Kensington & Chelsea

Prepared for

Royal Borough of Kensington & Chelsea

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1 Introduction

BNP Paribas Real Estate has been commissioned by the Royal Borough of Kensington & Chelsea ('the Council') to advise on its approach to securing payments in lieu of on-site affordable housing on developments in the Borough. We understand that it is the Council's intention to seek payments in lieu for smaller developments (up to 1,200m2), but the methodologies we discuss in this report are also applicable to larger sites.

This study is compromised of the following elements with regards to seeking payments in lieu of on-site affordable housing:

- Review the approaches to securing commuted sums from small residential sites in the Council's emerging Policy CH2 and those adopted by other authorities (approaches adopted by Mole Valley, Elmbridge, Richmond and Wandsworth councils typify the various approaches);
- Explore the possibility of setting a payment in lieu per square metre and consider whether this should vary between different parts of the Borough;
- Consider the extent to which payments in lieu can reflect land costs;
- Develop an approach for RBKC that builds on the best aspects of the approach suggested in Policy CH2 and from other local authorities;
- Develop a simplified approach for developers and the Council to establish the viability of small sites and the ability of developers of such sites to meet the Council's affordable housing requirements; and
- Consider how this simplified approach to testing viability might dovetail with a formula or mechanism for calculating commuted sums.

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 fourteen offices within the United Kingdom and over sixty offices in key commercial centres in Europe, the United States of America and the Asian and Pacific regions.

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').

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

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. We were appointed again in 2011 by the GLA to review the Three Dragons model and our recommendations to the GLA are being considered.

In addition, we were recently retained by the Homes and Communities Agency ('HCA') to advise on better management of procurement of affordable housing through planning obligations. We are also advisors to the Planning Advisory

Service on Community Infrastructure Levy. Anthony Lee was also a member of the working group under the leadership of Sir John Harman, which drafted the Local Housing Delivery Group publication '*Viability Testing Local Plans: Advice to planning practitioners*' (June 2012).

1.2 Report structure

This report is structured as follows:

Section two evaluates the Council's approach in Policy CH2 and considers approaches to securing payments in lieu from three other local authorities

Section three considers how these approaches might be taken forward in the RBKC context; and

Section four sets out our conclusions and recommendations.

1.3 The status of our advice

This report contains several appraisals of hypothetical development scenarios. These appraisals do not constitute valuations; in accordance with PS 1.6 of the RICS Valuation – Professional Standards (January 2014 Edition) (the 'Red Book'), the provisions of VPS 1 to VPS 4 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation.

This report is addressed to Royal Borough of Kensington & Chelsea only and should not be reproduced without our prior consent.

2 Policy background

This section briefly summarises national and regional policy and guidance, the Council's CIL charging schedule and emerging affordable housing policies which are being considered as part of the Core Strategy review.

2.1 The National Planning Policy Framework

Since the Council adopted its Core Strategy, the old suite of planning policy statements and planning policy guidance has been replaced by a single document – the National Planning Policy Framework ('NPPF'). The NPPF has subsequently been supplemented by the National Planning Practice Guidance ('NPPG') on Viability.

The NPPF provides more in-depth guidance on viability of development than Planning Policy Statement 3, which limited its attention to requiring local planning authorities to test the viability of their affordable housing targets. The NPPF requires that local planning authorities have regard to the impact on viability of the cumulative effect of all their planning requirements on viability. Paragraph 173 of the NPPF requires that local planning authorities give careful attention "*to viability and costs in plan-making and decision-taking*". The NPPF requires that *"the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened*". After taking account of policy requirements, land values should be sufficient to "*provide competitive returns to a willing landowner and willing developer*".

The meaning of a "*competitive return*" has been the subject of considerable debate over the past year. For the purposes of testing the viability of a Local Plan, the Local Housing Delivery Group has concluded that the current use value of a site (or a credible alternative use value) plus an appropriate uplift, represents a competitive return to a landowner. Some members of the RICS consider that a competitive return is determined by market value, although there is no consensus around this view.

2.2 NPPG

The NPPG on Viability stresses the need for evidence in viability to ensure that Local Plan vision and policies are realistic and provide "*high level assurance*" that plan policies are viable (paragraph 005). Evidence should be proportionate and not every site needs to be tested.

The NPPG goes on to indicate that local planning authorities should consider the range of costs on development, including those imposed through national and local standards; local policies; the Community Infrastructure Levy; and potential Section 106 obligations.

The NPPG indicates that local plan policies should be tested using current costs and current values, and not based on "*an expectation of future rises in values at least for the first five years of the plan period*" (paragraph 008).

It is also important to note that the NPPG on Planning Obligations was amended in November 2014 (and further amended in March 2015) to introduce a 'threshold' for affordable housing contributions and 'tariff style' planning obligations of ≥11 units or >1,000sqm (paragraphs 012-020), as well as a 'vacant building credit' (paragraphs 021-023) following a written ministerial statement[1]. The guidance was removed following the judgement on 31 July 2015 in R (on the application of West Berkshire District Council and Reading Borough Council) v Secretary of State for Communities and Local Government [2015] EWHC 2222 (admin).

2.3 London Plan

London Plan policy 3.12C states that '*Affordable housing should normally be provided on-site. In exceptional cases where it can be demonstrated robustly that this is not appropriate in terms of the policies in this Plan, it may be provided off-site. A cash in lieu contribution should only be accepted where this would have demonstrable benefits in furthering the affordable housing and other policies in this Plan and should be ring-fenced and, if appropriate, pooled to secure additional affordable housing either on identified sites elsewhere or as part of an agreed programme for provision of affordable housing'*.

The Mayor's 'Draft Interim Housing Supplementary Planning Guidance' provides example of exceptional circumstances where payments in lieu of onsite affordable housing may be appropriate which include where it would be possible to:

- Secure a higher provision;
- Better address priority needs, especially for affordable family housing;
- Secure a more balanced community.

2.4 RBKC CIL charging schedule

The CIL Draft Charging Schedule was published for consultation between 21 January 2014 and 23 February 2014. It was subsequently submitted for examination, with hearings taking place on 9 June 2014 and 14 October 2014. The Examiner's report was published on 22 December 2014.

The Charging Schedule was approved by a meeting of the Full Council on 21 January 2015 and came into effect in April 2015.

The Charging Schedule, as amended by the Examiner[2], contains the following levy rates on residential development:

Zone	Residential (C3 and short-term lets)	Extra-care housing
A	£750	£510
B	£590	£230
C	£430	£300
D	£270	£160
E	£190	£0
F	£110	£0
G (Earl's Court)	£0	£0
H (Kensal Strategic Site)	£0	£0

A map showing the boundaries of each zone is attached at Appendix 1. The zones broadly align with different postcodes within the Borough, as follows:

[1] Written Ministerial Statement: Small-scale developers, 28 November 2014 https://www.gov.uk/government/speeches/small-scale-developers

[2] The Examiner proposed that a new nil rated zone be created around the strategic development at the Kensal Gas Works site (the Draft Charging Schedule had proposed a £110 per square metre charge) and that the levy for Extra-care housing in zones E and F be reduced from the proposed £20 per square charge to nil.

- Zone SW1X
- Zone B: SW3, SW7 and SW1W
- Zone C: W8
- Zone D: SW5 and SW10
- Zone E: W14
- Zone F: W10
- Zone G: The Earl's Court Exhibition Centre site
- Zone H: The Kensal gasworks site

In addition to the rates on residential development outlined above, the Charging Schedule also applies a levy of £160 per square metre on hotel developments and £125 per square metre on student housing in all Zones except Zones G and H where a £0 per square metre charge is applied. All other types of development are nil rated.

The Charging Schedule was based on evidence prepared by BNP Paribas Real Estate comprising:

- Viability Study (October 2012); and
- Additional Viability Testing (January 2014).

2.5 Core strategy affordable housing policies

The Council adopted the Core Strategy on 8 December 2010. Policy CH 2 requires developments to "*provide affordable housing at 50% by floor area on residential floorspace in excess of 800 sq.m gross external area*".

For schemes where floorspace exceeds 800 square metres (GEA) but is less than 1,200 square metres (GEA), developments are required to satisfy the requirement for affordable housing through a payment in lieu.

Developments of 1,200 square metres (GEA) or more are required to provide affordable housing on-site "*unless exceptional circumstances exist*".

Developers may seek to reduce their affordable housing obligations through the submission of a viability assessment which demonstrates the maximum reasonable amount that can be viably provided.

The Core Strategy's viability evidence base comprised an Affordable Housing Viability Study (June 2010).

2.6 Revised Planning Obligations SPD

The Council adopted its Planning Obligations SPD in August 2010. Sections 16 to 29 set out the Council's approach to seeking affordable housing obligations in more detail. The Council intends to revise it Planning Obligations SPD in due course to reflect changes in policy and legislation.

3 Approaches to securing payments in lieu

3.1.1 The current policy and potential changes

The Council's 'Affordable Housing Viability Assessment' (June 2010)[3] concluded that "*The Royal Borough envisaged a threshold based on minimum total gross floorspace which then matched the use of floorspace as a target measure. The proposed threshold [of] 8,600 sq ft (800 sq m) corresponds to the London Plan proposed minimum of ten. Of the four sites with less than 15 dwellings but more than 800 sq m gross floorspace [that were tested in the Study], three were viable at 40%, a slightly better proportion than for sites of 15 dwellings plus. We concluded that the proposed threshold was acceptable*".

The Council's current policy (CH2) of the Core Strategy requires affordable housing provision in the form of a commuted sum where the net increase in floorspace is between 800 to 1,200 square metres (GEA). The 800 sqm of floorspace is equivalent to 10 residential units. The methodology behind these floorspace thresholds is detailed in Core Strategy paragraphs 40.2.5 – 40.2.13. This requirement is subject to scheme-specific viability.

The Council currently seeks a financial contribution of £2,500 per square metre of net additional floorspace, which we review in this report. The methodology behind the existing financial contribution amount of £2,500 per square metre is set out in Chapter 24 of the Planning Obligations Supplementary Planning Document (SPD) (August 2010) – based on the former Housing Corporation Total Cost Indicator (TCI).

The Council now proposes changing Policy CH2, so that the affordable housing requirement is calculated on the entire proposed floorspace, not just the net increase in floorspace.

Policy CH2 prescribes that for schemes of 1,201 square metres or more, on site affordable housing is required. This is another aspect of the policy that we review in this report.

3.1.2 Why a review is required

The Council's requirement for a payment in lieu of £2,500 per square metre of net additional floorspace is generating a fund which can be used to develop affordable housing. However, within a very densely developed borough such as RBKC, land typically has high existing use values and the Council is concerned that the financial contributions, which are based on build costs and do not include land costs, are not always sufficient to deliver affordable housing to meet the needs identified.

The challenge for the Council is therefore to develop an approach that can be relatively easy to apply to individual schemes, as well as providing a simple way of determining viability, but also generating sufficient funding to deliver off-site affordable units.

The Council recognises the practical difficulties of securing affordable housing on-site on smaller schemes and therefore accepts that a payment in lieu might be preferable in many cases. Although the Council currently has a single rate per square metre, the ability of schemes to make financial contributions in-lieu inevitably varies between sites and areas. It is therefore likely that an area

[3] Fordham Research

based approach may be required, or alternatively the Council could assess the level of financial contribution on a site by site basis.

Some councils outside London have sought to adopt standard charge approaches that result in a fixed payment per unit. This approach does not lend itself well to the RBKC context, where developments are heterogeneous. Other London boroughs find themselves in a similar situation, which has resulted in a variety of formula based approaches. We have identified three formula based approaches for further consideration; Richmond, Wandsworth and Mole Valley.

3.2 Approaches adopted or proposed by other councils

In this section, we consider the approaches adopted or proposed by other councils. Mole Valley adopted their approach in February 2010; Wandsworth completed their consultation at the end of August 2012 and have incorporated their approach into their draft Supplementary Planning Document on Planning Obligations (October 2014); and Richmond adopted their approach in an Affordable Housing SPD, adopted on 6 March 2014.

3.2.1 Mole Valley

Mole Valley's formula based contribution applies for schemes of between 1 and 9 units. The Council has indicated that it may also use the formula in exceptional circumstances when sites of 10 or more units are to provide a payment in lieu.

The formula is summarised as follows:

- Market value of each unit in the development is determined (by reference of comparable evidence);
- The value per square metre is calculated by dividing the total value by the unit's floor area;
- The equivalent market value of a unit of an equivalent size to an affordable housing unit is calculated. If for example, a four bed unit is 173 square metres and an equivalent affordable 4 bed unit is 100 square metres, the market value on a per square metre basis would be applied to a 100 square metre unit;
- A 'residual value' or 'plot value' is determined by taking 30% of the 'market value' of an affordable-sized unit and adding 15% for acquisition fees and site servicing. 30% is a broad 'rule of thumb' for land value as a percentage of Gross Development Value;
- The Council's policy requires 20% affordable, so the payment in lieu is based on 20% of the resulting 'plot value' figure applied across the scheme.

The Council's adopted Affordable Housing Supplementary Planning Document ('SPD') provides the following example of the calculation:

1 x 4-bed house Open Market Value (OMV)[4] - £495,000 Size – 173 sqm (m^2) Guide size for a suitable affordable home – 100 m^2.

[4] The term 'Open Market Value' is no longer used by the RICS and has been replaced with 'Market Value'.

Step 1: Open market value (OMV) of a relevant or comparative property divided by the size of the property and multiplied by the appropriate affordable housing size that would have been required on site.

£495,000 / 173 m² = £2,861 per m²

£2,861 per m² x 100m² = £286,127

Step 2: Multiply the OMV (completed sale value, or GDV) by the residual land value percentage (30%)

£286,127 x 30% = £85,838 (base land / plot value)

Step 3: Add 15% to the step 2 result to reflect site acquisition and servicing costs (this gives the per unit sum for that property type)

£85,838 + 15% = £98,714

Step 4: Apply to the relevant number of units and affordable housing policy requirement (i.e. 20%)

£98,714 x 20% = Required sum £19,742

Source: Mole Valley 'Affordable Housing Supplementary Planning Document' Adopted July 2014

3.2.2 Evaluation

The key attraction of this approach is its simplicity, ease of calculation and narrow range of inputs that will need to be evidenced (only sales values will require evidence in some form). It is likely, therefore, that the question of how much a payment in lieu will be for a particular development can be answered with minimal call on officers' time.

However, this simple approach lends itself well to an area with fairly homogenous developments, predominantly in the form of houses rather than flats. Key issues for the approach in RBKC if the Council were to adopt it are set out in the following paragraphs.

Issue 1: Adjustment to floor area (i.e. equivalent provision of an 'appropriate' affordable housing unit size. Although it is recognised that affordable housing units are sometimes smaller than market housing units, we question whether the adjustment is appropriate. Taking Mole Valley's example, it appears that the Developer receives a double benefit; not only does it not have to provide an affordable unit on site, the private unit is larger than the affordable housing unit would otherwise have been. There is the 'uplift' in value on the 100 square metre affordable housing unit, but in addition to that, the developer has an additional 73 square metres to sell at full market value. Had the developer provided the 100 square metre affordable unit on site, it may well have provided an additional 73 square metre unit to maximise value. The formula approach does not recognise this additional value.

Issue 2: Linked to Issue 1. Step 2 involves multiplying the GDV of the unit (adjusted for size) by 30% to arrive at a 'land value' or 'plot value'. 15% is then added for land acquisition and site servicing costs.

The difficulty with this approach is that the 30% used to arrive at a land or plot value is completely arbitrary and may not be at all reflective of individual site circumstances. Given the very diverse range of developments in the Borough, it is unlikely that it would be possible to arrive at a percentage that would reflect all developments, even at a very high level.

We would also question whether the addition of 15% to the land value to cover site servicing costs *in addition to* site acquisition costs is an appropriate method of calculation. Site servicing costs may be more limited in RBKC, where previously undeveloped sites are virtually non-existent (sites almost always have a degree of servicing in place linked to the previous use on site, the only potential exception being the former Kensal Gas Works site).

Issue 3: If a plot size for a typical home in the area would allow for a home of 173 square metres (as per the example) but the calculations are based on a property of only 100 square metres, it is questionable as to whether the commuted sum will be sufficiently large to purchase land on an alternative site.

Issue 4: The most significant issue for the application of this approach in RBKC is that the model assumes that affordable housing is *always* self-financing. The model facilitates an ability for the Council to provide clean and serviced land to Registered Providers, but the costs of building might exceed the captialised rental income. This is probably a more significant issue in RBKC than Mole Valley, as there are more flatted schemes in the former, whereas the latter is largely houses. The costs of building flats are significantly more than houses (particularly in the south and centre of Borough, where build costs can be significantly higher than those in the north). Some adjustments to the approach would therefore be required for this model to operate successfully in RBKC.

Issue 5: Is it sufficiently flexible so that the approach complies with the requirements of Community Infrastructure Levy ('CIL') Regulations 122? Although the approach is formulaic, there is clearly scope for adjustment in Step 4. If a particular scheme could not viably meet a payment based on 20% affordable housing, the percentage could be adjusted downwards. This would need to be supported by a viability appraisal. This viability appraisal would need to be undertaken as a separate exercise.

3.2.3 Richmond

This approach attempts to directly tackle the question of compliance with Regulation 122 by adopting an 'opportunity cost' approach (i.e. calculating the cost to the developer, in terms of value that would have been forgone had the affordable housing been provided on site). Under this approach, the developer is no better (and no worse off) than it would have been had the affordable housing been provided on site.

The formula is calculated by using a simple Microsoft Excel spreadsheet. This calculates the benefit accruing to the developer of providing units that would otherwise have been affordable as private housing. The commuted sum is calculated as follows:

A = Market Value of unit LESS profit (profit does not apply to affordable housing at the same level as market housing)

B = Value of affordable housing (capitalised net rent for rented units plus capitalised rent and equity sales for shared ownership units)

A – B = payment in lieu (equivalent to the 'opportunity cost' or value that would have been lost, had the affordable units been provided on site.

3.2.4 Evaluation

The Richmond approach is superior to the Mole Valley approach, as the calculation reflects individual site circumstances and does not rely upon the arbitrary 30% of GDV calculation for land. It provides a reasonably accurate reflection of the value uplift enjoyed by the developer resulting from the replacement of on-site affordable units as private.

The model addresses compliance with CIL regulation 122 by enabling the user to select the affordable housing percentage upon which the payment in lieu is to be calculated. If the developer has demonstrated that the scheme is only viable with a reduced quantum of affordable housing (or financial equivalent of), then the payment in lieu can be based on that agreed quantum.

The spreadsheet model is easy to replicate and amend so that it is suitable for use in RBKC. However, there are several issues with the spreadsheet model that would need to be addressed if it were to be used in RBKC. These issues are outlined below. None of the issues identified are sufficiently significant to warrant discounting the approach altogether.

Issue 1: The information required to complete the model is somewhat onerous and could be simplified. In particular, determining the price RPs might pay for the units could be simplified by seeking a firm price. This would then reduce the need to determine weekly rent levels, management costs and yields. This would also help to address some of the other issues below.

Issue 2: The current calculations make no allowances for voids and bad debts, which has the effect of slightly over-valuing the affordable housing value. This could be addressed through an addition to the management costs, although it should ideally be entered separately to aid comparison of inputs.

Issue 3: RPs typically pay the developer the agreed purchase price during the build period. Having affordable housing on-site therefore provides a cashflow benefit, despite the reduction in value compared to private housing. However, this is unlikely to be so significant that the calculated sums are inaccurate. Arguably, there is potentially an uplift in value in the private housing values[5] which is also not accounted for in the model, so the two factors may well balance each other out.

Issue 4: The model calculates the capital value of the affordable housing, but makes no account for the RP's deduction for on-costs (i.e. acquisition costs and employer's agent). On-costs are typically between 5% to 9% of value. The lack of a deduction for on-costs incorrectly enhances the affordable housing value, which in turn reduces the 'gap' between private and affordable values (and reduces the commuted sum).

Issue 5: Although full profit is deducted from private housing, there is no corresponding profit deducted from the affordable housing. It is widely recognised that developers typically apply a profit to both tenures, although at a considerably reduced rate to the affordable housing (circa 6%, compared to 20% on private).

Issue 6: A decision needs to be made as to the tenure assumptions on the 'rented' element used entered into the model. Clearly the decision as to which tenure would have been provided on-site has a profound impact on the commuted sum. For example, if the capital value of the affordable housing units is based on social rented tenure, the value will be considerably lower than

[5] Although unproven by evidence, developers frequently claim that private sales values on schemes with no affordable housing are higher than those on schemes with affordable housing on-site.

would be the case if they were provided as affordable rent[6]. The lower the affordable housing value, the higher the payment in lieu.

This issue is not really addressed in Richmond's SPD, other than vague references to checking rent levels with the Housing Department. We would suggest that firmer direction would be required if the Council decided to adopt the Richmond approach. RBKC's model legal agreement does appear to provide a degree of certainty and clarity on rent levels.

3.2.5 Wandsworth

Wandsworth Council's approach is essentially the same as Richmond's in that it indicates that where payments in lieu are agreed "*there can be no financial advantage to the developer in not delivering the affordable housing on-site*". However, in contrast to Richmond, Wandsworth do not provide a specific method of calculating the payment in lieu. Wandsworth's Planning Obligations SPD indicates that the Council will seek two appraisals from the developer. The first is to assume that the scheme incorporates the viable percentage of affordable housing on-site. The second assumes that the scheme is 100% private. The payment in lieu is determined by deducting the residual land value generated by the second appraisal from the residual land value generated by the first.

3.2.6 Evaluation

As a principle for calculating a payment in lieu, the approach is identical to the approach adopted by Richmond. The only material difference between the two approaches is how the payment in lieu is calculated. The Wandsworth approach is arguably more onerous, as the developer is required to complete two appraisals (although in practical terms, the additional work required to turn an appraisal which includes some affordable housing into a 100% private housing scheme is relatively limited).

Completing two full appraisals also offers the advantage of addressing most of the modelling issues raised in relation to the Richmond model.

The main advantage of the Wandsworth approach is that it can be used for dual purposes of (a) determining the overall level of affordable housing – if a policy compliant level is considered unviable and (b) determining the amount of a payment in lieu.

3.3 Conclusions

Payment in lieu structures should in our view be tested against three criteria, as follows:

- That the structure satisfies the tests contained within CIL Regulation 122;
- Ease of application to small schemes up to 1,200m2; and
- Provides a robust approach and is capable of reflecting RBKC's Core Strategy policies and specific market conditions.

The Mole Valley approach appears to us to be least able to meet these three tests. Although it is easy to apply, the approach is relatively crude in terms of

[6] Although Core Strategy Policy CH1(c) indicates a tenure mix of 85% social rented and 15% intermediate, there would be practical issues arising from attempting to provide more than one affordable tenure on a scheme of 10 units or less. The most significant issue would be the addition of a separate entrance and stair core for three tenures, which could result in an unacceptable net to gross ratio. For this reason alone, our view is that affordable housing provided on site would be of a single tenure.

its reliance on a percentage of GDV to arrive at a plot value. This is a considerable weakness in a Borough such as RBKC, with heterogeneous development types.

The Richmond and Wandsworth approaches are both based on the principle that replacing on site affordable housing provision with a payment in lieu should be financially neutral for the developer. In other words, the payment in lieu option should leave the developer no better, but no worse off. Consequently, the option meets the test of reasonableness in CIL Regulation 122; the approach is not punitive when considered alongside the Council's Core Strategy policies for affordable housing.

In terms of practical application, Wandsworth's approach is simple (comparing two appraisals – one with on-site affordable and one without), but requires the developer to complete this exercise. Richmond provide a financial model, which is relatively simple to complete, but would require some amendment to operate in RBKC. It would also require scrutiny of all planning applications which are required to make a payment in lieu which may be resource intensive.

It is therefore proposed that the council work up their own hybrid model that builds on both the Wandsworth and Richmond approaches in a simple spreadsheet model, and address both the viability of affordable housing and the value of the payment in lieu. A prototype model is discussed in the next section.

4 A payment in lieu amount in RBKC

In this section, we consider whether the Council's current approach of seeking a payment in lieu per square metre is the most appropriate option for maximising funds for provision of affordable housing.

4.1 Implications of the current approach to application of the payment in lieu

The Council's current approach is to seek a payment in lieu based only on the net additional floorspace generated by a development proposal. So for example, if a site currently has 850 square metres and the proposed development provides 900 replacement square metres, the payment of £2,500 per square metre would apply to only 50 square metres. This would generate a contribution of £125,000. However, if the Council applied the payment in lieu requirement to the entire 900 square metres, the payment in lieu would amount to £1,125,000 (assuming 50% affordable housing would otherwise have been provided on site).

As the Council applies its policies on a 'subject to viability' basis, applying the contribution to the whole of the floorspace in a development proposal would not threaten deliverability. There may be instances where a scheme could not viably meet the requirement and a lower payment would be required (subject to submission and verification of viability evidence). However, this does not mean that the Council should retain the status quo, as many schemes that could have contributed more would not do so.

4.2 Is a single Borough charge per square metre the optimum option?

The single most significant issue with a Borough-wide charge per square metre is the substantial differences in values between different parts of RBKC. Given that a single charge needs to be capable of operating in the least viable areas (with lowest values), this could mean that the Council may not be securing sufficient funds to deliver affordable housing from higher value areas.

4.3 Area-based contribution amounts per square metre

We have utilised a prototype payment in lieu calculator to determine an indicative set of contributions that reflect the differentials in sales values across the Borough. This model is outlined in more detail in Section 4.

The model has been set up to test a 7 unit scheme which provides a total of 900 square metres of housing. We have used the sales values that underpin the Council's approved CIL Charging Schedule, which have been indexed by the increase in the Land Registry House Price Index (23.6% between October 2012 when the CIL Viability Study was undertaken and November 2014). The sales values and CIL rates are summarised in Table 3.1.1.

Table 3.3.1: Residential CIL rates and sales values

CIL zone	Sales values per square metre	CIL rate per square metre
A (Knightsbridge SW1X)	£37,210	£750
B (Chelsea, South Ken, Holland Park)	£21,210	£590
C (Notting Hill Gate, High St Ken)	£20,350	£430

D (Earls Ct & West Brompton)	£14,168	£270
E (Olympia)	£12,307	£190
F (North Kensington)	£9,188	£110

Existing use values will vary between areas, with higher value areas likely to be in higher value existing uses (e.g. secondary offices) and lower value areas having lower existing uses (e.g. light industrial/storage). We have therefore assumed that the site has the following existing use value areas in each of CIL zones. Detailed calculations are incorporated in each model (attached as Appendix 1).

Table 3..2: Existing use values in each CIL zone

CIL zone	Existing use	Existing use value (£ millions)
A (Knightsbridge SW1X)	Higher value secondary offices	£6.7
B (Chelsea, South Ken)	Higher value secondary offices	£4.0
C (Notting Hill Gate, High St Ken)	Higher value secondary offices	£4.0
D (Earls Ct & West Brompton)	Lower value secondary offices	£3.0
E (Olympia)	Lower value secondary offices	£3.0
F (North Kensington)	Secondary Industrial/other employment floorspace	£1.7

4.3.1 Model results

Using the inputs outlined above, the payments in lieu calculator generates the following results.

Table 3.3.1.1: Indicative payments in lieu by CIL charging zone

CIL zone	Viable quantum of affordable housing	Indicative per square metre payment in lieu
A (Knightsbridge SW1X)	50%	£12,409
B (Chelsea, South Ken)	50%	£6,397
C (Notting Hill Gate, HS Ken)	50%	£6,166
D (Earls Ct & West Brompton	47%	£3,067
E (Olympia)	37%	£2,521
F (North Kensington)	42%	£1,932

The results generated by the payments in lieu calculator show that there are significant differences in potential amounts per square metre between the six CIL zones. In light of these differences, it is evident that adopting a single charging amount per square metre may result in contributions being inadequate to provide affordable housing on alternative sites.

If the Council opts for setting a charge per square metre, then we would recommend that a differential charge is considered. Any charges adopted should be applied flexibly and subject to site-specific viability to ensure that they avoid rendering schemes unviable where, for example, existing use values are higher than those modelled or exceptional costs arise.

4.4 Investing the proceeds from payments in lieu

Clearly any policy approach involving collecting payments from developers instead of providing units on site gives rise to questions around how the receipts will be invested. There are two broad options; firstly, the Council could use the receipts to establish a grant fund, and secondly, the Council could use the receipts to fund development on its own land.

4.4.1 Grant funding

The Council could use the receipts to generate its own grant funding to achieve additional affordable housing on larger sites. The grant would need to be sufficient to fund the difference between the amount that RPs can pay and the market value of the unit, so that the Developer is no worse off as a result of providing more affordable housing. This may be a relatively inefficient use of funds, as the amount per unit would be very high, given the high sales values in the Borough.

4.4.2 Development on Council land

Alternatively, the Council could use the funds secured to build new affordable housing units on its own land. This might include using the funds to facilitate the redevelopment of existing housing estates or infill developments on Housing Revenue Account ('HRA') land.

Other boroughs have encouraged developers to identify opportunities to redevelop estates to satisfy their affordable housing planning obligations on their own sites. These arrangements are sometimes financially challenging, but could be made viable using funds from the payment in lieu fund.

5 A hybrid small sites model for RBKC

As noted in the Section 2, RBKC might benefit from an approach that is capable of determining both (a) the viable level of affordable housing that a small scheme can absorb and (b) the payment in lieu that would flow from this level.

Such a model would need to consider the following factors:

- The Gross Development Value of the scheme, with and without affordable housing;
- Build costs and other development costs (including fees, finance and profit);
- Benchmark Land Value (most typically, the existing use value of the site, plus an appropriate landowner's premium).

The key differences between the two appraisals are the revenue and the profit levels. Profit on the private housing element is higher than profit on the affordable housing (the former is typically 20% on GDV and 6% on the latter). This needs to be reflected in any comparison of the two alternative options.

A screen-shot from the prototype appraisal tool is provided on the next page. This indicates how the tool has been structured to achieve the objectives of providing a simple tool that is capable of providing an indication of scheme viability, as well as calculating the payment in lieu. The Council could either provide the spreadsheet as a hard-copy template for developers to complete by hand, or alternatively, the Council work up a 'live' excel spreadsheet similar to the model used by Richmond. The second option appears to us to be preferable, as this would speed up calculations and enable all parties to work from a common template.

The model calculates the residual value of the scheme as 100% private and then a second residual is calculated, assuming an element of affordable housing. For example, a 6 unit scheme would require 3 affordable housing units to meet the Policy requirement, assuming all the units were of equal size (the Council's current policy requirement is based on 50% of floorspace rather than units). The model adopts the Wandsworth/Richmond approach but also tests scheme viability so that the payment in lieu is based on the viable level, rather than the upper end of the affordable housing target.

The model also makes provision for calculating the existing use value of the site by capitalising a rent, less rent free period and purchaser's costs. A premium is added to the existing use value to reflect in incentive required by landowners to release the site for development. The two residual land values (with and without on-site affordable housing) are then compared to the existing use value benchmark. If the residual land value of the scheme with affordable housing equals or exceeds the benchmark land value, then a payment in lieu is calculated. The payment in lieu calculation reflects the Wandsworth and Richmond model (i.e. simply the difference between the value generated by the 100% private housing scheme compared to the scheme with affordable housing).

In situations where a scheme that meets the Council's affordable housing target would be unviable, the affordable housing percentage would be adjusted downwards until the scheme becomes viable. This is calculated by utilising Excel's 'goal seek' capability.

Two examples are provided on the following pages. Example 1 is based on a 7 unit scheme that is required to provide 3.5 units (50% floorspace) of affordable housing. This scheme is compared to the same scheme, but assuming all 7 units are private. This is unviable, as the residual land value is lower than the benchmark land value. Example 2 adjusts the affordable housing quantum in the same scheme as Example 1, so that the residual land value is equal to the benchmark land value. The difference between the residual value generated by the 100% private housing scheme and the scheme with reduced affordable housing equates to the payment in lieu.

5.1.1 Applicability to large scale schemes

Although the principles outlined above are aimed primarily at small schemes of up to 1,200 square metres, they are equally applicable to larger schemes where on-site affordable housing is regarded as being unsuitable. Calculating payments in lieu in such situations could be determined through the Wandsworth approach of running two appraisals of the scheme; one with on-site affordable and one without, and deducting the residual value generated by the latter from the former.

Although beyond the scope of our brief, situations in which a payment in lieu might be accepted could include the following:

- The Council regards the site as an unsuitable location for affordable housing or for family housing;
- On sites that have high sales values, the payment in lieu could be substantial and be used to provide more affordable housing on other sites than could have been provided on-site; and
- The site is not capable of meeting RP design standards without seriously compromising scheme viability, resulting in no demand from RPs and a threat to the deliverability of the development. This might be particularly relevant to developments that involve the conversion of listed buildings, where the ability to meet sustainability requirements is fettered by conservation requirements.

Example 1: Scheme meeting full 50% affordable housing contribution on a scheme of 7 units

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Scheme address:

Area:	F

Policy compliant affordable housing			50.0%
Private	3.50	Affordable	3.50

Click to goal seek max viable affordable

Scheme income — Scheme mix

	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£689,100	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£689,100	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£8,269,200**				**£62,000**

Average private sales value (per sq m)	£9,188
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£4,134,600
Policy compliant scheme GDV (affordable)	£900,000
Ground rent income	£62,000
Car parking income	£0

Gross Development Value			**£8,331,200**	**£5,096,600**
Scheme costs	Build costs		£2,250,000	£2,250,000
	Demolition and site prep		£45,000	£45,000
	Professional fees	10.00%	£225,000	£225,000
	Mayoral CIL		£45,000	£22,500
	RBKC CIL		£99,000	£49,500
	Section 106		£7,000	£7,000
	Marketing (% of GDV)	3.00%	£249,936.00	£124,038.00
	Developer's profit on private	20.00%	£1,666,240.00	£826,920.00
	Developer's profit on AH	6.00%	n/a	£54,000.00
	Finance on build	7.00%	£93,485.00	£90,965.00
	Residual land value		**£3,650,539**	**£1,401,677**
	Finance on land	7.00%	£255,538	£98,117
NET RESIDUAL			**£3,395,001**	**£1,303,560**
			£1,655,935	**£1,655,935**
			Viable	**Not viable**

Payment in lieu **n/a**

BNP PARIBAS REAL ESTATE

Example 1: Scheme meeting full 50% affordable housing contribution on a scheme of 7 units (continued)

Existing use value

Description of existing buildings on site:

Industrial/employment

Floor area of building (sqm)	800	
Type of building	Industrial	
Rent per sq m		
Area 1	£135.00	£108,000
Yield	6.50%	
Rent free period (years)	2.0	0.8817
Capital Value	£1,464,911	
Purchaser's costs	5.80%	£84,965
Landowner premium	20%	

Example 2: Scheme of 7 units with adjusted affordable housing quantum to achieve viable outturn

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Scheme address:

Area:	F		
Policy compliant affordable housing			41.6%
Private	4.09	Affordable	2.91

Click to goal seek max viable affordable

Scheme income — Scheme mix

	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£689,100	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£689,100	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£8,269,200**				**£62,000**

Average private sales value (per sq m)	£9,188
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£4,826,829
Policy compliant scheme GDV (affordable)	£749,319
Ground rent income	£62,000
Car parking income	£0

Gross Development Value		**£8,331,200**	**£5,638,148**
Scheme costs	Build costs		
	Build costs	£2,250,000	£2,250,000
	Demolition and site prep	£45,000	£45,000
	Professional fees 10.00%	£225,000	£225,000
	Mayoral CIL	£45,000	£26,267
	RBKC CIL	£99,000	£57,787
	Section 106	£7,000	£7,000
	Marketing (% of GDV) 3.00%	£249,936.00	£144,804.86
	Developer's profit on private 20.00%	£1,666,240.00	£965,365.74
	Developer's profit on AH 6.00%	n/a	£44,959.14
	Finance on build 7.00%	£93,485.00	£91,386.91
	Residual land value	**£3,650,539**	**£1,780,577**
	Finance on land 7.00%	£255,538	£124,640
NET RESIDUAL		**£3,395,001**	**£1,655,936**
		£1,655,935	**£1,655,935**
		Viable	**Viable**

Payment in lieu	**£1,739,065**
per sqm	£1,932

Example 2: Scheme of 7 units with adjusted affordable housing quantum to achieve viable outturn (continued)

Existing use value

Description of existing buildings on site:

Industrial/employment

Floor area of building (sqm)	800	
Type of building	Industrial	

Rent per sq m

Area 1	£135.00	£108,000
Yield	6.50%	
Rent free period (years)	2.0	0.8817
Capital Value	£1,464,911	
Purchaser's costs	5.80%	£84,965
Landowner premium	20%	

6 Conclusions and recommendations

This study considers a number of alternative approaches to securing payments in lieu, as an alternative to on-site affordable housing delivery for small sites. The Council's existing approach is to seek a Borough-wide payment in lieu which equates to £2,500 per square metre. We have considered the pros and cons of alternative approaches adopted or proposed by Mole Valley, Wandsworth and Richmond councils.

We have concluded that:

- The Mole Valley approach is unlikely to be sufficiently flexible to cope with the wide range of development types that developers bring forward in RBKC.
- The Wandsworth and Richmond approaches (which are based on the same principle of calculating the 'opportunity cost' of delivering affordable housing on-site) are most suited to RBKC.
- Building upon the best aspects of these approaches, we have created a 'hybrid' model that performs the dual functions of testing the viability of small schemes, as well as calculating their payment in lieu.
- Using this model, we conclude that a single charge based on a payment per square metre is unlikely to deliver the 'optimum' amount of funding to deliver affordable housing.
- The Council could adopt a set of variable rates which are linked to the six CIL zones in its approved CIL Charging Schedule. Alternatively, the Council could opt not to publish rates per square metre, but to test the total amount of payment in lieu for each specific scheme.
- By building a test of viability into the process, the Council's requirements would meet the tests contained within CIL Regulation 122.

Appendix 1 - Payment in lieu calculations by CIL zone

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Area:	A

Scheme address:

Policy compliant affordable housing			50.0%
Private	3.50	Affordable	3.50

Scheme income — **Scheme mix**

	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£5,581,500	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£5,581,500	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£5,581,500	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£5,581,500	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£5,581,500	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£2,790,750	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£2,790,750	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£33,489,000**				**£62,000**

Average private sales value (per sq m)	£37,210
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£16,744,500
Policy compliant scheme GDV (affordable)	£900,000
Ground rent income	£62,000
Car parking income	£0

Gross Development Value		**£33,551,000**	**£17,706,500**
Scheme costs Build costs		£2,250,000	£2,250,000
Demolition and site prep		£45,000	£45,000
Professional fees	10.00%	£225,000	£225,000
Mayoral CIL		£45,000	£22,500
RBKC CIL		£675,000	£337,500
Section 106		£7,000	£7,000
Marketing (% of GDV)	3.00%	£1,006,530.00	£502,335.00
Developer's profit on private	20.00%	£6,710,200.00	£3,348,900.00
Developer's profit on AH	6.00%	n/a	£54,000.00
Finance on build	7.00%	£113,645.00	£101,045.00
Residual land value		**£22,473,625**	**£10,813,220**
Finance on land	7.00%	£1,573,154	£756,925
NET RESIDUAL		**£20,900,471**	**£10,056,295**
		£6,707,013	**£6,707,013**
		Viable	**Viable**

Payment in lieu		**£10,844,177**
	per sqm	£12,049

Existing use value

Description of existing buildings on site:

Higher value secondary office

Floor area of building (sqm)	800	
Type of building	Office	
Rent per sq m		
Area 1	£500.00	£400,000
Yield	6.00%	
Rent free period (years)	2.0	0.8900
Capital Value	£5,933,310	
Purchaser's costs	5.80%	£344,132
Landowner premium	20%	

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Area:	B			
Policy compliant affordable housing				50.0%
Private	3.50	Affordable	3.50	

Scheme address:

Scheme income

	Scheme mix							
	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£3,181,500	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£3,181,500	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£3,181,500	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£3,181,500	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£3,181,500	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£1,590,750	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£1,590,750	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£19,089,000**				**£62,000**

Average private sales value (per sq m)	£21,210
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£9,544,500
Policy compliant scheme GDV (affordable)	£900,000
Ground rent income	£62,000
Car parking income	£0

Gross Development Value			**£19,151,000**	**£10,506,500**
Scheme costs	Build costs		£2,250,000	£2,250,000
	Demolition and site prep		£45,000	£45,000
	Professional fees	10.00%	£225,000	£225,000
	Mayoral CIL		£45,000	£22,500
	RBKC CIL		£531,000	£265,500
	Section 106		£7,000	£7,000
	Marketing (% of GDV)	3.00%	£574,530.00	£286,335.00
	Developer's profit on private	20.00%	£3,830,200.00	£1,908,900.00
	Developer's profit on AH	6.00%	n/a	£54,000.00
	Finance on build	7.00%	£108,605.00	£98,525.00
	Residual land value		**£11,534,665**	**£5,343,740**
	Finance on land	7.00%	£807,427	£374,062
NET RESIDUAL			**£10,727,238**	**£4,969,678**
			£4,024,208	**£4,024,208**
			Viable	**Viable**

Payment in lieu		**£5,757,560**
	per sqm	£6,397

Existing use value

Description of existing buildings on site:

Higher value secondary office

Floor area of building (sqm)	800	
Type of building	Office	
Rent per sq m		
Area 1	£300.00	£240,000
Yield	6.00%	
Rent free period (years)	2.0	0.8900
Capital Value	£3,559,986	
Purchaser's costs	5.80%	£206,479
Landowner premium	20%	

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Area:	C			
Policy compliant affordable housing				50.0%
Private	3.50	Affordable	3.50	

Scheme address:

Scheme income — Scheme mix

	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£3,052,500	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£3,052,500	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£3,052,500	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£3,052,500	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£3,052,500	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£1,526,250	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£1,526,250	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£18,315,000**				**£62,000**

Average private sales value (per sq m)	£20,350
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£9,157,500
Policy compliant scheme GDV (affordable)	£900,000
Ground rent income	£62,000
Car parking income	£0

Gross Development Value		**£18,377,000**	**£10,119,500**
Scheme costs Build costs		£2,250,000	£2,250,000
Demolition and site prep		£45,000	£45,000
Professional fees	10.00%	£225,000	£225,000
Mayoral CIL		£45,000	£22,500
RBKC CIL		£387,000	£193,500
Section 106		£7,000	£7,000
Marketing (% of GDV)	3.00%	£551,310.00	£274,725.00
Developer's profit on private	20.00%	£3,675,400.00	£1,831,500.00
Developer's profit on AH	6.00%	n/a	£54,000.00
Finance on build	7.00%	£103,565.00	£96,005.00
Residual land value		**£11,087,725**	**£5,120,270**
Finance on land	7.00%	£776,141	£358,419
NET RESIDUAL		**£10,311,584**	**£4,761,851**
		£4,024,208	**£4,024,208**
		Viable	**Viable**

Payment in lieu	**£5,549,733**
per sqm	£6,166

Existing use value

Description of existing buildings on site:

Higher value secondary office

Floor area of building (sqm)	800	
Type of building	Office	
Rent per sq m		
Area 1	£300.00	£240,000
Yield	6.00%	
Rent free period (years)	2.0	0.8900
Capital Value	£3,559,986	
Purchaser's costs	5.80%	£206,479
Landowner premium	20%	

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Area:	D

Policy compliant affordable housing			46.9%
Private	3.72	Affordable	3.28

Scheme address:

Scheme income

Scheme mix

	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£2,125,200	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£2,125,200	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£2,125,200	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£2,125,200	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£2,125,200	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£1,062,600	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£1,062,600	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£12,751,200**				**£62,000**

Average private sales value (per sq m)	£14,168
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£6,774,075
Policy compliant scheme GDV (affordable)	£843,750
Ground rent income	£62,000
Car parking income	£0

Gross Development Value			**£12,813,200**	**£7,679,825**
Scheme costs	Build costs		£2,250,000	£2,250,000
	Demolition and site prep		£45,000	£45,000
	Professional fees	10.00%	£225,000	£225,000
	Mayoral CIL		£45,000	£23,906
	RBKC CIL		£243,000	£129,094
	Section 106		£7,000	£7,000
	Marketing (% of GDV)	3.00%	£384,396.00	£203,222.26
	Developer's profit on private	20.00%	£2,562,640.00	£1,354,815.09
	Developer's profit on AH	6.00%	n/a	£50,625.00
	Finance on build	7.00%	£98,525.00	£93,800.00
	Residual land value		**£6,952,639**	**£3,297,363**
	Finance on land	7.00%	£486,685	£230,815
NET RESIDUAL			**£6,465,954**	**£3,066,548**
			£3,066,547	**£3,066,547**
			Viable	**Viable**

Payment in lieu	**£3,399,407**
per sqm	£3,777

Existing use value

Description of existing buildings on site:

Secondary office

Floor area of building (sqm)	800	
Type of building	Office	
Rent per sq m		
Area 1	£250.00	£200,000
Yield	6.50%	
Rent free period (years)	2.0	0.8817
Capital Value	£2,712,798	
Purchaser's costs	5.80%	£157,342
Landowner premium	20%	

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Area:	E			
Policy compliant affordable housing				37.1%
Private	4.40	Affordable	2.60	

Scheme address:

Scheme income — Scheme mix

	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£1,846,050	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£1,846,050	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£1,846,050	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£1,846,050	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£1,846,050	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£923,025	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£923,025	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£11,076,300**				**£62,000**

Average private sales value (per sq m)	£12,307
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£6,965,504
Policy compliant scheme GDV (affordable)	£668,042
Ground rent income	£62,000
Car parking income	£0

Gross Development Value			**£11,138,300**	**£7,695,546**
Scheme costs	Build costs		£2,250,000	£2,250,000
	Demolition and site prep		£45,000	£45,000
	Professional fees	10.00%	£225,000	£225,000
	Mayoral CIL		£45,000	£28,299
	RBKC CIL		£171,000	£107,536
	Section 106		£7,000	£7,000
	Marketing (% of GDV)	3.00%	£334,149.00	£208,965.11
	Developer's profit on private	20.00%	£2,227,660.00	£1,393,100.71
	Developer's profit on AH	6.00%	n/a	£40,082.52
	Finance on build	7.00%	£96,005.00	£93,199.22
	Residual land value		**£5,737,486**	**£3,297,363**
	Finance on land	7.00%	£401,624	£230,815
NET RESIDUAL			**£5,335,862**	**£3,066,548**
			£3,066,547	**£3,066,547**
			Viable	**Viable**

Payment in lieu	**£2,269,314**
per sqm	£2,521

Existing use value

Description of existing buildings on site:

Secondary office

Floor area of building (sqm)	800	
Type of building	Office	
Rent per sq m		
Area 1	£250.00	£200,000
Yield	6.50%	
Rent free period (years)	2.0	0.8817
Capital Value	£2,712,798	
Purchaser's costs	5.80%	£157,342
Landowner premium	20%	

ROYAL BOROUGH OF KENSINGTON & CHELSEA
SMALL SITES AFFORDABLE HOUSING CONTRIBUTION - VIABILITY TEST

Area:	F

Policy compliant affordable housing			41.6%
Private	4.09	Affordable	2.91

Scheme address:

Scheme income

	Unit type	No of beds	Floor area (sq m)	Predicted sales value	Car Parking revenue per unit	Ground rent per annum	Yield	Capitalised ground rent
Unit 1	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 2	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 3	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 4	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 5	Flat	3	150	£1,378,200	£0	£500.00	5%	£10,000
Unit 6	Flat	1	75	£689,100	£0	£300.00	5%	£6,000
Unit 7	Flat	1	75	£689,100	£0	£300.00	5%	£6,000
Unit 8							5%	£0
Unit 9							5%	£0
Sub-total			900	**£8,269,200**				**£62,000**

(Scheme mix)

Average private sales value (per sq m)	£9,188
Average affordable hsg value (per sq m)	£2,000
Policy compliant scheme GDV (private)	£4,826,829
Policy compliant scheme GDV (affordable)	£749,319
Ground rent income	£62,000
Car parking income	£0

Gross Development Value			**£8,331,200**	**£5,638,148**
Scheme costs	Build costs		£2,250,000	£2,250,000
	Demolition and site prep		£45,000	£45,000
	Professional fees	10.00%	£225,000	£225,000
	Mayoral CIL		£45,000	£26,267
	RBKC CIL		£99,000	£57,787
	Section 106		£7,000	£7,000
	Marketing (% of GDV)	3.00%	£249,936.00	£144,804.86
	Developer's profit on private	20.00%	£1,666,240.00	£965,365.74
	Developer's profit on AH	6.00%	n/a	£44,959.14
	Finance on build	7.00%	£93,485.00	£91,386.91
	Residual land value		**£3,650,539**	**£1,780,577**
	Finance on land	7.00%	£255,538	£124,640
NET RESIDUAL			**£3,395,001**	**£1,655,936**
			£1,655,935	**£1,655,935**
			Viable	**Viable**

Payment in lieu	**£1,739,065**
per sqm	£1,932

Existing use value

Description of existing buildings on site:

Industrial/employment

Floor area of building (sqm)	800	
Type of building	Industrial	
Rent per sq m		
Area 1	£135.00	£108,000
Yield	6.50%	
Rent free period (years)	2.0	0.8817
Capital Value	£1,464,911	
Purchaser's costs	5.80%	£84,965
Landowner premium	20%	