

Private and Confidential

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

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

Our Reference: GAT/1608901
Your Reference: 16/01125/FUL

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

Date : 1st December 2016

Dear Simon,

**DESK TOP REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
PROPOSED SCHEME: Land Rear of 4 – 8 Millbrook Road East, Southampton**

I refer to our previous fee quote and your email dated 26th September 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.

You have 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, reference 16/01125/FUL, is as follows:

'Erection of a 7-storey building to provide 12 flats (4 x 1-bedroom, 8 x 2-bedroom) and two floors of offices with associated parking and landscaping.'

The contention of the developer that at the policy level of section 106 contributions, CIL contributions and 20% affordable housing, the scheme is not viable.

The proposed scheme comprises a new-build 7 storey block on the site of an existing car park and premises which forms part of the larger office site known as Southbrook Rise which is to be converted to residential units under a separate prior approval scheme. The proposed new build block will comprise 4 X 1 bedroom units, 8 X 2 bedroom units and two floors of office space.

The developer is stating that following their assessment the scheme with no affordable housing shows an overall loss on the scheme and therefore no affordable housing contribution can be made.

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 stated on the floor plans provided are correct.

The scheme as proposed by the developer is as follows:

Type	Number of Units	Average Unit Size Sq m	Total Net Sq m
Private Residential			
One bedroom apartment	4	47	188.0
Two bedroom apartment	4	57	228.0
Two bedroom apartment	4	59	236.0
Commercial			
Office suite	1	309.5	309.5
Total	13		961.5

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 developer has adopted the following average values compared to ours:

Type	Developer	DVS
1 bed apartments – 47m2	£149,375	£149,375
2 bed apartments – 57m2	£207,500	£207,500
2 bed apartments – 38m2	£212,500	£212,500
Office Suite	£601,045	£601,045

Residential:

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.

Commercial:

The commercial office space has been valued using an investment method approach. The applicant has adopted a rental value of £15 per square foot capitalised using an investment yield of 8%. A 6 month void period has also been factored in to the valuation to produce a total capital value of £601,045.

From our own research of existing offices within the vicinity, and based on the assumption that there is no pre-let agreement in place, we consider the assertions and capital value put forward by the applicant to be reasonable.

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 not included a freehold value but we consider figures of £200 per unit per annum for the 1 bedroom units and £250 for the 2 bedroom units capitalised using a 5.5% yield to be reasonable. This equates to £50,903 which we have included in our assessment.

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 **£2,929,468** whilst the developers have adopted **£2,878,565** - some £50,900 lower due to the capitalised ground rents for the residential units.

2) Development Costs -

a) Build Cost:

A basic breakdown of costs for this scheme undertaken by the developer has been provided to us which show the total base construction costs (not including contingency, professional fees, external works or abnormal costs) to be in the region of £2.976M which is actually greater than the total gross development value for the scheme.

These costs appear to be based on a total gross internal area (GIA) of 1,530m² but the total GIA included in the submitted viability appraisal is 1,082m² and it is assumed that the area used in the breakdown of costs is incorrect as it indicates a net – gross ratio which is too high. We have therefore disregarded these for the purpose of our assessment and have based our costs on a gross area of 1,082m². However, it should be noted that this lower net – gross ratio seems low considering the height of the building and the requirement for a lift shaft.

Within the submitted viability report details of the latest BCIS guide figures have also been provided. A point which should be clarified is that current BCIS figures are inclusive of preliminary works and contractor overheads and profit. This is contrary to the information detailed in the developer's submitted report.

The proposed scheme is for a 7 storey block with undercroft parking. The BCIS guide sample figures for 6+ storey residential flats include much higher rise structures which will be more expensive to build and we do not consider this to be a fair reflection of the cost of the proposed scheme.

Taking account of the quality and value of the location, and the proposed design we consider the current BCIS Lower Quartile figure for 6+ storey blocks of £1,525 per m2 to be more appropriate for the whole structure (residential and commercial), and have included this rate in our appraisal. This is in line with examples from other similar schemes we have assessed in Southampton.

External works costs (not including service connections) have also been included at £107,500 in line with the developer. This equates to approximately 5.8% of our base build costs which is deemed to be reasonable.

For the undercroft element, the developer has indicated a cost of £85,000 total to include 12 X surfaced car parking spaces plus bike and bin stores and we have included the same.

Overall we have included a base build cost of **£1,736,965** compared with the developer's figure of **£2,976,000**.

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 **10%** of construction costs for professional fees which is higher than we would expect to see for a relatively simple scheme such as this. From other similar schemes we have assessed we would expect to see closer to **8%** and have therefore included this in our appraisal instead.

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

- Service connections - **£145,000** (£11,154 per unit)
- NHBC warranties - £20,000 (£2,857 per unit)
- Demolition costs - £25,000 (existing concrete ground slab)

The above costs are considered to be reasonable with the exception of the service connections. From other similar schemes we have assessed, we would consider up to £5,000 per unit to be more realistic which equates to **£65,000** total. We have therefore included this in our appraisal.

e) Section 106/CIL Costs – The developer included the following in their appraisal:

S.106: £2,122

CIL: £45,656.

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

f) Sales and Marketing Fees – The developer 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 a total of £14,220 for legal sales fees which is slightly higher than we have seen from other schemes. Considering the commercial element included in this scheme however, it is deemed to be a reasonable total cost for this scheme.

g) Finance costs - The developer has adopted a rate of **7.5%** which is slightly higher than we would expect to see. We have therefore adopted a rate of **7%** (using a cash-flow analysis) to include all arrangement fees which is 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 developer has used a profit level of 17.5% of gross development value and we have included the same.
- i) **Development Programme** – The developer has assumed the following development timeframe for this scheme:
- Construction Period of 18 months (excluding **6 month** lead-in period)
 - Sale period of 4 months beginning directly after the construction period.

We agree with this timeframe with the exception of the lead-in period which we have reduced to **4 months** due to this being a full planning application.

- 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 developer has included a figure of £180,000 which is based on the existing use value of the site as a car park and premises.

This figure represents approximately 6% of our estimated gross development value which is deemed to be acceptable, if slightly conservative compared with other schemes we have seen. Therefore, for the purposes of viability testing we have included the same in our appraisal.

In addition both stamp duty and agent/legal fees have been included at the current rates.

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 not viable and therefore no surplus is available for an off-site affordable housing contribution (See Appendix 1).

Despite this, there are several differences between ours and the developer's figures, as highlighted in bold above which are as follows:

- Gross Development Value (capitalised ground rents only)
- Construction costs
- Professional fees
- Abnormal costs (service connections only)
- Finance costs
- Development programme (lead-in period only)

Our appraisal shows that a loss of approximately -£252,000 will be made on the scheme using a benchmark land value of £180,000 which equates to approximately 9% profit on gross development profit. It is assumed that the developer is only willing to proceed with the scheme because it will be carried out together with the prior consent conversion scheme at the same site.

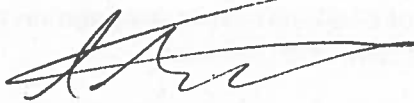
It is assumed that the provision of the office accommodation is a requirement of the Local Authority to demonstrate some continuation of employment use and it should be noted that the cost of creating the office space is greater than the revenue achievable from it. It is therefore onerous to the scheme and this has a direct impact on the viability.

The other main aspect impacting the viability of the scheme is the inefficient design for the relatively small number of units. We would typically expect to see a maximum 4-5 storey construction for this number of units and consider the proposed design to be unrealistic for the revenues which can be achieved. It is therefore not considered to be a sustainable development.

It should be noted that the submitted figures from the developer shows an overall loss on the scheme. It is our opinion that no developer would continue with the scheme on this basis and brings into question the accuracy of the figures put forward by them, particularly the construction costs where we have a significant difference. For the purpose of this assessment we have adopted a gross floor area in line with that used in the developer's appraisal but this looks to be quite low. If it is increased then the construction costs will increase in line which would worsen the viability position further.

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

Appendix 1 – Viability Appraisal