

Private and Confidential

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Our Reference: TW/160886
Your Reference: 16/01303/FUL

Please ask for : Tony Williams
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Date : 30 November 2016

Dear Simon

**DRAFT REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
PROPOSED SCHEME: Bargate Shopping Centre and adjoining land in Queensway,
East Street, Hanover Buildings and High Street, Southampton**

I refer to our fee quote dated 14 September 2016 and your email dated 22 September 2016 confirming your formal instructions to carry out a viability assessment in respect of the above proposed development. You forwarded to us the developer's assessment to review and we have had discussions with GL Hearn. We have now undertaken our own research and assessment and would report as follows:

Background:

I understand that this viability assessment is required following a planning application and the contention of the applicant that at the policy level of section 106 contributions and 35% affordable housing the scheme is not viable.

From your brief I understand that you wish us to review the development scheme ref 16/01303/FUL - Demolition of existing buildings (Bargate Shopping Centre and multi-storey car park; 77-101 Queensway; 25 East Street; 30-32 Hanover Buildings; 1-16 East Bargate; and 1-4 High Street, excluding the frontage); refurbishment of basements and mixed use development comprising 152 flats (63 x one bedroom and 89 x two bedroom) (Use Class C3); 185 units of student residential accommodation (451 bedrooms); retail use (Class A1); flexible retail, office or food and drink use (Classes A1-A3); in new buildings ranging in height from 4-storeys to 9-storeys; with associated parking and servicing, landscaping and public realm.

GL Hearn conclude that the scheme is not viable with any affordable housing or policy level of contributions but have included the following:

- CIL of £1,830,000
- Section 106 of £500,000 including the preservation of the historic town walls
- Section 278 works of £350,000

However we are advised that the following planning obligations are required:

- a) Affordable Housing – 35%
- b) Highway/Transport – £TBC
- c) CIL – £2,196,435
- d) SDMP - £15,664
- e) Employment and Skills - £69,372

The site includes the Bargate Centre and multi storey car park located in the city centre together with adjoining sites and buildings in Queensway, East Bargate and High St. The proposed scheme is a comprehensive mixed use scheme including retail, student accommodation and residential.

The Scheme:

We have been provided with the assessment undertaken by GL Hearn (GLH) on behalf of the developer which lists the floor areas etc. For the purpose of this assessment we assume the areas provided are correct and have assessed the scheme as proposed without affordable housing at this stage as follows:

Block A		Average		
House Type	Number	Floor Area	Total Floor Area	Total Floor Area
3 Levels		Sq m	Sq m	Sq ft
Unit				
1 & 2 Bed Flats	24	55.17	1,324	14,247
Total	24		1,324	14,247

Block E		Average		
House Type	Number	Floor Area	Total Floor Area	Total Floor Area
8 Levels		Sq m	Sq m	Sq ft
Unit				
1 & 2 Bed Flats	48	62.92	3,020	35,512
Total	48		3,020	35,512

Block F		Average		
House Type	Number	Floor Area	Total Floor Area	Total Floor Area
5 Levels		Sq m	Sq m	Sq ft
Unit				
1 & 2 Bed Flats	80	53.75	4,300	46,283
Total	80		4,300	46,283

Residential	Number	Average Floor Area	Total Floor Area	Total Floor Area
Summary		Sq m	Sq m	Sq ft
Block A	24	55.17	1,324	14,247
Block E	48	62.92	3,020	35,512
Block F	80	53.75	4,300	46,283
Total	152		8,644	93,042

Student Accommodation	Number	Average Floor Area	Total Floor Area	Total Floor Area
Summary		Sq m	Sq m	Sq ft
Block B	251	24.15	6,062	65,247
Block C	72	21.65	1,559	16,786
Block D	128	21.15	2,707	29,138
Total	451		10,328	111,171

Commercial	Number	Average Floor Area	Total Floor Area	Total Floor Area
Summary		Sq m	Sq m	Sq ft
Retail	21	256.38	5,384	57,953
Mezzanines	5	136.4	682	7,341
Kiosks	5	66.0	330	3,552
Total	31		10,328	111,171

Viability 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 GL Hearn on behalf of the applicant if we believe them to be reasonable.

I have used a bespoke excel based toolkit with cash flow to assess the scheme which is attached as Appendix 1 whilst GL Hearn have used an Argus Appraisal plus cash flow.

We would summarise our assessment of the Scheme as follows:

1) Development Value -

a) Private Residential:

GLH have based their sales values on the research of recent sales and asking prices of new build 1 and 2 bed apartments in the city centre and have adopted an average of £290 per sq ft (£3,122 per sq m).

We have undertaken our own research taking into account sales at Oxford Heights, Guildhall Apartments, Empress Heights etc and conclude that £3,122 per sq m is reasonable in the current market.

We have adopted a total residential GDV of £26,981,828 which is only marginally different to £26,982,180 adopted by GLH.

b) Affordable Housing:

At this stage no affordable housing has been included although policy is 35%.

However, were we to include affordable housing, we would assess a value of 45% of market value for social rented units, 55% of market value for affordable rented units and 65% of market value for shared ownership units.

c) Ground Rents:

On the basis that the private residential units will be sold on a long leasehold basis we have assumed an average ground rent of £250 per unit per annum capitalised at a yield of 5.5% less purchasers costs which agrees with the basis adopted by GLH.

The total value of the ground rents is assessed at £653,033 after purchaser's costs.

d) Student Accommodation:

GLH have been provided with the advice by the applicant's student accommodation advisers GVA.

They have adopted a rental of £145 per week for standard rooms up to £180 per week for studios. They have assumed occupancy levels of 97% with management costs of approx 25%. Based on the advice from GVA they have adopted a yield of 6.25% with a total value of £36,055,000 less purchaser's costs.

We have undertaken our own independent research of student values in the city and rentals range from £122 per week to £155 per week for standard rooms and £155 to £190 per week for studios and the rentals adopted by GLH are therefore not unreasonable.

Occupancy rates and management costs are also not unreasonable taking into account our research.

In respect of yields although we have not been advised whether the development will be leased out, whether there will be a nomination agreement or let to students directly the yield adopted is an average for prime regional locations across the different lease types which is not unreasonable.

The total value that we have adopted for the student accommodation is £36,055,088 less purchaser's costs.

e) Retail units and car parking:

GLH have been provided with research into both rentals and yield in Southampton City Centre undertaken by the applicant's retail advisors GCW.

The values adopted for the retail units equate to a rental of £37 per sq ft (£398 per sq m) for the retail units, £15 per sq ft (£161 per sq m) for the mezzanine units and £37 per sq ft and 326 per sq ft for the kiosk units

depending on size. In addition they have adopted a yield of 6% with a total value of £35,059,971 before purchaser's costs. In addition GLH have adopted a net rental of £600 per space for the 102 space car park at a yield of 7%.

We have undertaken our own research into both rental values and yields and are of the opinion that the rates and yield adopted by GLH are not unreasonable for both the retail units and car park and we have adopted a value of £35,039,820.

f) Gross Development Value (GDV):

On the basis of the proposed scheme with no affordable housing our total GDV is £95,045,764 after purchaser's costs.

This compares to the GDV proposed by GL Hearn of £95,030,604 after purchaser's costs.

2) Development Costs -

a) Build Cost:

GLH have been provided with budget construction costings prepared by the applicants cost consultants, Projex Building Solutions, and the total cost is estimated at £61,330,000. This figure includes a 5% construction contingency and also includes Public Realm, Incoming services and demolition.

Our internal QS have reviewed the cost plan provided and estimates the total build cost at £59,121,764 excluding any contingency which compares to the applicants cost of £58,402,202 excluding contingency (calculated by our QS).

Our QS cost plan is attached as appendix 2.

The overall base build costs excluding contingency are approx 1% different.

GL Hearn	DVS
£58,402,202	£59,121,202

b) Abnormals (included in total cost):

The applicant has included the following abnormals compared to those assessed by our QS:

Abnormals	GLH Cost	DVS Cost
Basement Car Parking	£4,266,580	£4,601,955
Demolition	£2,500,000	£2,090,620
Total	£6,766,580	£6,692,575

c) Build Contingency:

GLH have included a 5% contingency on the total build cost. This is on top of the 5% contingency included in the cost plan. GLH have suggested that they have included both a client contingency of 5% and a construction contingency of 5%.

I am of the opinion that this is double counting and I have just included 5% of build cost as a reasonable contingency.

d) Professional Fees:

GLH have included professional fees at 8% which is at the lower end of our range of 7.5% to 12.5% for this type of scheme but is agreed.

In addition GLH have included an additional £900,000 as miscellaneous fees which we understand covers an insurance policy although little detail has to date been provided. We have included this item but further discussions are required.

e) Section 106 Costs / CIL:

GLH have included the following figures:

- CIL - £1,830,000
- Section 106 - £500,000
- Section 278 highway works - £350,000
- Total of £2,680,000

We have been provided with the following figures by the Council which we have included:

- CIL - £2,196,435
- Highway/Transport – To be confirmed
- SDMP – £15,664
- Employment and Skills - £69,372
- Provisional total of £2,281,471 excluding highways/transport

f) Sale and Marketing fees:

GLH have adopted the following fees:

- Agent letting fee – 15% (Joint Agents)
- Legal letting fee – 5%
- Commercial/ Student Agent Sale fee – 1%
- Residential Sale agent and marketing fees – 3%
- Legal sale fee – 0.5%

These rates adopted by GLH are industry standards and are agreed as reasonable for this type of scheme.

g) Finance costs:

We have adopted an inclusive debit finance rate of 6.5% and credit rate of 2% to include for bank arrangement fees etc which we have agreed on other similar schemes.

GLH have included a debit rate of 7% and a credit rate of 1%. However due to the negative land value shown by the Argus appraisal it is difficult to compare the total sums.

h) Developers Profit:

For mixed use schemes we would normally adopt a profit level of between 15% and 20% of GDV. In this instance we have accepted the applicant's view that a 20% profit across the residential and retail units adequately reflects the risks surrounding this scheme.

However GLH have also adopted 20% on the student accommodation. It is still a little unclear how this will be operated but in line with similar schemes we have adopted 15% of GDV on the student accommodation.

i) Development Programme:

The following programme has been adopted as reasonable:

- Lead In – 9 months
- Build Period of 24 months
- Residential Sales are achieved over a period of 15 months from PC at an average of 10 units per month
- Ground rents sold on completion of scheme
- Commercial Sales achieved 1 month after PC
- Student Accommodation sold 1 months after PC

The above is in line with the applicant's cash flow.

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 market value of the site (Benchmark) taking account of The RICS Guidance note, Financial viability in planning, 1st edition.

The applicant has provided a Benchmark Land Value of £9,294,000

This includes for the following:

- 1) Properties surrounding the Bargate Centre - £6,595,000
20% Premium uplift - £1,319,000
Total £7,914,000
- 2) The Bargate Shopping Centre
Although the centre is vacant GLH have assessed its valued based on a refurbishment - £1,380,000

We have reviewed all the evidence provided and undertaken our own research as to rental values and yields for these types of properties in the city and are of the view that the base values adopted are not unreasonable.

However in addition to the base values GLH have added a premium of 20% on the surrounding properties as an incentive for the owner to sell. We are

unclear as to the current ownership position of these properties and at this stage have not included any incentive above the market value of these commercial properties. However this needs to be discussed further with GLH. We have adopted a benchmark land value at this stage of £7,975,000

Overall assessment and Recommendations:

GL Hearn have assessed the all private 152 unit residential scheme, ground rents, student accommodation of 451 beds, 31 retail units and a 102 space car park and concluded that it is not viable since it shows a negative land value of approx £4,500,000. The assessment includes for CIL/106 of £2,680,000.

We have also assessed the scheme as detailed above and our appraisal included as appendix 1 shows a nominal land value of £110,000 and is not viable against our benchmark land value in its current form.

Although both parties agree that the scheme is not viable there are still a number of differences as follows:

- Contingency – We have adopted 5% whilst GLH have included a total of 10%
- Finance – We have adopted 6.5%/2% whilst GLH have used 7%/1%
- Profit – We have adopted 15% on the Student accommodation whilst GLH have used 20%
- Benchmark Land Value – We have adopted £7,975,000 whilst GLH have used £9,294,000.

In addition we still have queries in respect of the miscellaneous costs of £900,000.

Clearly at the present time both parties are showing the scheme as unviable to varying degrees but due to the figures shown we above must question the deliverability and sustainability of the scheme in its current form.

General Information:

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.

Restrictions on Disclosure and Publication

This report is provided for the use of the Council and their professional advisers only in connection with planning issues surrounding the above development proposal. It is not to be used or relied upon by any third party for any purposes whatsoever. 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. No liability whatsoever to any third party is accepted.

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.

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 report 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

Tony Williams MRICS
Registered Valuer
Head of Viability (Technical)
DVS

Appendix 1 – Proposed Scheme Appraisal
Appendix 2 – QS Assessment

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