Application 17/02592/OUT **APPENDIX 4**

<u>District Valuer Services findings</u>

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Private and Confidential

Simon Mackie
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Our Reference:
Your Reference: 17/02592/OUT

Please ask for :
Tel :
E Mail :

Date : 28th August 2018

Dear Simon,

DESKTOP REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT PROPOSED SCHEME: 111-113 Paynes Road, Southampton

I refer to our fee quote dated 18th January 2018 and your email dated 03rd April 2018 confirming your formal instructions to carry out a desk top viability assessment in respect of the above proposed development. We have now undertaken our own research and assessment and would report as follows:

This report is not a formal valuation.

The date of assessment is 28th August 2018.

We have reviewed the assessment provided by on behalf of the applicant.

The assessment has been made by comparing the residual value of the proposed scheme with an appropriate benchmark figure having regarding to the National Planning Policy Framework and the published RICS Guidance Note into Financial Viability in Planning.

The principal objective of our Brief and the subject of this report are to establish whether there is financial justification for any affordable housing and section 106 contributions.

General Information

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

Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. DVS has had no other previous material involvement with the property.

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.

You may wish to consider whether this report contains 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.

Our assessment is provided for your benefit alone and solely for the purposes of the instruction to which it relates. Our assessment may not, without our specific written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our valuation report. If we do provide written consent to a third party relying on our valuation, any such third party is deemed to have accepted the terms of our engagement.

None of our employees individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.

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.

Following the referendum held on 23 June 2016 concerning the UK's membership of the EU, the impact to date on the many factors that historically have acted as drivers of the property investment and letting markets has generally been muted in most sectors and localities. The outlook nevertheless remains cautious for market activity over the coming months as work proceeds on negotiating detailed arrangements for EU exit and sudden fluctuations in value remaining possible. We would therefore recommend that any valuation is kept under regular review.

Background:

We understand that this assessment is required to examine the viability of the proposed scheme as the applicant is suggesting that the development cannot support the required level of affordable housing and Section 106 contributions.

The proposed scheme will provide 40 residential dwellings (9 x 3 bed houses and a block of 31 flats) plus 2 commercial units (both 2 storey), following the demolition of the existing commercial buildings at 111-113 Paynes Road.

We are advised that the policy level of contributions are as follows:

Affordable Housing	35%
Highways/Transport	£TBC
Solent Disturbance Mitigation Project	£7,240
CIL	£TBC
Employment & Skills Plan	£12,174
Carbon Management Plan	£TBC

The applicant is stating that following their assessment the policy level of affordable housing provision and Section 106 Contributions results in an unviable scheme.

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 in the applicant's viability report are correct.

The scheme as proposed by the applicant is as follows:

Block	**Type**	**Number**	**Average Floor Area (GIA M²)**
Residential:			
Block 1	1 Bed Flats	10	51.09
Block 1	2 Bed Flats	18	69.86
Block 1	3 Bed Flats	3	78.96
Houses	3 Bed	5	85
Houses	3 Bed	4	90.57
Total		**40**	**2,792.54**
Commercial:			
Unit A	Workshop/Office	1	214.60
Unit B	Workshop/Office	1	214.60
Total		**2**	**429.20**

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:**

The applicant has adopted the following values compared to ours:

Type	**Developer (Average Value per unit)**	**DVS (Average Value per unit)**
1 bed apartment	£145,000	£145,000
2 bed apartment	£175,000	£175,000
3 bed apartment	£185,000	£185,000
3 bed house	£275,000	£275,000
3 bed house	£285,000	£285,000
Workshop / Office	£266,710	£266,710

The applicant has commissioned local estate agent Connells to provide anticipated sales values for the residential units but has not provided any comparable sales evidence to substantiate these figures.

However, we have undertaken research using land registry details and sales from local estate agents and consider the values put forward by the applicant to be within the range we would expect to see taking account of the location of the site and floor area of the proposed units.

The proposed commercial units will comprise two identical units each with workshop accommodation on the ground floor and office accommodation on the first floor.

The applicant has provided a report undertaken by Keystone Chartered Surveyors who have estimated the value of the completed units at £266,710 per unit.

They have arrived at this figure based on the prevailing market rental value of between £8.50 per sqft (£91.50 per m2), which equates to a rental income of £19,635 per annum per unit. This has been capitalised on the basis of an investment yield of 7% to produce a gross capital value of £280,513. Sales costs of 5.75% have then been deducted to produce a total net capital value of £266,710 per unit. No void period has been allowed for within the applicant's appraisal.

We have undertaken research of modern existing workshop and office units within the locality and consider the applicant's submitted figures to be a reasonable estimate of the value of the proposed commercial units.

b) **Affordable Housing:**

There are no Affordable Residential properties proposed by the applicant.

c) **Ground Rents:**

The applicant has included ground rents averaging £350 per unit per annum and capitalised this using a yield of 5.5% to produce a total freehold value of £197,273 which is deemed acceptable for this scheme.

It should be noted that the Government are currently proposing legislation to limit ground rental income. If this were to happen then it may cause us to revise our revenue figures to potentially reflect the ground rent income in the capital values.

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

Our total GDV on an all-private basis is £8,400,693 in line with the applicant's submitted figure.

2) Development Costs -

a) **Build Cost**

Residential:

The applicant has not provided a detailed breakdown of costs or cost estimate for the proposed scheme but has instead relied on the BCIS guide figures. They have sited the Median rate figures for this proposed scheme and on this basis have adopted the following base build costs:

Houses - £1,244 per m2
Flats - £1,450 per m2

In addition, a 10% allowance has been added to cover all external works costs to arrive at a total construction cost of £4,761,782.

The submitted base build rates are broadly in line with current BCIS Median rates and are deemed acceptable for this scheme. We have therefore adopted the same rates in our appraisal. The applicant has adopted a net – gross ratio of 92% for the flats which again is within the range we would expect to see for a block of low rise new-build flats.

The external works allowance equates to approximately £450,000 and is intended to cover the following items:

- Site preparation costs
- Roads, paths, paving and surfacing
- Soft landscaping, planting and irrigation costs
- Fencing, railings and walls
- External fixtures; and
- External drainage and services.

Taking account of the overall size and condition of the site, and the proposed site layout and number of parking spaces to be provided, we consider a 10% external works allowance to be reasonable for this scheme and in line with similar schemes we have assessed.

Commercial:

The applicant has not included any explanation within their written report with regard to the commercial construction costs. Within their appraisal they have included a total cost of £632,095 for the two office units which is based on a base rate in line with the residential element plus allowances for external works cost, professional work and contingency again in line with the residential cost assumption.

Taking account of the current BCIS Guide figures for this type of property adjusted to this location, the submitted costs do not appear to be overstated and we have therefore included the same in our appraisal.

b) Build Contingency

The applicant has included a contingency of 5% which we do not disagree with.

c) Professional Fees

The applicant has included professional fees of 10% of base build costs which, whilst towards the higher end of the scale we usually see, we do not feel is unreasonable.

d) Abnormal and other costs

At this stage the applicant has not allowed for any abnormal costs within their appraisal. However, within their written report they have listed a number of likely additional abnormal works but have not provided specific figures for likely costs. The items identified within their report are as follows:

- Piled Foundations (for most blocks up to 9m in depth)
- Demolition Costs
- Contamination
- Private Pumping Station
- Retaining Wall (length 45m, height 0.75 m to divide existing industrial and new residential).

At this stage it is not known whether these works will be required with the exception of the demolition costs as site will clearly need to be cleared prior to construction.

However, for the purposes of our report we have not included any of these costs in line with the applicant but should such costs become apparent in the course of time then this may require us to reflect them in our appraisal and this will affect our assessment.

e) **Overall Build Costs**

Overall, for the purpose of viability testing we have adopted construction costs in line with those submitted by the applicant.

f) **Section 106 Costs**

Within their appraisal, the applicant has not included anything for CIL or Section 106 contributions.

However, we are advised by you that the policy level of contributions are as follows:

Affordable Housing	35%
Highways/Transport	£TBC
Solent Disturbance Mitigation Project	£7,240
CIL	£TBC
Employment & Skills Plan	£12,174
Carbon Management Plan	£TBC

For the purpose of our assessment, we have included the known costs above which total £19,414 **but if this differs once the full costs are known then it will affect our assessment.**

g) **Sales and Marketing Fees**

The applicant has adopted 3% for sales and marketing plus £500 per unit for legal fees. On the basis that a show home / sales suite will be required we have accepted these costs and included the same within our appraisal as they are broadly in line with other similar schemes we have assessed.

h) **Finance costs**

The applicant has adopted a finance rate of 6.75% to include all fees which is within the range we would expect to see and have therefore adopted the same rate within our appraisal.

i) **Developers Profit**

In their report the applicant has indicated a profit level of **20%** for both the residential and commercial elements. However, within their appraisal the profit appears to have been calculated on the net residential income only and not on the commercial and ground rent figures. The figure shown in their appraisal summary is therefore £1,534,000.

On the basis of an all private scheme we have adopted a more standard profit level of **17.5%** for both elements on the assumption that there is no pre-let agreement in place for the commercial units. This produces a total profit figure of £1,470,121 which is quite close to the figure shown in the applicant's appraisal.

j) **Development Programme**

The applicant has not included a detailed development programme within their written report but based on previous similar scheme we have assessed, we have adopted the following programme:

- Construction Period of 18 months (following a 6 month lead in period)

- Sale period of 12 months beginning directly after the construction period of 18 months

k) **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.

For the purpose of their assessment, the applicant has provided a separate report with comparable evidence undertaken by Keystone Chartered Surveyors Ltd who have indicated an existing use value totalling £1,159,000 based on the existing commercial units in-situ.

We understand from the Keystone report that the whole site is held freehold and owner-occupied, and that there are no formal leases for individual units in place. It is therefore assumed that vacant possession can be achieved within a short timeframe and that no tenant compensation or relocation costs will be incurred.

We have undertaken our own research of values for this type of property and considered this alongside the Keystone report and overall we concur with their conclusion of value based on potential letting of the individual units at the site.

The applicant has carried out their appraisal on a residual basis which they have used to compare with the EUV - Within their report the applicant has indicated that a seller incentive should be applied but have not done this at this stage.

In line with national guidance from the RICS and contained within the NPPF we would concur that a seller incentive should apply to the EUV but would anticipate this to be no more than 15%.

However, for the purpose of this report we have included a benchmark land value of £1,159,000 in line with the applicant.

In addition both stamp duty and agent/legal fees need to be allowed.

Overall assessment:

Following our desktop assessment we are of the opinion that the proposed scheme, with no affordable housing but with S.106 contributions of £19,414 and a developer profit of 17.5% on GDV is not viable and that no surplus would be available for an affordable housing contribution. Our appraisal shows a deficit figure of -£1,230,744 (Appendix 1).

We are in broad agreement with the applicant's submitted figures with the only difference being the developer profit level, although our actual figures for this only differ by approximately £64,000.

However, our appraisal indicates that the proposed scheme will achieve a profit level of just 2.75% of gross development value which is significantly below the levels generally required for the purposes of debt finance (typically a 15% on GDV minimum for residential), which brings into question the sustainability of the proposed scheme.

The main reasons affecting the viability of the proposed scheme are the low value nature of the immediate vicinity of the site, and the relatively high existing use value of the existing B2 units on the site. Also the irregular shape of the site and narrow access (from Paynes Road) means that it is more difficult to maximise density of dwellings.

At this stage no abnormal costs have been included within our appraisal as these are unknown. However, there will need to be demolition costs which, taking account of the extent and likely asbestos content of the existing buildings, this cost could be significant.

We understand that there is an existing watercourse which runs underneath the site which could mean the need for piling to all but one of the proposed blocks as indicated by the applicant. These additional costs will only serve to worsen the viability position which again reinforces our statement above of whether the proposed scheme is sustainable, and could potentially equate to an overall loss on the proposed scheme.

Finally, it is assumed that the provision of the office/industrial 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 this accommodation is greater than the revenue achievable from it. It is therefore onerous to the scheme and this has a direct impact on the viability of the proposed scheme.

On the basis that the Council is prepared to consider granting consent with a reduced level of affordable housing and since we are assessing this scheme in the current market, we would recommend that if the scheme is not delivered within an agreed timescale that an automatic viability review be triggered.

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

Reviewed by:

Appendix 1 - All Private Appraisal