05 DECEMBER 2022

FINANCIAL VIABILITY ASSESSMENT EXECUTIVE SUMMARY:

CITY CENTRE SOUTH, COVENTRY

Introduction

Policy H6 of the Coventry City Local Plan (2016) sets a requirement that any new residential scheme of 25 dwellings or more will be expected to provide 25% of all dwellings as affordable homes. However, Policy H6 also states that: *“Where the specified level of affordable housing cannot be provided, including for reasons of viability, robust evidence must be presented to justify a reduced or alternative form of contribution.”* Therefore, the required affordable housing provision (25%) is subject to viability testing.

Policy IM1 requires that applicants should discuss site-specific viability concerns with Coventry City Council (CCC) at the earliest possible stage in the development process, and requires proposals that are unable to comply with Development Plan policies on viability grounds must be accompanied by a detailed Financial Viability Assessment, including where planning obligations (S106) make development unviable.

7.12 Explanatory text supporting Policy IM1 further clarifies:

“However, there may be circumstances which mean the planning obligations and policies make a development, which otherwise positively contributes to the delivery of the Local Plan, unviable. In these cases applicants will be expected to demonstrate how planning obligations and policies result in the development being unviable by preparing a Viability Assessment. The Viability Assessment should be undertaken in accordance with the RICS Guidance Note on ‘Financial Viability in Planning’ or any updates on this guidance.”

Hybrid planning permission (ref. OUT/2020/2876) was granted on 27th January 2022 for the demolition of the existing buildings and redevelopment of City Centre South (the Site). A Financial Viability Assessment was submitted in support of the consented scheme, and it was agreed with the Coventry City Council’s (CCC) independent viability consultants, Lambert Smith Hampton (LSH), that the proposals could not viably support the delivery of any affordable housing or S.106 contributions.

The Applicant is now seeking minor material amendments through a Section 73 application in order to accommodate changes to the proposals. The key amendments to the proposals are:

- Increasing the maximum residential quantum from 1,300 to 1,500 homes.
- Reducing the maximum non-residential from 37,500 sq. m. to 20,000 sq. m.
- Retention of 21A to 25 Hertford Street (which includes the HMV Empire) which was previously due for demolition.

Montagu Evans have been instructed by the Applicant to carry out a Financial Viability Assessment (FVA), in accordance with planning policy, to assess the maximum reasonable amount of affordable housing and S.106 contributions that the revised proposals are able to provide. The Applicant is committed to delivering 20% affordable housing (comprising a tenure split of 60% Social Rent and 40% intermediate affordable housing) whilst accepting submarket returns.

The FVA has been prepared in accordance with RICS valuation guidance and the Viability Planning Practice Guidance in support of the National Planning Policy Framework (NPPF). However, it is not a ‘Red Book’ valuation and should not be relied upon as such.

In simple terms, the viability of a scheme is assessed by comparing the residual land value of the proposed development with an appropriate Benchmark Land Value (BLV). The residual land value of the proposed development is arrived at by summing the revenues derived from the development and deducting from these the costs of development.

This Executive Summary outlines the key findings and conclusions of the Financial Viability Assessment.

Financial Viability Inputs & Outputs
We have been advised by the Applicant that the acquisition (and associated costs) of the existing Coventry City Council and third party owned land within the Site boundary will be funded by the West Midlands Combined Authority (WMCA).

The WMCA funding will allow for vacant possession of the Site to be delivered to the developer in order for these ambitious proposals to be delivered. Having given this full consideration, we do not feel that it is appropriate to include a Benchmark Land Value and have therefore assumed £0 for the purposes of testing viability. If the viability was tested against a Benchmark Land Value then the equivalent funding figure would need to be included in the proposed scheme viability appraisal, effectively cancelling each other out.

For a commercially acceptable development to proceed, a level of return is required by the developer which reflects the risk of a development in current market condition. We have adopted the following target developer's return by each proposed use, reflecting the varying levels of risk:

- 17.50% on the private residential sale GDV (including the car parking).
- 12.50% on the residential BTR GDV.
- 6.00% on the traditional affordable residential GDV.
- 15.00% on the commercial GDV (including the health centre)

This reflects a blended **profit on GDV of 14.17%** which we consider to be a reasonable target return in current market conditions.

We have outlined the inputs and outputs of the proposed scheme viability appraisal below.

Proposed Scheme - Appraisal Inputs & Outputs	
Income	
Built to Rent, Commercial & Car Parking **Net Development Value**	£396,000,000
External Funding from Public Bodies	£72,000,000
Total Income	**£468,000,000**
Costs	
Development Costs (including construction costs, contingency, professional fees, letting & disposal fees and finance costs)	£430,000,000
Developer's Return	**9.16%**
Target Return	**14.17%**

Viability Conclusions
It can be seen from the above that the proposed scheme produces a **profit on GDV of 9.16%** against a **target profit of 14.17% on GDV** and therefore there is aa marginal viability deficit. The Applicant is however committed to delivering 20% affordable housing (comprising a tenure split of 60% Social Rent and 40% intermediate affordable housing) and accept submarket returns.

The viability modelling demonstrates that on this basis, the development is technically unable to viably support any further affordable housing (above the 20% proposed) or S.106 contributions in addition to the significant other planning benefits to be provided by the scheme, including the regeneration of Coventry City Centre. At this stage, the inclusion of further affordable housing and/or S.106 contributions would threaten the delivery of the scheme and the scheme's ability to meet other key policy requirements.

City Centre South comprises one of the most significant redevelopment opportunities in Coventry and the West Midlands as a whole. Although the modelling has shown a marginal viability deficit, the Applicant is prepared to accept submarket returns and is committed to working with the Council and West Midlands Combined Authority (WMCA) to fund and deliver a new destination for Coventry, with a dynamic new mix of residential, retail, office, leisure and community uses, changing the way people experience Coventry city centre.

As the FVA is supporting a hybrid planning application, assumptions have been made regarding development values and construction costs. However, as development phases within the regeneration are brought forward, depending on future value growth, cost value engineering or the scheme receiving a significant injection of funding in order to overcome the existing viability deficit, it may be possible that the viability of the development will be able to support financial contributions and/or further affordable housing provision. The S.106 agreement for the consented scheme includes three viability review mechanisms whereby the ability of the scheme to deliver additional affordable housing or S.106 contributions will be viability tested should values and/or construction costs improve sufficiently. Each review requires a Financial Viability Assessment to be submitted on a phased basis, in order that the Applicant and Local Planning Authority can re-assess viability, and the ability to provide additional affordable housing and/or financial contributions in the future.

For and on Behalf of Montagu Evans LLP