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Our Reference: GAT/1619731
Your Reference: 15/02410/FUL

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Date : 10th February 2017

Dear Simon,

DESK TOP REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
PROPOSED SCHEME: Land (Former Dairy Crest Site) 69-73 Anglesea Road, Southampton. SO15 5QR

I refer to our fee quote dated 28 November 2016 and your email dated 05 December 2016 confirming your formal instructions to carry out a desk top viability assessment in respect of the above proposed development.

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

Background:

This application is as follows:

"Redevelopment of the site. Demolition of the existing buildings. Erection of a part two-storey and part three-storey building fronting Anglesea Road to provide 41 retirement flats with the erection of 16 dwellinghouses (including 4 bungalows) accessed from Stratton Road with associated access, parking and landscaping - Description amended after validation following changes to the proposed layout and the replacement of a flatted block of 20 flats with 12 two storey houses"

The new proposed scheme comprises the erection of a part two part three storey building containing forty one 1 and 2 bedroom retirement apartments, ten 2 and 3 bedroom terraced houses and six bungalows.

Four of the six proposed bungalows are to be replacement dwellings for the 3 existing houses known as 69, 71 and 73 Anglesea Road which are currently occupied under protected 'life' tenancies. The revenues and costs for the new bungalows have been included in the applicant's appraisal but because of this unique situation, the applicant's benchmark land valuation for the site makes no allowance for the value of these existing buildings. We consider this to be the correct approach in assessing the financial viability of this scheme due to the obligation to re-house the existing tenants.

The applicant is stating that following their assessment the scheme including a CIL contribution of £418,452 but with no affordable housing shows a negative surplus of -£220,000 and therefore 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 provided to us by the applicant are correct. You have informed us that for this scheme an on-site affordable housing provision of 35% would be policy compliant which equates to 20 units as indicated in the planning application description above.

The scheme as proposed by the applicant is as follows:

Type	Number of Units	Average Unit Size Sq m	Total Net Sq m
Private Residential			
1 Bedroom Apartment	19	52.77	1,002.63
2 Bedroom Apartment	22	75.17	1,653.74
2 Bedroom House	8	79.00	632.00
3 Bedroom House	2	93.00	186.00
2 Bedroom Bungalow	1	78.00	78.00
2 Bedroom Bungalow	1	73.00	73.00
2 Bedroom Bungalow (replacement dwellings)	4	73.20	292.80
Total	**57**		**3,918.17**

Viability Assessment:

This report deals with each major input into the viability assessment of the scheme.

This assessment has been undertaken following our own detailed research into both current sales values and current costs. In some cases we have used figures put forward by the applicant if we believe them to be reasonable. The applicant has not provided a 'live' version of their spreadsheet valuation, but we have used their written report.

We have used a copy of our bespoke Excel Spreadsheet Appraisal 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 good comparable sales evidence from new-build retirements apartments and houses. Base on this evidence they have adopted the following values compared with ours:

Type	Developer (Average Value)	DVS (Average Value)
1 Bed apartment	£210,000	£210,000
2 Bed apartment	£290,000	£290,000
2 Bedroom House	£275,000	£275,000
3 Bedroom House	£325,000	£325,000

2 Bedroom Bungalow	£290,000	£290,000
2 Bedroom Bungalow	£275,000	£275,000
2 Bedroom Bungalow (replacement dwellings)	£262,500	£262,500

From our own research we do not disagree with the sales values so we have adopted these in our own appraisal.

Whilst the figure of £262,500 put forward for the replacement bungalows is slightly lower than for the other similar size bungalow (plot 12, £275,000), it is still considered to be representative of full open market value. It should be noted that these units will be used to re-house existing tenants under protected tenancies and therefore the market value of these units may be reduced due to this restriction. Nonetheless, for the purposes of the viability assessment we have adopted the same figures as provided by the applicant.

b) Ground rents:

For a development of this type we would expect the residential apartment 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 applicant has included £425 per unit per annum for the 1 bedroom units and £495 for the 2 bedroom units capitalised using a 5% yield which is considered to be reasonable.

c) Gross Development Value (GDV):

On the basis of the proposed scheme, with no affordable housing, we consider the submitted gross development value of £15,214,300 to be reasonable.

2) Development Costs -

a) Build Cost:

At this stage no cost estimate or breakdown of costs has been provided to us. The applicant has instead adopted current BCIS Median figures and added 10% for external works costs. Based on this approach, the following build cost rates have been included in their appraisal:

Retirement apartments: £1,570.80 per m2
Single storey units: £1,544.40 per m2
2 Storey units: £1,194.60 per m2

These costs broadly reflect current BCIS Median costs for this type of construction, adjusted for location, and are therefore considered to be reasonable for this scheme.

An addition of 10% to cover all external works costs is also considered to be reasonable for this scheme taking account of the total size of the site and surfacing/landscaping required.

The base build costs total £7,430,954 and are in line with other similar schemes we have assessed and we have therefore used the same costs in our appraisal for the purposes of viability testing.

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

c) **Professional Fees** – The applicant has included professional fees of **10%** of build costs which equates to £809,545 in total. No breakdown of what these costs are has been provided to us to substantiate this figure and 10% is at the top end of the scale we would expect to see compared with other recent schemes we have assessed.

We are advised by our in-house team of Quantity Surveyors that professional fees for residential will typically fall within the range of 6% - 10% of construction costs. Therefore we have adopted a level of **8%** for this scheme which we consider to be sufficient and has been agreed on other similar projects.

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

- Demolition (existing bungalows) - £13,000
- Asbestos (existing bungalows) - £5,000
- Contamination (existing bungalows) - £6,000
- Demolition - £95,000
- Asbestos removal - £55,000
- Removal of underground tanks - £15,000
- Contamination - £90,000

The applicant has provided a site investigation report from ACS which indicates certain on-site contamination levels including a fuel tank which will need to be removed. The £90,000 figure is an estimated remediation cost at this stage but is considered to be a conservative estimate.

We consider these costs to be reasonable and have adopted these in our appraisal.

e) **Section 106/CIL Costs** – The applicant has included £418,542 for CIL contributions based on an indexed price per m2 of £94.84, but we are informed by you that the CIL contribution will actually be closer to £358,556 and we have used this in our appraisal instead. We have also included the following S.106 contributions in our appraisal:

Highways: £40,500
SDMP: £9,328

The total contributions included in our appraisal are therefore £408,384 but if this differs then it will affect our assessment.

f) **Sales and Marketing Fees** – The applicant has included marketing fees totalling £468,525 and agent sales fees totalling £262,418. This equates to approximately 4.8% on total sales values which is similar to what we have seen on other retirement apartment schemes and is therefore considered reasonable for this scheme.

In addition legal sales fees totalling 35,434 have been included. This equates to £621.65 per unit which is within the range we would expect to see and we have therefore adopted this in our appraisal.

g) **Finance costs** - The applicant has included a finance debit rate of 5.5% and credit rate of 2.5% plus arrangement fees of £100,000. This equates to an overall debit rate of approximately 6.5% including fees. We consider this to be reasonable and in line with similar schemes that we have previously assessed.

h) **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 used a blended profit rate of **19.2%** on GDV which allows for 6% on cost for the 4 replacement bungalows and 20% on GDV for the remaining units.

However, we have instead adopted the following profit rates based on previously agreed levels on similar schemes within the locality:

20% - RL apartments
17.5% - Private units
0% - Replacement bungalows

This equates to a blended profit level of **18.06%** on GDV. We have included no developer profit on the replacement bungalow as it is understood that they are a planning requirement for this scheme and the only associated risk is deemed to be with the construction costs, for which we have already allowed a 5% build contingency in our appraisal.

i) **Development Programme** – Due to the requirement to provide 4 replacement dwellings to re-house the existing protected tenants on the site, the applicant has adopted a phased development programme.

They state that no work can commence on the retirement development and market housing until the tenants have been decanted.

They have therefore allowed a 9 month construction period for the replacement bungalows after a 6 month pre-construction period, with the main construction works starting in month 16 (following a total of 15 month lead-in period). The timeframe is as follows:

- Pre-construction period of **6 months** for replacement dwellings and 15 months for retirement and private units.

- Build Period of 9 months for replacement dwellings and 12 months for retirement and private units.

- Sales period assumes the following: 12 apartments (30%) sold at practical completion; with a further 21 apartments (50%) selling to the end of year 1 (so 80% of the scheme in the first year).

  Overall this proposed timeframe looks reasonable in light of the protected tenancies in place, but we consider that a **4 month** lead-in period should be sufficient considering the advanced stage of this full planning application, and we have adjusted our cash flow to reflect this.

  In addition, it should be noted that empty property costs have been included totalling £53,163 and a timeframe schedule has been provided to substantiate this.

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 subject site is effectively split into two separate parts; one part being the former dairy crest site totalling 1.54 Ac which is accessed from Stratton

Road (although there is a small access path from Anglesea Road), and the other part comprising no's 69, 71 and 73 Anglesea Road which are currently occupied under protected 'life' tenancies.

Four of the six proposed bungalows are to be replacement dwellings for the tenants of the 3 existing houses and as such the applicant's benchmark land valuation for the site makes no allowance for the value of these existing buildings or this part of the site. We consider this to be the correct approach in assessing the financial viability of this scheme due to the obligation to re-house the existing tenants.

The existing use value of the site as a storage depot and premises is relatively low due to its poor internal condition. It has been vacant since 2013 and, based on the previous rental value we would estimate a capital value in the region of £500,000 - £700,000 assuming minimal refurbishment costs. The repair/maintenance required are however unknown and the site's greatest value lies in its alternative use for residential redevelopment.

Based on this assertion, the applicant has provided a separate valuation report and put forward a value of £1,960,000 based solely on the 1.54 Acre former Dairy Crest site. This is based on comparable land sales of residential development sites within Southampton adjusted for planning risk. Abnormal costs of £255,000 have then been deducted from this figure to produce a benchmark land value of £1,700,000 (rounded). Deducting abnormal costs from the total value is considered to be a correct approach.

We have analysed the comparable sales provided to us. The value adopted by the applicant is based on the 2011 sale of 360 – 364 Shirley Road; a 1.99 Acre site with detailed planning consent for 18 houses and 78 flats which was purchased by Persimmon Homes for £3,625,000. This equates to £1,821,608 per acre, or £37,950 per plot.

The applicant has applied a 30% reduction in value to reflect planning risk. Although there is no formal consent for a scheme in place at the subject site, it is allocated for residential development in the Local Development Plan and the risk of obtaining consent will therefore be significantly reduced.

Overall, the benchmark land value of £1.7M put forward by the applicant equates to £1.1M per acre or £29,825 per plot based on the proposed scheme, or 12% of GDV which is deemed reasonable and in line with other market evidence available. The applicant has provided sales and marketing evidence from other nearby residential development sites which supports the figure put forward and we have therefore adopted the same benchmark land value in our assessment for the purposes of viability testing.

In addition stamp duty has been included at the current rate and agent/legal fees of 1.75% have been included.

Overall assessment:

Following our desktop assessment we are of the opinion that the proposed scheme, with no on-site affordable housing but with the full level of CIL contributions is borderline in terms of being viable but that a small surplus of up to £74,573 is potentially available for an affordable housing contribution.

As part of our review we have undertaken some sensitivity analysis. If the developer profit was reduced to a blended rate of 17.5% on GDV then our appraisal shows that a surplus of up to £159,220 could be available as an off-site contribution. This would potentially equate to 2 or 3 on-site units depending on property type and tenure.

The applicant's viability submission and appraisal is generally well evidenced and we broadly agree with most of the figures used but there are a couple of small differences, as highlighted in bold above, which are as follows:

- Professional fees
- Development programme (pre-construction period only)
- Developer profit

A major factor affecting the viability of this scheme is the staggered development schedule which is necessary due to the requirement to re-house the existing tenants on the site. The phased construction leads to an extended overall sales period meaning the revenue income will only be received after nearly 4 years of beginning the scheme.

The tenants could potentially be re-housed in temporary accommodation whilst construction of the first phase of houses and new bungalows was underway but the practicalities and disruption of this is likely to lead to equally high costs and is logistically more difficult to manage.

This is our opinion based on the evidence and information provided to us but should further evidence come to light it may cause us to alter our 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.

General Information:

Status of Valuer

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

Conflict of Interest

Prior to undertaking this viability assessment, conflict of interest checks were carried out in accordance with the requirements of the RICS standards. I can confirm that we have not had any previous involvement with this site and that I am not aware of any conflicts of interest that affect my ability to provide impartial viability advice to the Council.

Validity

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.

I trust this provides the information that is required however 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 19.02% profit
Appendix 2 – Viability Appraisal 17.5% profit