Southampton Valuation Office
2nd Floor Overline House
Blechynden Terrace
Southampton
Hampshire. SO15 1GW

Private and Confidential

Simon Mackie
Planning Agreements Officer
Planning & Sustainability
Southampton City Council
Civic Centre
Southampton
SO14 7LY

Our Reference: GAT/1652831
Your Reference: 12/00596/FUL

Please ask for : Gavin Tremeer
Tel : 03000 504331
Mobile : 07786 734080
E Mail : gavin.a.tremeer@voa.gsi.gov.uk

Date : 13th November 2017

Dear Simon,

DESK TOP REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
PROPOSED SCHEME: Land at junction of Brownhill Way and Lower Brownhill Road, Southampton. SO16 9LF.

I refer to our previous fee quote and your email dated 11th October 2017 confirming your formal instructions to carry out a desk top viability assessment in respect of the above proposed development.

This report is not a formal valuation.

The date of assessment is 13th November 2017.

We have reviewed the assessment provided by Intelligent Land on behalf of the applicant Barker Mill Estates.

The assessment has been made by comparing the residual value of the proposed scheme with an appropriate benchmark figure having regarding to the National Planning Policy Framework and the published RICS Guidance Note into Financial Viability in Planning.

The principal objective of our Brief and the subject of this report are to establish whether there is financial justification for any affordable housing and section 106 contributions.

General Information

It is confirmed that the viability assessment has been carried out by Gavin Tremeer, a RICS Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the valuation competently, and is in a position to provide an objective and unbiased valuation.

Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. DVS has had no other previous material involvement with the property.

The client will neither make available to any third party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

You may wish to consider whether this report contains Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006.

The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers. No responsibility whatsoever is accepted to any Third Party who may seek to rely on the content of the report unless previously agreed.

This report remains valid for 3 (three) months from its date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

Following the referendum held on 23 June 2016 concerning the UK's membership of the EU, the impact to date on the many factors that historically have acted as drivers of the property investment and letting markets has generally been muted in most sectors and localities. The outlook nevertheless remains cautious for market activity over the coming months as work proceeds on negotiating detailed arrangements for EU exit and sudden fluctuations in value remaining possible. We would therefore recommend that any valuation is kept under regular review.

You have forwarded the developers assessment to review. We have now undertaken our own research and assessment and would report as follows:

Background:

The planning reference for this site is 12/00596/FUL, and is as follows:

'Erection of 14 two-storey houses (12 x three bedroom and 2 x two bedroom) with associated parking, vehicular access from Lower Brownhill Road and space for a children's play area.'

The proposed site extends to approximately 0.51 Ha (1.25 Ac) and sits within a predominantly residential location. It is bounded by roads with the exception of the western boundary which abuts neighbouring arable land (Lidl site) and an existing residential unit.

We understand that consent was granted in 2012 and that this has been implemented to protect the consent but that the development has now stalled. It is the contention of the applicant that at the policy level of section 106 contributions, CIL contributions and 3 affordable units, the scheme is not viable.

The applicant is stating that due to a number of significant unforeseen abnormal costs, that the scheme can no longer provide the policy level of affordable housing. Following their assessment of the policy compliant scheme, their appraisal shows a negative land value of -£315,142. Their 100% open market appraisal shows a profit on GDV of 18.74% and they therefore contend that no affordable housing contribution can be made.

The Scheme:

We have been provided with the assessment undertaken on behalf of the applicant.

For the purpose of this desk top assessment we assume the areas stated on the floor plans provided are correct. The scheme as proposed by the applicant is as follows:

Type	Number of Units	Average Unit Size (Sq m)	Gross Internal Area (Sq m)
Private Residential			
Two bed semi-det house	1	90.4	90.4
Two bed detached house	1	70.6	70.6
Three bed semi-det house	1	70.6	70.6
Three bed detached house	11	82.7	909.7
Total	**14**		**1,141.3**

Viability Assessment:

This report deals with each major input into the viability assessment of the scheme. This desk top assessment has been undertaken following our own research into both current sales values and current costs. We have used figures put forward by the applicant if we believe them to be reasonable.

We have used a bespoke excel based toolkit with cash flow to assess the scheme which is attached as Appendix 1.

We would summarise our assessment of the Scheme as follows:

1) Development Value -

a) Private Residential / Commercial:

The applicant has provided detailed comparable sales evidence from nearby new-build developments, and from existing properties. They have also commissioned estate agents Sequence Homes to provide their opinion of value and based on this have adopted the following average values compared to ours:

Type	Developer	DVS
Two bed semi-det house	£210,000	£210,000
Two bed detached house	£215,000	£215,000
Three bed semi-det house	£240,000	£240,000
Three bed detached house	£236,818	£236,818
Total	**£3,270,000**	**£3,270,000**

From our own research we consider the figures provided for the residential units to be reasonable and we have therefore used the same in our appraisal.

b) Gross Development Value (GDV):

On the basis of the proposed scheme, with no affordable housing, we assess the gross development value to be £3,270,000 in line with the applicant’s submission.

2) Development Costs -

a) Build Cost:

The applicant has not provided a detailed breakdown of costs for this scheme but have instead relied on the BCIS guide. They have adopted the following base build rates:

Detached Houses - £1,371 per m2
Semi-Det. Houses - £1,138 per m2

In their report the applicant has stated that the scheme will be built out by a local builder; Barker Mill Estates in this instance.

For a scheme in a lower value location such as this we would normally expect to see build cost base rates closer to the Lower Quartile BCIS figures.

However, the applicant has indicated that a BCIS Median level of cost is appropriate as smaller schemes such as this will not benefit from quantum discounts available to volume housebuilders who are able to order in bulk and we would agree that with smaller developments such as this, economies of scale are less easily achieved when compared with larger green field schemes.

The above proposed figures put forward actually sit between the current Lower Quartile and Median costs, with the detached property costs (which make up the majority of the scheme) being close to the Lower Quartile figure. Current BCIS figures adjusted to the Southampton location are as follows:

Detached:
Lower Q = £1,346 per m2
Median = £1,606 per m2

Semi-detached:
Lower Q = 1,072 per m2
Median = £1,180 per m2

We therefore consider them not to be overstated and have included the same in our appraisal.

In addition an external works cost allowance of 15% of base construction costs has been included (to include the proposed children's play area), which again is roughly what we would expect to see for a scheme of this nature.

Overall we have included a base build cost of £1,526,861 (excluding contingency, professional fees or abnormal costs), plus external works costs of £229,029 which is in line with the applicant's submitted figures.

b) Build Contingency – The applicant has included a contingency of 5% which is reasonable and in line with other similar schemes we have previously assessed.

Professional Fees – The applicant has included professional fees totalling £190,858 which equates approximately **10.89%** of base build costs and externals. They assert that this is higher than usual due to quantum given the small size of the scheme, plus additional third party input as follows:

• Enhanced ecology work relating to CFSH.
• Enhanced design work relating to CFSH.
• CFSH calculations, reporting and advice.
• Enhanced drainage advice relating to CFSH.

Typically we would expect to see closer to 8% for these costs but this can be higher where the scheme is more complex and would require additional consultation.

The scheme we have assessed is on an all-private basis due to the contention of the applicant and with the policy compliant scheme already having consent.

We are informed by the applicant that on an all-private basis it is proposed that the CFSH condition be removed through variation to assist viability. Therefore if we are considering the scheme on this basis no regard should be had to the additional professional fees relating to this element.

However, overall £190,858 is not considered to be particularly excessive as a total professional fee cost but we have reduced it slightly to **10%** (total £175,516) instead to reflect the CFSH consultation fees.

c) **Abnormal costs –** The applicant has provided a breakdown of abnormal costs undertaken by Sutherland Surveyors. Costs totalling £415,000 have been stated in the applicant's report as a consequence of the current S.106 agreement, but they state that items relating to CFSH and air source heat pumps will be removed for an all-private scheme, thereby reducing the total to £267,000. The bulk of these costs are as follows:

- Foul pumping station and associated works and items - £113,000 total
- Ditch culverting - £52,000
- Permeable paving and attenuation tank - £30,000
- Over-extra for deep foundations - £40,000

We have briefly consulted our QS team to discuss these additional costs who have talked us through the circumstances where they will be required.

The costs are considered to be reasonable on the assumption that the items and works are required for this site and we have therefore included them in our assessment.

Sometimes an external works allowance can reflect some of these types of works. However, in this instance the external works allowance of 15% (reflected separately) is at the low end of the range we would expect to see and therefore the additional over-extra costs are considered to be justified.

d) **Section 106/CIL Costs –** The applicant included the following in their appraisal:
S.106: £6,890
CIL: £79,876

However, we are informed by you that the required contributions are actually:
S.106: £42,548
CIL: £0

We have therefore included these figures in our appraisal instead but if this differs, it will affect our assessment.

e) **Sales and Marketing Fees –** The applicant has included a total of 2% for sales and marketing costs in their appraisal which is reasonable for this scheme.
In addition, they have included legal sales fees at £1,000 per unit which is also deemed reasonable and we have therefore included the same in our appraisal.

f) **Finance costs -** The applicant has adopted a rate of 6.5% which is within the range we would expect to see and in line with similar schemes that we have recently assessed.

g) **Developers Profit –** In the current market a range of 15% to 20% of GDV for private residential, 6% of GDV for affordable is considered reasonable.

The applicant has adopted a profit level of **20%** of gross development value in their appraisal which is deemed to be slightly high taking account the overall size and timeframe of the proposed development and the relative risk associated with it.

We consider a developer profit of **17.5%** on GDV to be sufficient for this scheme which is in line with other similar recent schemes we have assessed in this location and have therefore adopted this in our appraisal for the purposes of viability testing.

h) **Development Programme –** The applicant has assumed the following development timeframe for this scheme:

- Construction Period of 12 months (excluding **6 month** lead-in period)

- Sale period of **12 months** beginning directly after the construction period.

Usually with a scheme of this nature we would expect to see an overlap with the construction period and sales period but it is understood that due to the site only having one access point that the construction will need to be fully completed before the units can be sold.

We agree with the suggested construction period but have reduced the lead-in period to **4 months** due to this being a full planning application. We have also reduced the sales period to **8 months** which is calculated on a straight line basis within the cash flow of the appraisal.

i) **Land Value –** Following various appeal cases it is well established that viability assessments are carried out in order to calculate the residual land value that the scheme can afford which is then compared to the existing use value, or alternative use value of the site.

The applicant has included a figure of £75,000 which is based on the existing use value of the site as grazing/scrub land plus a seller incentive as follows:

- Existing use value = £62,500 (based on £50,000 per acre)
- Plus 20% seller incentive of £12,500

Total = £75,000

They have provided evidence of grazing land sales within the New Forest location which indicate a value in the region of £40,000 per acre for a small parcel of equestrian use grazing land. They have increased this to £50,000 per acre for the subject site due to its close proximity to Southampton.

As an existing use value, taking account of the quality of land and lack of any equestrian facilities such as water supply, stables or sand school area we consider the existing use value to be at the higher end of the range but accept that being within convenient reach to a large city could make it a more attractive proposition.

Overall, taking account of potential hope value for development we consider that in the current market a prospective developer would pay up to £75,000 for this site even as a speculative purchase for development in the medium – long term future. Therefore, for the purposes of viability testing we have included the same in our appraisal.

In addition agent/legal fees have been included at a standard rate of 1.75%.

Overall assessment:

Following our desktop assessment we are of the opinion that the proposed scheme, with no affordable housing and a developer profit of 17.5% is borderline in terms of being viable. Our appraisal shows that a small potential surplus of up to £76,846 is available for an off-site affordable housing contribution (See Appendix 1).

We broadly agree with the figures put forward by the applicant with the exception of the following (as highlighted in bold above):

- Professional fees
- CIL/S.106 contributions
- Developer profit
- Development programme (lead-in, and sales periods)

The biggest difference between our figures is with the developer profit. With no affordable housing contribution our appraisal indicates that the scheme would achieve a profit level of approximately 20% on GDV but due to the relatively small scale nature of this scheme and short timeframe, we consider 17.5% to be a reasonable level of profit, thereby providing a small surplus for affordable housing. This is in line with numerous other agreements for similar schemes in the south of England.

The main factor impacting the viability of this scheme is the low value nature of the location, but it is also worth noting that 12 of the 14 proposed units at this site are detached.

Construction costs for detached units are higher than for equivalent sized terrace and semi-detached houses, although there would be a difference in achievable revenue between these types. However, by constructing terrace and/or semi-detached units the site density could be increased which would help to improve viability.

The newly identified abnormal costs also impact viability but to a slightly lesser extent.

Due to the sensitivity of the valuation appraisal, a slight reduction or increase in these figures will have a large influence on the surplus available for affordable housing.

We consider that it would be reasonable in these circumstances to require the applicant to enter into an agreement to build the site to core and shell within 18 months. If they had not achieved this within the timeframe then a second viability assessment would take place giving the Council the opportunity to achieve a higher commuted sum if sales prices had improved.

I trust this report deals with the issues as required but please do not hesitate to contact me if you have any queries and I would welcome the opportunity of discussing this with you in greater detail.

Yours sincerely

Gavin Tremeer BSc MRICS
RICS Registered Valuer
Development Consultant
DVS South East

Reviewed by:

Tony Williams BSc MRICS
Head of Viability (Technical)
DVS South East

Appendix 1 – Viability Appraisal 100% Private Scheme