Finance rate sensitivity test

Approach

1. In response to comments made in the consultation and changing market conditions Exeter City Council consider it helpful to the examination to explore the impact of alternative finance rates on viability.
2. The viability evidence base uses a 6% all-in finance rate applied to all the typology cashflows according to the development period. On a conservative basis no credit finance rate is included, and it is assumed the whole development is debt funded.
3. Although no alternative rates were suggested in the consultation responses, for the purposes of this sensitivity testing nominal rates of 8% and 10% are used to reflect the current and potential future rises in the base rate.
4. These alternative rates are applied to the testing for flatted, build-to-rent, co-living and purpose built student accommodation. All of the other testing assumptions are unchanged.

Findings

Table A1 finance rate sensitivity test results

Typology	Total headroom available for CIL £/sq m			Proposed CIL rates £/sq m	
	Original viability findings (6% finance rate)	Sensitivity test 1 – 8% finance rate	Sensitivity test 2 – 10% finance rate		
Res 1 - 15 dwgs	£44	-£8	-£60	£0	0% of GDV
Res 2 - 15 dwgs	£1	-£52	-£105	£0	0% of GDV
Res 3 - 75 dwgs	£87	£38	-£11	£0	0% of GDV
Res 4 - 150 dwgs	-£59	-£112	-£169	£0	0% of GDV
Res 5 - 350 dwgs	-£20	-£64	-£119	£0	0% of GDV
BtR 1 - 150 dwgs	£313	£270	£223	£50	1.5% of GDV
BtR 2 - 350 dwgs	£359	£330	£297	£50	1.5% of GDV
BtR 3 - 350 dwgs (high density)	£53	£6	-£55	£50	1.6% of GDV
PBSA 1 – 40 units	£669	£621	£574	£150	4.2% of GDV
PBSA 2 – 100 units	£584	£512	£440	£150	4.2% of GDV
PBSA 3 – 150 units	£508	£411	£315	£150	4.2% of GDV
CoL 1 – 40 units	£343	£276	£210	£50	1.1% of GDV
CoL 2 – 100 units	£242	£142	£42	£50	1.1% of GDV
Col 3 – 250 units	£140	£6	-£127	£50	1.1% of GDV

Commentary

1. The higher finance rates result in for sale flats becoming marginal or unviable. This supports the setting of a £0 CIL rate for this type of development.
2. The majority of the remaining development remains viable under higher finance rates and so overall, the proposed CIL rates remain appropriate under both sensitivity tests.
3. The larger higher density build to rent typology is vulnerable to higher finance rates, noting that the proposed CIL rate as a proportion of GDV remains less than 2%. Potentially, the form of development for this type of scheme may have to amend to reduce peak debt, either by phasing or reducing height.
4. The larger co-living typology is also vulnerable to higher finance rates, noting that the proposed CIL rate as a proportion of GDV remains just over 1%. Again, the form of development for this type of scheme may have to amend to reduce peak debt.
5. Not all schemes will be 100% debt financed, and so exposure to this risk will vary. In addition, actual finance rates are likely to vary between developers.