



Valuation Office
Agency

DVS Property Specialists
for the Public Sector

Viability Report for
Land to the rear of Southern House,
80 Shirley Rd and 4 & 6 Sir Georges Rd
Southampton

Report for:
Simon Mackie
Southampton City Council

Prepared by:
[REDACTED]
RICS Registered Valuer
DVS

Tel: [REDACTED]

[REDACTED]

Case Number: 1751419

Client Reference: 20/00741/FUL

Date: 27 October 2020

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1. Executive Summary

1.1 Proposed Development Details

This updated report provides an Independent Review of a Financial Viability Appraisal in connection with:

Proposed Development	Redevelopment of land following demolition of existing building to erect a terraced block of 3 x 3-bed houses and 3 storey block containing 11 flats (7 x 2-bed, 3 x 1-bed and 1 x studio) with associated parking and cycle/refuse storage.
Subject of Assessment:	Land to rear of Southern House, 80 Shirley Rd and 4 & 6 Sir Georges Rd, Southampton SO15 3EY
Planning Ref:	20/00741/FUL
Applicant:	King Property Development Ltd
Applicant's Viability Advisor:	Simon Corp of S106 Affordable Housing (S106)

Non-Technical Summary of Viability Assessment Inputs

Inputs for All Private Scheme	S106	DVS Viability Review	Agreed (Y/N)
Assessment Date	24 April 2020	27 October 2020	
Scheme, Net and Gross Internal Area, Site Area	Residential Flats - 672 sq m net Houses - 327 sq m Total – 1,115 sq m gross 0.17 hectares	Residential Flats - 672 sq m net Houses - 327 sq m Total - 1118 sq m gross 0.17 hectares	Y
Construction Period	12 months	12 months	Y
Sale Period	5 months	5 months	Y
Gross Development Value	£3,009,000	£3,009,000	Y
Market Housing blended value rate	£2,968 per sq m	£2,968 per sq m	Y
Affordable Housing	N/A	N/A	
Ground Rents	£44,000	£44,000	Y
Planning Policy / S.106 Total	CIL - £100,726 S.106 - Nil	CIL - £98,530 S.106 - £28,991	N N
Construction Cost Inc. Externals & Abnormals. Total	£1,773,353	£1,692,148	N
Contingency	5%	5%	Y

Professional Fees & Surveys etc	7%	7%	Y
Finance Interest	7% used but 6.5% stated in report	6.5%	N
Other Fees			
Marketing Fees	1.0%	1.0%	Y
Sales / Agency Fees	1.5%	1.5%	Y
Legal Fees	£750 per unit	£750 per unit	Y
Land Acquiring Costs	SDLT + 1.5%	SDLT + 1.5%	Y
Profit Target %	Residential – 17.5% of GDV Affordable – 6% of GDV	Residential – 17.5% of GDV Affordable- 6% of GDV	Y
EUV	£293,122	£293,000	N
EUV Premium to BLV	15%	15%	Y
Benchmark Land Value	£337,000	£337,000	Y
Purchase Price (if relevant)	N/A	N/A	
Alternative Use Value	N/A	N/A	
Viability Conclusion	Deficit of £171,469 Not Viable	Deficit of £81,000 Not Viable	N Y

2. Introduction

- 2.1 I refer to your instructions dated 2 October 2020 and my Terms of Engagement dated 8 September 2020.
- 2.2 This opinion of the development viability of the proposed development scheme assessed is based on a review of the planning applicants/agents report dated 24 April submitted to the Local Authority.
- 2.3 As this is a desk top assessment I have not inspect the site and I have now finalised my viability assessment and I am pleased to report to you as follows.
- 2.4 A copy of my Terms of Engagement dated 8 September 2020 are attached.

2.5 Identification of Client

Southampton City Council

2.6 Purpose of Assessment

It is understood that the Southampton City Council require an independent opinion on the viability information provided by S106 Affordable Housing (S106), in terms of the extent to which the accompanying appraisal is fair and reasonable and whether the assumptions made are acceptable and can be relied upon to determine the viability of the scheme.

2.7 Subject of the Assessment

Land to rear of Southern House, 80 Shirley Road, and 4 & 6 Sir Georges Road, Southampton SO15 2EW

3. Date of Assessment / Date of Report

The date of viability assessment is 27 October 2020

Please note that values change over time and that a viability assessment provided on a particular date may not be valid at a later date.

4. Viability Methodology / Professional Guidance

4.1 The review of the applicant's viability assessment has been prepared in accordance with the recommended practice set out in the National Planning Policy Framework; the NPPG on Viability (July 2018, updated May 2019, September 2019) and the Royal Institution of Chartered Surveyors (RICS) Professional Statement, Financial Viability in Planning (**FVIP: Conduct and Reporting**) (effective from 1st September 2019) and the RICS (**FVIP**) Guidance Note (1st Edition) (GN 94/2012), where applicable.

4.2 The Residual appraisal methodology is established practice for viability assessments. In simple terms the residual appraisal formula is:

Gross Development Value less Total Development Cost (inclusive of S106 obligations, abnormal development costs and finance) less Profit, equals the Residual Land Value.

4.3 The Residual Land Value is then compared to the Benchmark Land Value as defined in the Planning Practice Guidance on Viability. Where the Residual Land Value produced from an appraisal of a policy compliant scheme is in excess of the Benchmark Land Value the scheme is financially viable, and vice versa:

Residual Land Value > Benchmark Land Value = Viable
Residual Land Value < Benchmark Land Value = Not Viable

4.4 The appraisal can be rearranged to judge the viability of a scheme in terms of the residual profit, which is compared to the target profit:

Residual Profit > Target Profit = Viable
Residual Profit < Target Profit = Not Viable

4.5 For this case the DVS appraisal produces a Residual Land Value which is then compared to the Benchmark Land Value as defined in the Planning Practice Guidance on Viability and the appraisal shows either a deficit or surplus.

5. RICS Financial Viability in Planning Conduct and Reporting

In accordance with the above professional standard it is confirmed that:

- 5.1 In carrying out this viability assessment review the valuer has acted with objectivity impartiality, without interference and with reference to all appropriate sources of information.
- 5.2 The professional fee for this report is not performance related and contingent fees are not applicable.
- 5.3 DVS are not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.
- 5.4 The appointed valuer, [REDACTED] MRICS, Registered Valuer is not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.
- 5.5 Neither the appointed valuer, nor DVS advised this local planning authority in connection with the area wide viability assessments which supports the existing planning policy.
- 5.6 DVS are employed to independently review the applicant's financial viability assessment, and can provide assurance that the review has been carried out with due diligence and in accordance with section 4 of the professional standard. It is also confirmed that all other contributors to this report, as referred to herein, have complied with the above RICS requirements.

6. Restrictions on Disclosure / Publication

- 6.1 The report has been produced for Southampton City Council only. DVS permit that this report may be shared with the applicant and their advisors as listed above, as named third parties.
- 6.2 The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers and solely for the purposes of the instruction to which it relates. Our report may not, without our specific written consent, be used or relied upon by any third party, permitted or otherwise, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our report. No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report.
- 6.3 Planning Practice Guidance for viability promotes increased transparency and accountability, and for the publication of viability reports. However, it has been agreed that your authority, the applicant and their advisors will neither publish nor

reproduce the whole or any part of this report, nor make reference to it, in any way in any publication. It is intended that a final report will later be prepared, detailing the agreed viability position or alternatively where the stage one report is accepted a redacted version will be produced, void of personal and confidential data, and that this approved document will be available for public consumption.

- 6.4 None of the VOA employees individually has a contract with you or owes you a duty of care or personal responsibility. It is agreed that you will not bring any claim against any such individuals personally in connection with our services.
- 6.5 This report is considered 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 and your council is expected to treat it accordingly.

7. Validity

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

8. Confirmation of Standards

- 8.1 The viability assessment review has been prepared in accordance with paragraph 57 of the National Planning Policy Framework, which states that all viability assessments should reflect the recommended approach in the National Planning Practice Guidance on Viability, (July 2018, updated May 2019 and September 2019).
- 8.2 The viability assessment review report has been prepared in accordance with the Professional Statement Financial Viability in Planning: Conduct and Reporting (effective from 1st September 2019). Regard has been made to the RICS Guidance Note "Financial Viability in Planning" 1st Edition (GN 94/2012), where applicable.
- 8.3 Valuation advice (where applicable) has been prepared in accordance with the professional standards of the Royal Institution of Chartered Surveyors: RICS Valuation – Global Standards 2020 and RICS UK National Supplement, commonly known together as the Red Book. Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuations Standards (IVS).
- 8.4 Whilst professional opinions may be expressed in relation to the appraisal inputs adopted, this consultancy advice is to assist you with your internal decision making and for planning purposes, and is not formal valuation advice such as for acquisition or disposal purposes. It is, however, understood that our assessment and conclusion may be used by you as part of a negotiation, therefore RICS Red Book professional standards PS1 and PS2 are applicable to our undertaking of your case instruction, compliance with the technical and performance standards at

VPS1 to VPS 5 is not mandatory (PS 1 para 5.4) but remains best practice and they will be applied to the extent not precluded by your specific requirement.

- 8.5 Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuations Standards (IVS).
- 8.6 Where relevant measurements stated will in accordance with the RICS Professional Statement 'RICS Property Measurement' (2nd Edition) and, the RICS Code of Measuring Practice (6th Edition).
- 8.7 Agreed Departures from the RICS Professional Standards
 - 8.7.1 As agreed, any commercial and residential property present has been reported upon using a measurement standard other than IPMS, and specifically Net Internal Area has been used for value and Gross Internal Area for costs. Such a measurement is an agreed departure from 'RICS Property Measurement (2nd Edition)'. This method of measurement is standard practice for Viability assessments.
- 8.8 It is agreed that the DVS terms of engagement appended to this report will omit commercially confidential and personal data.

10. Conflict of Interest

- 10.1 In accordance with the requirements of RICS Professional Standards, DVS as part of the VOA has checked that no conflict of interest arises before accepting this instruction. It is confirmed that DVS are unaware of any previous conflicting material involvement and is satisfied that no conflict of interest exists.
- 10.2 It is confirmed that the valuer appointed has no personal or prejudicial conflict in undertaking this instruction. It is confirmed that all other valuers involved in the production of this report have also declared they have no conflict assisting with this instruction. Should any conflict or difficulty subsequently be identified, you will be advised at once and your agreement sought as to how this should be managed.

11. Engagement

- 11.1 The DVS valuer has / has not conducted any discussions negotiations with the applicant or any of their other advisors other than requests for confirmation of details provided.

12. Status of Valuer

- 12.1 It is confirmed that the viability assessment has been carried out by [REDACTED] BSc MRICS, Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge, skills and understanding necessary to undertake the viability assessment competently and is in a position to provide an objective

and unbiased review. [REDACTED] is referred hereafter and in redacted correspondence as 'the DVS reviewer'.

12.2 [REDACTED] – Graduate Surveyor has assisted in both the Gross Development Value and the Existing Use Value of the site.

13. Assessment Details

13.1 Location / Situation

The site is located on the edge of the City Centre within the highly accessible area of Freemantle and only a short walk from the Central Station with regular bus routes to both the City Centre and Shirley High Street.

The surrounding area is a mix of residential, offices and shops and the site is surrounded by residential.

13.2 Description

The existing site comprises a vacant car park to the rear of Southern House (permitted development for 10 x 1 bed flats) and a detached office building to be demolished facing Sir Georges Road.

13.3 Site Area

We understand from the planning application form that the site has an area of approx 0.17 hectares.

14. Date of Inspection

As agreed with the Council the property has not been inspected.

15. Planning Policy / Background

The current application, the subject of this review, is reference 20/00741/FUL - Redevelopment of land following demolition of existing building to erect a terraced block of 3 x 3-bed houses and 3 storey block containing 11 flats (7 x 2-bed, 3 x 1-bed and 1 x studio) with associated parking and cycle/refuse storage.

We understand that there is no direct planning history in respect of the site although Prior Approval for conversion of 80 Shirley Road (Southern House) to 10 flats was approved in 2019.

However the adopted Development Plan should be taken into account including:

- Southampton Core Statutory (Partial Review) 2015
- City of Southampton Local Plan (Review) 2015

16. Local Plan Policy Scheme Requirements / S106 Costs

I'm advised that the following planning obligations are required:

- Highways/Transport – £9,000 plus Developer works
- Solent Disturbance Mitigation Project - £7,035
- Employment & Skills Plan - £8,030
- Carbon Management Plan - £4,926
- Total 106 - £28,991

- CIL - £98,530

S106 have included for:

- S106 - Nil
- CIL - £100,726

In addition under policy CS15 of the Core Strategy 20% affordable housing is required, ie 3 units on site.

17. Development Scheme / Special Assumptions

17.1 The following assumptions and special assumptions have been agreed with the Council and applied:

- that your council's planning policy, or emerging policy, for affordable housing is up to date
- There are no abnormal development costs in addition to those which the applicant has identified, and (for cases with no QS review) the applicant's abnormal costs, where supported, are to be relied upon to determine the viability of the scheme, unless otherwise stated in our report.

17.2 Scheme Floor Areas

Measurements stated are in accordance with the RICS Professional Statement '**RICS Property Measurement' (2nd Edition)**, and where relevant, the **RICS Code of Measuring Practice (6th Edition)**.

As agreed, any commercial and residential property present has been reported upon using a measurement standard other than IPMS, and specifically Net Internal Area has been used for value and Gross Internal Area for costs. Such a measurement is an agreed departure from 'RICS Property Measurement (2nd Edition)'. This method of measurement is standard practice for Viability assessments.

The accommodation schedule of the scheme is included on the architect's plans but these appear to be in conflict with the Design and Access Statement and the

areas adopted by S106. We have assumed that the areas adopted by S106 are correct and have been adopted as follows:

Type / Description	No of Units	Average Sq m	Average Sq Ft	Total Sq m	Total Sq Ft
Open Market Housing					
Studio Flat	1	39	420	39	420
1 Bed Flat	3	51	549	153	1647
2 Bed Flat	7	68.57	738	480	5167
3 Bed House	3	109	1173	327	3520
Affordable Housing					
Residential Total	14			999 sq m	10,753 sq ft

We understand that the total gross internal area of the flatted element of the scheme totals 791 sq m which represents a net to gross ratio of 85% which is within the range we would normally expect for scheme of this type whilst the total gross area is 1,118 sq m.

17.3 Mineral Stability

The property is not in an underground mining area and a Mining Subsidence Report has not been obtained.

17.4 Environmental Factors Observed or Identified

Not applicable since no inspection carried out and the site is currently a car park.

17.5 Tenure

We assume the site is held Freehold with vacant possession

17.6 Easements and Restrictions

It is assumed that there are no easements or restrictions affecting the property.

17.7 Services

It is assumed that all services are available to the site.

17.8 Access and Highways

It is assumed that access is available from the adopted highway.

18. Development Scheme information and Assessment

This report deals with each major input into the viability assessment of the scheme. This assessment has been undertaken following our own research into both current sales values and current costs. We have used figures put forward by S106 if we believe them to be reasonable.

We have used a copy of our bespoke excel based toolkit with cash flow to assess the scheme whilst S106 have used the DAT toolkit but no cash flow has been provided.

We would summarise our assessment of the scheme as follows:

18.1 Gross Development Value (GDV)

18.1.1 Residential

S106 have research properties both on the market and recently sold within 0.25 miles of the site wherever possible utilising new build evidence.

They have identified 1 bed flats on the market from £115,000 to £135,000 and 2 bed flats from £130,000 to £190,000. Taking into account a new build premium S106 have adopted the following values for the flats:

- Studio - £125,000
- 1 Bed - £145,000
- 2 Bed - £200,000 to £240,000

In respect of the 3 bed houses they have identified a range of £175,000 to £360,000 and reflecting a new build premium have adopted £295,000.

We have undertaken our own market research in the area of new build units including our own data base, recently assessed schemes and Zoopla/Rightmove within 0.25 miles of the site.

The Zoopla area guide of post code SO15 states that the average current value for flats is £176,134 - £3,035 per sq m (1.7 beds) and £258,480 - £2,756 per sq m (2.9 beds) for terraced housing whilst the average asking prices in the post code are as follows:

1 Bed Flat - £125,240
2 Bed Flat - £176,858
3 Bed House - £292,425

In addition from our independent research we have established the following ranges:

- 1 Bed Studio - £80,000 to £104,950
- 1 Bed Flat - £135,000 to £150,000
- 2 Bed Flats - £140,000 to £175,000
- 3 Bed House - £235,000 to £280,000

On the basis of our evidence we have adopted the same rates as S106 as reasonable with the following values:

- Studio Flat – 39 Sq M - £125,000 (£3,205 per sq m)
- 1 Bed Flat – 51 Sq m - £145,000 (2,843 per sq m)
- 2 Bed Flat – 60 Sq m - £200,000 (£3,333 per sq m)
- 2 Bed Flat – 73 Sq m - £220,000 (£3,014 per sq m)
- 2 Bed Flat – 77 Sq m - £240,000 (£3,117 per sq m)
- 3 Bed House – 109 sq m - £295,000 (£2,706 per sq m)
- Overall GDV - £2,965,000 - £2,968 per sq m

18.1.2 Affordable Housing

No affordable housing has been included by either party at this stage however in accordance with our experience we would normally adopt 55% to 60% of market value for affordable rented and 65% to 75% of market value for shared ownership.

18.1.3 Ground Rents

S106 have included for ground rents at £200 per annum per unit capitalised at 5.0% with a total of £44,000.

It should be noted that the government have announced that they would crack down on unfair leasehold practices in respect of ground rents. However since no legislation has been enacted the policy of DVS is to include ground rents at the present time.

On this basis we have also included for ground rents of £200 pa capitalised at 5% which we believe is reasonable in the current market and agreed on similar schemes. This takes account of the limits placed by funders on ground rents.

However if legislation is enacted it could affect this assessment.

18.1.4 Total Gross Development Value

	DVS	S106
Market Units	£2,965,000	£2,965,000
Affordable Units	NIL	NIL
Ground Rents	£44,000	£44,000
Total	£3,009,000	£3,009,000

18.2 Build Cost

18.2.1 Construction cost

S106 have used the March BCIS median rate re based for Southampton for 3-5 storey flats of £1,478 per sq m and the average for 2 and 3 storey terraced houses

of £1,285 per sq m plus 10% for external works and demolition of the existing buildings of £30,000 with an overall total of £1,773,353

In accordance with advice from our QS I have taken account of the default (due to sample size) median (October 2020) BCIS rate rebased to Southampton for 2/3 storey terraced houses of £1,284.5 per sq m but the 5 year median rate for 3-5 storey flats of £1,380 per sq m. I have adopted the following as reasonable:

- Base Build Costs –
 - Residential Flats - £1,091,012
 - Residential Houses - £420,032
- Externals
 - 10% - £151,104
- Abnormals –
 - Demolition & Site Clearance - £30,000

- Total - £1,662,148

The overall difference is £81,205 which is predominately due to the rate per sq m adopted for the flats. I have adopted 10% for externals taking into account the access road, car parking, cycle racks and refuse stores for the flats and parking and gardens etc for the houses plus £30,000 for demolition as reasonable in this case.

18.2.2 Contingency

S106 have adopted a contingency of 5% which is within the range of 3% to 5% we adopt as reasonable. Although it's a detailed application when more detail should be known taking account of the issues caused by Covid 19 I have also used 5% as reasonable

18.3 Development Costs

18.3.1 Professional Fees

S106 have adopted 7% of construction costs (£122,035) which is in the range we normally adopt for this type of scheme of 6% to 10% and we have also adopted a total of 7% or £118,450 as reasonable in the case.

18.3.2 CIL/Section 106 Costs

S106 have included for the following:

- CIL - £100,726
- Section 106 - NIL

You have advised us that the following contributions are required:

- Affordable Housing – 20%
- Highways/Transport – £9,000 plus Developer works
- Solent Disturbance Mitigation Project - £7,035

- Employment & Skills Plan - £8,030
- Carbon Management Plan - £4,926
- Total Section 106 - £28,991

- CIL - £98,530

In addition we have assumed that the section 106 costs would be payable at start on site and the CIL costs phased over the development period in accordance with previous schemes assessed.

18.3.3 Marketing and Agency Costs

S106 have included the following as fees:

Marketing and Agent Sale Costs – 2.5% - £74,125
Legal Sale Fees - £750 per unit - £10,500
Total - £84,625

I have adopted the following as reasonable and compare to similar schemes:

Marketing Costs – 1.0% - £29,650
Residential Agent Sale Fees – 1.5% - £44,475
Legal Sale Fees - £750 per unit - £10,500
Ground Rent sale and legal fees – 1.5% - £660
Total - £85,285

18.3.4 Finance Costs

S106 state in their report that they have adopted an all-inclusive debit finance rate of 6.5% however the appraisal uses an interest rate of 7% plus a credit rate of 4% but no cash flow has been provided.

I have used an all-inclusive debit rate of 6.5% which is within the range of 6% to 7% plus 2% credit rate that we normally adopt as reasonable and calculated in accordance with the cash flow.

18.3.5 Programme

S106 have adopted a 6 month lead in, a 12 month construction programme and a 5 months sale period for the flats and houses.

I have adopted the following programme as reasonable when compared to similar schemes:

Site Purchase – Month 1
Start on Site for site preparation etc – Month 4
Construction – Month 5 to 16 (12 months)
Sale of Residential - Month 16 – 20 (5 months and approx 2.8 units per month)
Sale of Ground Rents – Month 20

18.3.6 Profit

S106 have suggested a target profit of 17.5% of GDV for the open market residential units and 6% for any affordable housing.

The latest NPPF guidance suggests a profit level of 15-20% and on this basis I have adopted 17.5% of GDV for the private residential units based upon our expectations for a scheme of this nature and agreed on similar types of scheme in the area. In respect of affordable units if included on site I would adopt a profit level of 6% due to the reduced risk on the basis of a forward sale to an RP.

19. Benchmark Land Value (BLV)

19.1. S106 have adopted a Benchmark Land Value of £337,000 on the basis of the EUV of £293,122 plus a 15% premium.

19.2 Existing Use Value (EUV)

S106 have adopted a EUV of £293,122 following research into the market within 0.5 miles of the site and identified Anglo City House at 2-6 Shirley Road which is available at rents of £16 per sq ft and 73-75 Millbrook Road East which is available at £12.80 per sq ft per annum. On this basis S106 have adopted a mid-point rent of £14 per sq ft.

They have then capitalised at a yield of 7% (no evidence provided) less purchaser's costs of 5.75% and a rent free period of 6 months with a net EUV of £293,122.

We have undertaken our own research into rental values in the area which range from

- £10 per sqft for a second floor office of £1,756 sq ft at Equity Court, Millbrook Rd
- £16 per sq ft for a unit on the market at Anglo House, Shirley Rd of 1,344 sq ft
- £14 per sq ft for a unit on the market at 18-20 Millbrook Rd of 2,500 per sq ft
- £17.72 per sq ft for 1,425 sq ft at 158 Winchester Rd let in June 2020.

I have adopted an average of £15 per sq ft per annum but I have used a yield of 7.5% based on my experience of the location less purchasers costs of 5.8% and a 6 months' rent free period with a total net EUV of £293,000.

19.3 Premium (EUV)

The premium applied by S106 is 15% which they consider will provide the landowner with a sufficient incentive.

Taking into account PPG in respect of NPPF I have also adopted a premium uplift of 15% as reasonable and adopted on similar cases in Southampton and the region.

19.4 Purchase Price

- 19.4.1 The PPG and the RICS encourage the reporting of the purchase price to improve transparency and accountability.
- 19.4.2 RICS FVIP (1st edition) 2012 guidance states at para 3.6.1.2 "It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition.."
- 19.4.3 However, the NPPG on viability very much dissuades the use of a purchase price as a barrier to viability this is reinforced at several places in the PPG: The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan. And under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.
- 19.4.4 The PPG does not invalidate the use and application of a purchase price, or a price secured under agreement, where the price enables the development to meet the policies in the plan.
- 19.4.5 I understand that the whole site including Southern House was purchased in April 2019 for £875,000 which was valued at the time for lending purposes with a pro-rata value of £350,000 put against the Sir Georges Road property and vacant car park.

19.5. Market Transactions

Market transactions for rental transactions as detailed above have been considered to establish the EUV.

19.6 Alternative Use Value (AUV)

- 19.6.1 Alternative Use Values are not applicable in this case save for residential as assessed.

19.7 Other Evidence

- 19.7.1 Other Evidence from recent schemes assessed for Southampton City Council has been taken into account in this assessment.

19.8 Benchmark Land Value Considerations

- 19.8.1 The methodology of using EUV plus for the BLV is considered reasonable in the case but some of the assumptions made by the parties have differed.

19.9 Benchmark Land Value Conclusion

- 19.9.1 Whilst the matter of premium to the EUV is ultimately a matter for your Council as the decision maker, it is my balanced and professional opinion having considered all of the above case and a fair and reasonable BLV would be £337,000

19.9.2 For this stage one report we have adopted a BLV of £337,000 on the basis of the EUV plus a premium of 15%.

20. Viability Assessment

S106 acting on behalf of the applicants have concluded that the appraisal of the proposed all private scheme shows a deficit of £171,469 on the basis of a BLV of £337,000 and a 17.5% profit which is not viable. This would show a reduced profit of 11.5% which they suggest will allow the scheme to be delivered but with no affordable housing.

In addition they have undertaken an appraisal with 3 affordable units (2 affordable rented and 1 shared ownership flats) based on 77% to 82% of market value for the rented units and 76% of market value for the shared ownership unit with an overall reduced GDV of £2,890,895. This appraisal shows an increased deficit of £202,701 and would result in a reduced blended profit of 8.6% which is not deliverable.

21. Conclusions / Presentation of Results

I have undertaken a review of the assessment prepared by S106 and conclude that the all private scheme as proposed shows a deficit of ££81,000 on the basis of a BLV of £337,000 and a profit of 17.5%. This would result in a reduced profit of 14.5% which is not viable but is deliverable but with no affordable housing. See 24.1

22. Sensitivity Analysis and Testing

As set out in the RICS Professional Standard 'Financial viability in planning: conduct and reporting' (effective from 1st September 2019), I have carried out sensitivity tests to test the robustness of the viability conclusion described above.

On the basis that 3 affordable units are required I have include these as 2 affordable rented (1 x 1 bed and 1 x 2 bed) and 1 x 1 bed as shared ownership. I'm of the opinion that the rates adopted by S106 are high and I have used 60% of market value for the rented units and 75% of market value for the shared ownership units with a reduced GDV of £2,822,750. This appraisal shows a deficit of £168,936 and would result in a reduced blended profit of 10% which is not viable or deliverable. See 24.2

Values would need to increase by almost 7.5% for the scheme with 20% affordable to be viable.

23. Comments and Recommendations

Following a review of the viability assessment undertaken by S106 the key differences are:

- 1) Lower build cost due to the BCIS rate adopted – Difference of £81,205
- 2) Finance – Due to rate adopted in the appraisal – Difference of £30,485

On the basis that the Council are prepared to consider granting consent at less than the policy level of affordable housing it is suggested that a review mechanism is considered.

23.1 Market Uncertainty

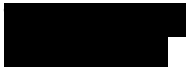
The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11 March 2020, has impacted many aspects of daily life and the global economy – with some real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, in the case of the subject property there is a shortage of market evidence for comparison purposes, to inform opinions of value.

Our valuation of this property is therefore reported as being subject to ‘material valuation uncertainty’ as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. For the avoidance of doubt, the inclusion of the ‘material valuation uncertainty’ declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact that COVID-19 might have on the real estate market and the difficulty in differentiating between short term impacts and long-term structural changes, we recommend that you keep the valuation[s] contained within this report under frequent review.

I trust that the above report is satisfactory for your purposes. However, should you require clarification of any point do not hesitate to contact me further.

Yours sincerely

 BSc MRICS
RICS Registered Valuer
DVS

24. Appendices

- 24.1 Development Appraisal – All Private
- 24.2 Development Appraisal – Policy Compliant
- 24.3 Terms of Engagement

24.1 Development Appraisal – All Private

24.2 Development Appraisal – Policy Compliant

24.3 Terms of Engagement