TURNER MORUM

Nick Lawrence

Head of Planning

Aitch Group

13th March 2023

Dear Nick

RE: 76655/APP/2021/3039 – HPH4 MILLINGTON ROAD, HAYES, MIDDLESEX, UB3 4AZ

Updated Viability Assessment

I understand you have submitted a Section 96a application on the above scheme to change the 13 * studio apartments to 1 bed dwellings. This is achieved through reducing corridor/circulation space and therefore the overall Gross Internal Area (GIA) of development remains unchanged. Further to the above Hillingdon Borough Council (HBC) have now requested this amendment is dealt with through a Section 73 application. This letter forms part of that submission.

In this letter I seek to explain the changes I have made to the previously agreed viability with BNP Paribas (BNP) who were the Council's viability advisors for the original planning application. This agreed viability forms the basis of the assumptions contained within the signed Section 106 for the above consent.

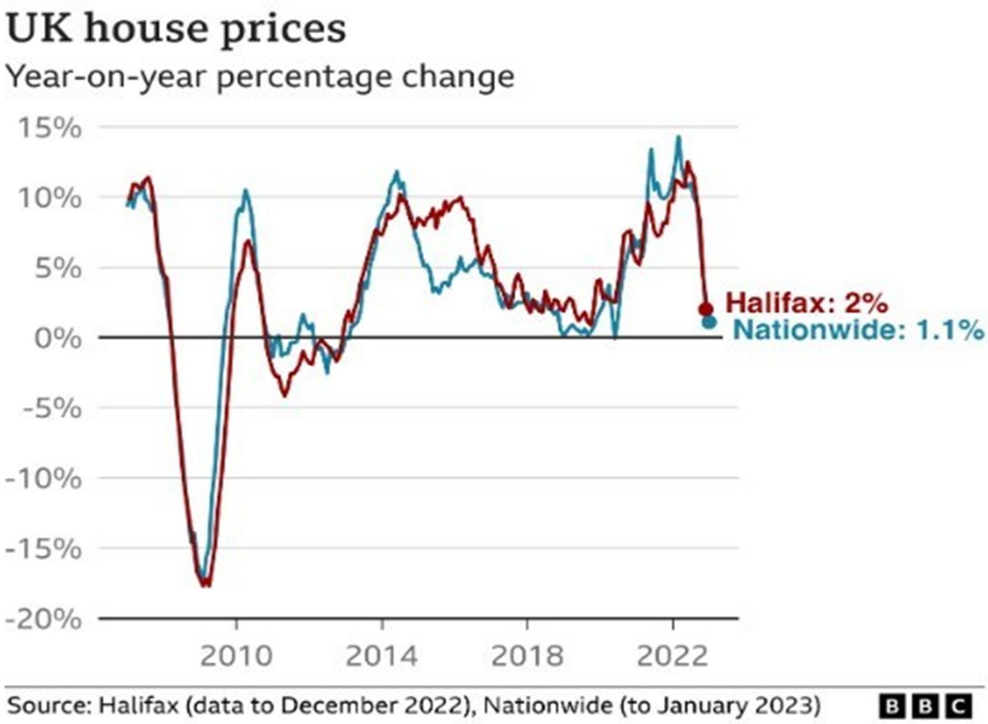
Firstly, I have updated the accommodation schedule to reflect the changes to the proposed scheme through the adjustment of 13 dwellings from studios to 1 bed dwellings. This shows an increase in the net sales area of the flats to 8,820 sqm or 94,937 sq ft.

I have also updated the assumed Gross Development Value (GDV). To inform this I have referenced the Land Registry House Price Index for flats/maisonettes in HBC from November 2021 to December 2022. These represent the date of the final viability submission and the latest published data respectively. As shown below this indicates an uplift of c. 8% in values thus increasing my average market value of c. **£652 psf**.

Land Registry HPI - HBC Flats/Maisonettes

Dates	HPI Land Reg
Nov-21	123.54
Dec-22	133.04
% Change	**1.08**

Whilst the above data indicates an 8% increase in values, I am of the professional view that as further data is released from Land Registry this % increase will fall. As recently reported in the national media house prices fell for the 5th month in a row in January 2023[1]. The recent changes in the housing market are summarised in the graph below;



One must be conscious when considering the achievable sales values of the current market conditions. Following the recent 'mini-budget' and the consequential fall in the pound there has been considerable economic uncertainty. As a result of this a number of banks were withdrawing mortgage deals over fears the Bank of England would further raise interest rates to counter the fall in the value of the sterling thus increasing monthly repayments for buyers. Halifax, part of the Lloyds Banking Group, have put up the interest rates on a range of deals for new borrowers to well over 5%. This move follows a string of major providers in re-pricing products, which has pushed the average two-year fixed rate deal to 6%. At the time of drafting this letter, the rate stands at 5.11% and at the start of December it was 2.34%. Although therefore the increase in rates have cooled slightly, this demonstrates the uplift from the end of 2022 and consequentially these changing market conditions increase the development risk in terms of sales programme/achievable sales values.

The latest published RICS Residential Market Survey for February 2023 states as follows regarding house price movement:

[1] URL: https://www.bbc.co.uk/news/explainers-63147101

"Alongside this, the pricing environment appears to remain challenging according to the latest set of results, with the headline price balance series stuck deep in negativity. The latest net balance of -48% is little changed from the previous read of -46%. Data for Scotland and Northern Ireland continues (for now) to display a greater degree of resilience than that covering England and Wales. Meanwhile, although there has been an improvement in the price balance looking three months forward, it is only very modest, edging up from -63% to -55%. Even at the one-year time horizon, the price metric is still suggesting further weakness, posting a net balance of -27% (although this does represent a more material uplift from -40% last month and the November result of -61%).".

This position is reinforced in the latest residential market research undertaken by Knight Frank which anticipated a 10% fall in house prices over the next 2 years accounting for a combination of spiraling energy costs, high inflation forecasts and the expectation of increases to interest rates. It is interesting to compare this assessment with the forecast made by Knight Frank in June 2022 which anticipated 1% growth in 2023 and 3% in 2024. The analysis also notes that prices in Greater London will fall more suddenly (6% in 2023 and 4% in 2024).

On this basis therefore I consider the 8% increase in values suggested by the Land Registry index to be optimistic; however, for the purpose of this assessment I have reflected this in my analysis.

The build costs have been updated through an amended cost plan provided by Mr Ben Randall of Randall Simmonds LLP (RS). This cost plan is included appended to this submission and shows a cost of **£38.420m** reflecting an uplift of c. 14% from the previous cost plan position.

It has been widely reported the impact of build cost inflation on the construction industry. I have included **appended** to this submission a report from the BCIS database highlighting their predictions for 2023. Within this report it is noted as follows:

- Private sector investment is to be hit by the double whammy of interest rates and inflation. Housing investment will also be affected by the availability of mortgage finance, falling prices and the end of the Help to Buy scheme. As a result, we expect housing output in 2023 to fall 18%, compared to 2022.

- From April, the government energy support packages for business will be restructured and substantially reduced. This, combined with a lack of an industrial strategy (scrapped in 2021), means construction supply side inputs will continue to be under strain in the year ahead.

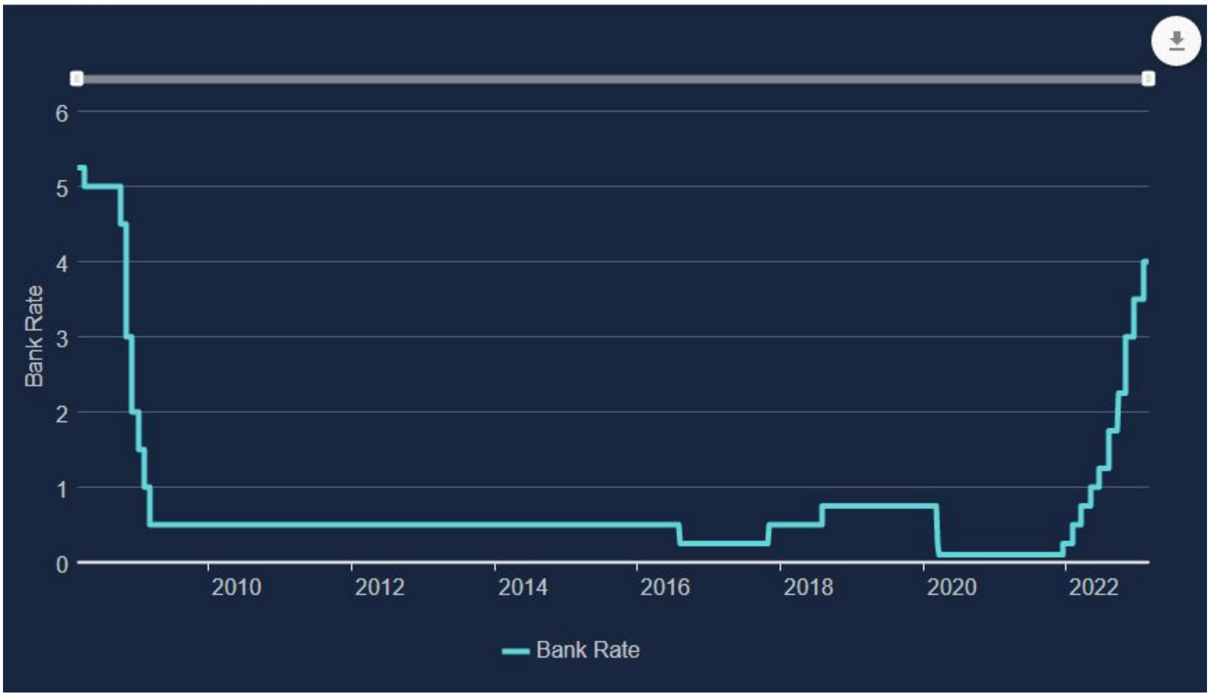
- Chronic shortages of both skilled and unskilled labour - likely to be exacerbated by the prevalence of an aging construction workforce - will create additional pressures.

- The capacity to deliver contracts could also be affected by weakened balance sheets with rising levels of insolvency.

- With this complex mix of challenges, the construction industry will need to prioritise efficient ways of working, to ensure inflation doesn't impact on project delivery. This could help viable projects to go ahead and be delivered.

In addition to the amendments outlined above, I have also increased the assumed finance rate to 7% (previously agreed at 6.5%). The justification for this amendment is because the Bank of England base rate at the time of previous viability submission was 0.1%; as demonstrated in the graph below, sourced from the Bank of England website, the base rate has now increased to 4%:

Official Bank Rate



On this basis I consider that arguably an increase above the 7% could be justified reflecting the rate of increase in the base rate since the previous submission. However for this exercise I have adopted a conservative position and included finance at 7%.

All other appraisal assumptions such as development programme, profit, fees, marketing costs etc. have remained consistent with the previous viability agreement reached with BNP. A copy of my updated appraisal model is appended to this letter.

The result of the above amendment is summarised in the schedule below:

Updated March 2023 Viability:

Total Units	Affordable % (Units)	Residual Land Value	EUV	Surplus / Deficit	Viable/ Non-Viable?
131	11%	-£4,312,068	£91,022	-£4,403,090	NON-VIABLE

Agreed November 2021 Viability:

Total Units	Affordable % (Units)	Residual Land Value	EUV	Surplus / Deficit	Viable/ Non-Viable?
131	11%	-£700,693	£91,022	-£791,715	NON-VIABLE

Conclusions

What the above analysis demonstrates is that even though the changes to the proposed scheme as relatively minor (studio flats becoming 1 bed flats), the prevailing market conditions have resulted in a significant increase in the deficit from £791k to £4.098m.

Turner Morum LLP

March 2023