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

Our Reference: [redacted]
Your Reference: 18/00823/FUL

[redacted]

Date : 21st September 2018

Private and Confidential

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

Dear Simon,

DESKTOP REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
PROPOSED SCHEME: Thornhill Youth Centre, Bitterne Road, Southampton. SO18 5QY

I refer to our fee quote dated 9th April 2018 and your email dated 4th July 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 21st September 2018.

We have reviewed the assessment provided by Tangent Surveyors Ltd on behalf of the applicant GK Management Ltd.

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 [redacted], 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. Our graduate surveyor [redacted] has also assisted with this assessment.

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 17 residential dwellings (5 x 3 bed houses and a block of 12 flats), following the demolition of the existing youth centre building on the site.

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

Planning Obligations (Direct Cost)	Detail
Affordable Housing	35%
Highways/Transport	£26,000 (approx.)
Solent Disturbance Mitigation Project	£9,029
Carbon Management	£TBC
CIL	£88,852

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:			
2.5 Storey Block	2 Bed Flat	12	58.0
Terrace Houses	3 Bed	3	82.0
End Terrace Houses	3 Bed	2	82.0
Total		**17**	**1,106.0**

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 copy of the HCA EAT 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)
2 bed apartment	£165,000	**£180,000**
3 bed terrace house	£245,000	**£275,000**
3 bed end terrace house	£250,000	**£280,000**

The applicant has referred to a development in Mansfield Park Street in the centre of the Harefield area where similar sized 2 bedroom flats are achieving £165,000. No other comparable sales evidence has been provided to substantiate the remaining submitted figures.

Whilst Mansfield Park Street is close to the subject site, Harefield is considered to be a slightly lower quality area that where the subject site sits. The subject site also benefits from being more private and well screened from the main access road.

We have undertaken research using land registry details and sales from local estate agents and consider the figures put forward to be broadly reflective of similar existing properties and re-sale values in the immediate vicinity, but it is typical that new-build homes can command a premium over existing properties.

There is very limited recent nearby sales evidence available for new-build houses but there is the new Radian Homes development in Porchester Road, Woolston known as ‘Ashton Walk’. These have all recently been sold or reserved but no actual sales prices are available at the date of this report.

3 bedroom terrace houses with 2 X parking spaces and floor areas of 85.8m2 were recently marketed for £290,000 per unit. The 2 bedroom flats here were marketed for £190,000 each. The units here are of similar size to the proposed units, and the quality and value of location is also very similar to the subject site.

It should also be noted that similar existing 3 bedroom houses currently on the market and within close proximity to the subject site have asking prices of between approximately £220,000 and £275,000. Most of these require varying levels of updating and refurbishment, but they are generally all larger properties with larger plots and gardens, and some with garages.

Taking account of all of the available evidence, and factoring in a new-build premium, we consider the submitted values to be approximately 7% too low for the flats and 12% too low for the houses and we have instead adopted the figures as set out in the table above.

b) Affordable Housing:

There are no Affordable Residential properties proposed by the applicant.

c) Ground Rents:

The applicant has included ground rents of £150 per unit per annum for the 2 bedroom flats and capitalised this using a yield of 6% to produce a total freehold value of £29,988.

However, we consider that 2 bedroom units in this location could typically achieve £250 per unit per annum and we have capitalised this using a 5% yield which is in line with other more recent schemes we have assessed in this location.

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 therefore £3,604,995 compared with the applicants total submitted GDV of £3,245,000.

2) Development Costs -

a) Build Cost

<u>Residential:</u>

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 - £1,239 per m2
Flats - £1,441 per m2

In addition, the applicant has provided an itemised breakdown of abnormal and external works costs totalling £230,370 bringing the total construction costs to £1,826,315.

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 total gross floor area for the flatted block indicates a net – gross ratio of 92% which again is within the range we would expect to see for a block of low rise new-build flats.

The submitted costs of £230,370 include £52,370 of abnormal costs, but if these are deducted from the £230,370, this leaves a total of £178,000 for all external works costs. The most significant of these costs are for hard surfaced car parking and access road (£72,000), and utility connections (£48,000 based on £3,000 per property).

£178,000 equates to approximately 11% of the base build costs which, taking account of the overall size of the site, and the proposed site layout and number of parking spaces to be provided, we consider to be reasonable for this scheme and in line with similar schemes we have assessed.

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 8% of base build costs which is within an acceptable range based on other similar schemes we have assessed.

d) Abnormal and other costs

The applicant has provided us with Geo-Environmental Assessment and Investigation reports plus a Remediation Strategy report (all from early 2018), and on the basis of this, and through discussions with the Construction Director at Foreman Homes, the total estimated abnormal costs are £185,000. A summary of the findings and required works as provided by the applicant is as follows:

Trees to boundaries.
Topsoil to 0.50m if any.
Water table very high between 0.6m - 1.5m
Site is contaminated with lead, petrol and CO_2.
Site is not suitable for soakaways.

Enquiries made for vibro stone columns to allow strip foundations at ground level, otherwise de-watering or piling will be required.

A cover system of 600mm deep will be required due to contamination and contaminated soil will need to be removed from site.

This will apply to all garden and communal areas, not hard landscaped or roads, parking and footways.

Will need WAC tests to determine level of contamination over site.

Based on the extent of works required as evidenced by the submitted report we have accepted these costs and included them within our appraisal for the purpose of viability testing. Overall the estimated costs are considered reasonable for this size of site.

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 included £70,110 for CIL contributions plus £10,000 for Section 106 contributions totalling £80,110.

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

Planning Obligations (Direct Cost)	Detail
Affordable Housing	35%
Highways/Transport	£26,000 (approx.)
Solent Disturbance Mitigation Project	£9,029
Carbon Management	£TBC
CIL	£88,852

For the purpose of our assessment, we have included the known costs above which total £123,881 **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 2% for sales and marketing plus £750 per unit for legal fees. This is deemed acceptable and in line with other similar schemes we have assessed.

h) Finance costs

The applicant has adopted a finance rate of 5% plus fees of £25,733 which equates to approximately 6.6% and is within the range we would expect to see. We have therefore adopted the same within our appraisal.

i) 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 profit level of 17.5% of gross development value for the scheme which we consider to be acceptable and have adopted the same level within our appraisal.

j) Development Programme

The applicant has not included a detailed development programme within their written report but have based their appraisal on the following programme:

- Construction Period of 12 months (following a 1 month lead in period)

- Sale period of 4 months beginning directly after the construction period of 12 months

This development programme is considered to be reasonable, if slightly optimistic, but for the purpose of viability testing we have adopted the same time frame within our appraisal.

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 appraisal, the applicant has based the benchmark land value on the existing building plus a 20% uplift for seller incentive as follows:

Existing use value = £353,000
Plus 20% seller incentive:
Total = £423,708

The building is structurally sound and constructed to a fair basic standard and metal roof. It appears to be vacant but still in good order internally and could be occupied as an ongoing D1 building with relatively minor modification.

The applicant has provided details of a D1 use property in Cosham Portsmouth that is currently being marketed, but we have found a sale of a similar D1 use property in Princess Street Southampton which indicates a lower existing use value.

However, the subject site extends to approximately 1 acre, is secluded and sits within a prominent residential area close to local shops and amenities and we therefore consider the alternative use value for residential redevelopment to be higher than the existing use value plus incentive.

£423,708 represents approximately 12% of our revised GDV which is within the range we have seen paid in the market for other similar sites without planning consent in place (but with a relatively strong chance of achieving consent for a scheme of similar density to surrounding locality).

Therefore we have included a benchmark land value of £423,708 in line with the applicant for the purposes of viability testing.

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 CIL and S.106 contributions totalling £123,881 and a developer profit of 17.5% on GDV is borderline in terms of being viable. Our appraisal summary at Appendix 1 shows a small surplus of **£9,819** which could potentially be provided as an off-site affordable housing contribution.

We are in broad agreement with many of the applicant's submitted figures but the differences are as follows:

- Gross Development Value
- CIL/S. 106 Contributions (we are higher than the applicant)

The largest difference between our figures is with the GDV figures. The best comparable evidence available is considered to be the recently completed Ashton Walk scheme which is very similar to the proposed scheme. However, in arriving at our values we have also had regard to the availability of similar existing properties in the immediate vicinity.

At this stage we have accepted the abnormal works costs as estimated by the applicant but should further evidence come to light which changes this estimate then we would need to consider this further and it may affect our assessment.

Due to the sensitivity of the valuation appraisal, a slight reduction or increase in these figures will have a large influence on the surplus available for affordable housing.

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

[redacted]

[redacted]

[redacted]

[redacted]

Appendix 1 - All Private Appraisal