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Simon Mackie
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Our Reference: GAT/1603120
Your Reference: 15/01250/FUL

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Date : 14th September 2016

Dear Simon,

DESK TOP REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
PROPOSED SCHEME: 106-113 St Mary Street, Southampton. SO14 1PF

I refer to our fee quote dated 6th June 2016 and your email dated 27 July 2016 confirming your formal instructions to carry out a desk top viability assessment in respect of the above proposed development.

In accordance with the requirements of the RICS standards, the VOA has checked that no conflict of interest arises before accepting this instruction.

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

Background:

The current application for this site is as follows:

"15/01250/FUL | Erection of four additional storeys (above the ground floor retail units to be retained) to provide 74 residential units (21 studios, 34 x one bedroom flats, 17 x two bedroom flats and 2 x three bedroom flats) with associated facilities."

The contention of the developer that, at the policy level of section 106 contributions and 35% affordable housing, the scheme is not viable.

The proposed scheme comprises the construction of 74 new-build apartments over 5 floors on top of, and to the side of the existing commercial premises at 106-113 St Mary Street. A large part of the ground floor and whole first floor of the existing building will be demolished.

The developer is stating that following their assessment the scheme with CIL and S.106 contributions totalling £206,927 but no affordable housing contribution shows an overall loss and therefore no affordable units can be provided.

The Scheme:

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

For the purpose of this desk top assessment we assume the areas provided by the developer's agent are correct and have assumed that 26 units as affordable would be policy compliant.

The scheme as proposed by the developer is as follows:

Type	Number of Units	Unit Size Sq m	Total Net Sq m
Private Residential			
Studio apartment	21	40.75	855.75
One bedroom apartment	34	42.02	1,428.68
Two bedroom apartment	17	63.96	1,087.32
Three bedroom apartment	2	75.91	151.82
Total	**74**		**3,523.57**

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 copy of the applicant's submitted HCA EAT appraisal toolkit 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 developer has adopted the following values compared to ours:

Type	Developer (Average Value)	DVS (Average Value)
Studio apartment – 40.75m2	**£100,000**	**£110,000**
1 bed apartment – 42.02m2	**£110,000**	**£120,000**
2 bed apartment – 63.96m2	£155,000	£155,000
3 bed apartment – 75.91m2	£170,000	£170,000

Limited comparable sales evidence has been provided to us to substantiate the figures put forward but from our own research we agree with the values for the 2 bed and 3 bed units. However, the values for the studio and 1 bedroom apartment's look slightly low compared with the sales evidence we hold.

Flat 2 at 88 St Mary Street which sits directly opposite the subject site is a 1 bedroom flat sold in June 2016 for £122,000. It is slightly larger than the subject flats but a used property. A newly refurbished 1 bedroom flat of

40m2 at Golden Grove is currently being marketed for offers in excess of £110,000. This is part of a purpose built 1970's block which is quite unattractive.

Therefore, having regard to a new build premium which is generally achievable, we have adopted £110,000 and £120,000 as average values for the proposed studio flats and 1 bedroom flats respectively.

b) **Ground rents:**

For a development of this type we would expect the residential units to be sold on a long leasehold basis with both a ground rent and service charge payable. The ground rents would have a value.

The developer has used £150 per unit per annum capitalised using a 6% yield. We consider this to be slightly low and have instead calculated ground rents on the basis of £150 per annum for the Studio and 1 bed units, £200 per annum for the 2 beds and £250 per annum for the 3 beds. We have also used a capitalisation rate of 5.5% which is in line with other assessment we have seen in the current market.

c) **Gross Development Value (GDV):**

On the basis of the proposed scheme, with no affordable housing, we assess the gross development value to be in the region of **£9,584,940** whilst the developers have adopted **£8,999,986,** - some £584,954 lower. This is mainly due to the difference in the values adopted for the studio and 1 bedroom units.

2) Development Costs -

a) **Build Cost:**

The Developer has not provided a cost estimate or breakdown of costs for the proposed scheme but has instead used the BCIS guide and assessed the overall base build costs at £7,050,170 on the basis of 1,376 per m2.

In addition, external works costs for the decked garden area and balcony structures, plus utilities connection costs of £2,000 per unit have been included and are considered reasonable.

However, taking account of current BCIS rates for building these types of properties adjusting for location, we consider the base build costs to be too high. The current BCIS Median rate for a new build 3-5 storey block is £1,302m2 and Lower Quartile rate if £1,142m2. Considering the low value nature of this location we would usually consider the Lower Quartile rate to be more appropriate for a new-build block.

However, this construction is more complex as there will be an element of ground floor retail space retained and built on top of, and to the side of. Without undertaking a site specific assessment of costs, it is very difficult to gauge the true cost of the scheme.

It is also worth noting that due to design restraints, significant areas of the proposed building are given over to circulation, storage and access areas which amount to 1,600m2 total. This equates to a net-gross ratio of approximately 45% which is significantly higher than usual (more typically 15% - 20%). It is possible that the quality and cost of finish and specification for these areas will be lower than for the individual flats.

Overall, taking all of the above points into account, and with no cost estimate or breakdown provided, we have adopted a mid-way rate between new-build BCIS Lower Quartile and Median figures of £1,222m2.

Our total base construction cost including external works and abnormal costs (detailed below) is **£6,691,710** compared with the developer's submitted costs of **£7,480,751**.

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

c) **Professional Fees** – The developer has included 8% for professional fees which we consider to be reasonable for this scheme.

d) **Abnormal costs** – The developer has included the following abnormal costs:

- Demolition costs - £70,835
- Temporary roof structure (for retained retail) - £50,000

These costs are considered to be reasonable and we have therefore included the same in our appraisal.

e) **Section 106/CIL Costs** – The developer has included £110,180 for CIL contributions and £96,747 for S.106 contributions but we are informed by you that the required contributions will actually be £380,531 for CIL and £68,500 for S.106 and we have instead used these figures in our appraisal. The total we have adopted is **£449,031** compared with the developer's total figure of **£206,927**. If this differs then it will affect our assessment.

f) **Sales and Marketing Fees** – The developer has adopted 1.5% of the gross development value for sales and marketing fees which is in line with other schemes we have assessed. In addition we have used £700 per unit for legal fees in line with the developer.

g) **Finance costs** - The developer has adopted a finance rate of 6% plus arrangement fees of £86,902 which is in line with similar schemes that we have previously assessed.

h) **Developers Profit** – The developer has included a profit level of 17.5% of gross development value which is what we would expect to see for residential schemes of this type and have therefore used the same.

i) **Development Programme** – The developer has indicated the following timescales:

- Build Period of 16 months
- Sale period of 8 months beginning directly after the build period of 16 months.

A pre-construction period of just 1 month has been included by the developer which is slightly shorter than we would expect to see but for the purposes of our appraisal we have used the same development programme.

j) **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 developers have included a NIL land value in their appraisal for the purposes of viability testing. This is due to their residual value for the proposed scheme being negative.

The site is currently owned by the developer and comprises three ground floor shop units and associated premises to the rear and on the first floor. The existing ground floor retail units are currently occupied by Tesco Express, Coral betting shop and St Mary's Carpets and will be retained. The proposed scheme of 74 flats will be constructed around and on top of these units.

The existing first floor (to be demolished) comprises a former club and premises (believed to be used as a snooker club some time ago) and is understood to be in a poor state of repair, although the extent of dilapidation is unknown.

It is conceivable that if the site came to the market as a development opportunity that some monetary value may be achieved, but this will depend on the planning consent likely to be granted. Other costs to consider are relocation of the current retail tenants which have not been accounted for in the developer's appraisal.

Assuming that the first floor accommodation is essentially economically obsolete then it is quite likely that the site as a development opportunity would not achieve any interest. Therefore, for the purpose of viability testing we have also adopted a NIL site value in line with the developer.

Overall assessment:

Following our desktop assessment we are of the opinion that the proposed scheme, with no affordable housing but with the full level of CIL contributions and a developer profit of 17.5% is not viable and no surplus will be available for an off-site affordable housing contribution.

Based on the inputs as detailed in this report, our appraisal shows that the scheme will achieve a profit level of approximately 8.1% of gross development value which is below the level generally required for the purposes of debt finance and brings into question the deliverability of the scheme.

Despite this there are some differences between ours and the submitted figures, highlighted in bold above as follows:

- Gross Development Value (studio and 1 bed flats, plus ground rents)
- Construction costs (base build rate only)
- CIL and S.106 contributions

It should be noted that the required CIL and S.106 contributions are significantly higher than those included by the developer.

It should also be noted that there will be additional relocation costs for the existing ground floor tenants which have not been included in the submitted assessment.

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.

Y

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