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[redacted]

[redacted]

Date : 9th November 2018

Dear Simon,

REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT

ADDRESS: **Rileys American Pool and Snooker Church End, Southampton. SO15 3JE**

APPLICATION REF: **18/00898/FUL**

I refer to your email dated 25th September 2018 confirming your formal instructions for DVS to carry out a viability assessment in respect of the proposed development at the above address.

I understand that this viability assessment is required following a full planning application (ref: 18/00898/FUL) to demolish the existing detached property and redevelop the site to provide a part two, part three, part four storey building comprising of 22 flats (15 x 1, 7 x 2 beds) with associated bin/refuse, cycle storage and landscaping.

This report is not a formal valuation.

The date of assessment is 9th November 2018.

We have reviewed the assessment provided by Jones Lang Laselle on behalf of the applicant Skymark Properties Limited.

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], 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. The assessment has also been overseen by [redacted]

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:

The application site is located on the western side of Church Lane in the Shirley District of Southampton. Church Lane is accessed off Shirley High Street, which is the main retail area in Shirley. The subject site occupies an ''infill'' position extending to approximately 0.16 hectares (0.41 acres) and is bordered by retail to the west, Church Lane to the South, a surgery to the east and residential apartments to the north. This convenient and desirable location is within easy reach of Southampton city centre and main train lines at Southampton central (1.6 miles).

The site is currently occupied by a single large detached and interlinked single storey warehouse with almost 100% site coverage. The subject property was originally constructed in the late 1960s with painted rendered elevations beneath pitched asbestos roofs.

The applicant is stating that following their assessment, the scheme with no affordable housing but with CIL contributions of £125,949 is not viable. Their submitted appraisal shows that the proposed scheme will produce a developer profit of 12.43% on Gross Development Value on a 100% open market basis and therefore any contribution for affordable housing can only be made with substantial levels of Affordable Housing Grant.

The Scheme:

This application is seeking full planning consent to demolish the existing building and erect a a part two, part three, part four storey building comprising of 22 flats (15 x 1, 7 x 2 beds) with associated bin/refuse, cycle storage and landscaping.

The schedule of accommodation is as follows:

Floor	**Type**		**Area** (m²)
Ground Floor	2 bed apartment	2	61.60
	1 bed apartment	1	37.60
	1 bed apartment	1	37.60
	1 bed apartment	1	37.00
	1 bed apartment	1	38.30
	1 bed apartment	1	37.10
	1 bed apartment	1	37.30
	2 bed apartment	2	61.60
	1 bed apartment	1	37.60
	1 bed apartment	1	37.60
	1 bed apartment	1	37.00
	1 bed apartment	1	38.30
	1 bed apartment	1	37.10
	1 bed apartment	1	37.30
First Floor	2 bed apartment	1	70.80
Second Floor	1 bed apartment	1	37.60
	1 bed apartment	1	37.60
	2 bed apartment	1	63.40
	1 bed apartment	1	37.00
	2 bed apartment	1	61.60

Third	2 bed apartment	1	61.60
	2 bed apartment	1	77.20
TOTAL		**22**	**1,019.80**

In addition, the scheme will provide;

- Landscaped garden area
- bin/refuse and
- cycle storage.

We are informed that the gross internal area (GIA) for the proposed block will be 1,251.60 m2 against a net saleable area of 1,019.80 m2. This equates to a net – gross ratio of approximately 81.48% which is at the mid end of the range that we would expect to see for this type of development.

Viability Assessment:

This assessment has been undertaken following our own detailed research into both current sales values and current costs. In some cases we have used figures put forward by the applicant if we believe them to be reasonable. The applicant has not provided a 'live' version of their Argus appraisal, but we have referred to their PDF version and written report.

For the purpose of this assessment we have assumed that the areas provided by the applicant are correct.

We have used a copy of the HCA EAT Appraisal toolkit to assess the proposed scheme and have attached a summary at Appendix 1.

We would summarise our assessment of the scheme as follows:

1) Development Value -

a) Private Residential:

The applicant has provided a range of comparable sales evidence of both existing and new build properties within the vicinity to substantiate their proposed figures.

On the basis of open market values, the applicant has adopted the following:

Unit Type	Average sales value	Average rate per sq.m
1 bed apartment	£125,000	£3,324.47
2 bed apartment	£160,000	£2,446.48

We have undertaken our own research and have utilised our database of land Registry transactions, as well as Rightmove, and consider the values suggested by the applicant for the units to be within the range we would expect to see.

b) Affordable Housing:

We understand that CS15 of the Councils Core Strategy requires new developments within the City to include 35% affordable housing, tenure split; 65% affordable rented and 35% shared ownership. At this stage we have not modelled any affordable housing on site.

c) Ground Rents:

On the basis that the apartments are sold on a long leasehold basis, we would expect an income from the sale of the ground rents.

The applicant has not included anything for ground rents but we have included the following:

1 beds	£150 per unit per annum
2 beds	£200 per unit per annum

We have capitalised these figures using a 5% yield which is approximately what would expect to see when compared with other similar 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 income is excluded from this scheme then this may affect our viability assessment.

d) Total Development Value:

Our total Gross Development Value (GDV), compared to the applicant's, is outlined below;

	Applicant	**DVS**
Private Residential	£3,015,000	£3,015,000
Ground Rents	£0	£73,000
Total	**£3,015,000**	**£3,088,000**

2) Development Costs -

a) Build Cost:

For the purpose of their assessment the applicant has not provided a detailed cost estimate from a firm of Chartered Quantity Surveyors but has instead relied upon the BCIS cost guide to estimate the construction costs.

Base Build Cost

The applicant has adopted a base construction rate of £1,302 per m2 which is broadly in line with the current BCIS lower quartile figure for a 3 - 5 storey block adjusted for this location. Taking account of the lower value nature of the location we consider this to be an appropriate rate for this scheme.

External Works

Whilst the BCIS cost includes for site preliminaries and contractors overheads and profit, it does not include for external works costs.

The applicant has included a total of £81,506 for all landscaping, boundary fencing and all external drainage and services which equates to approximately 5% of base build costs and is also considered reasonable for the subject scheme.

Overall, our base build cost and external works costs total £1,711,618 in line with the applicant's submitted figure.

b) Abnormal Build Costs:

There is currently a large single storey warehouse building extending to 993 m2 which is has recently been used as a Snooker hall and premises which will need to be demolished. The applicant has included £25,000 for demolition costs which is considered to be reasonable for this building.

c) Build Contingency

The agent, in their appraisal, have included for a build contingency at 5% of base build cost, including external works which is what we would expect to see and we have therefore included the same rate in our appraisal.

d) Professional Fees

The applicant, in their report, have included professional fees at 8% of base build costs which is typically what we would expect to see for development sites of this size and we have therefore included the same in our appraisal.

e) Section 106 payments and Community Infrastructure Levy (CIL)

The applicant has included CIL contributions of £125,949 in their appraisal plus an estimated £55,000 for S.106 contributions. We are informed by you that the following contributions will be required for the scheme:

Planning Obligations (Direct Cost)	Detail
Affordable Housing	35% (subject to Vacant Building Credit)
Highways/Transport	£33,000 (approx.)
Solent Disturbance Mitigation Project	£8,464
CIL	£125,949 (approx.)
Employment & Skills Plan	£8,030
Carbon Management Plan	£3,755 (max)

We have included the contributions as set out in the table above within our appraisal. Overall our total S.106 costs are £53,249 which is very close to the applicant's estimated total.

f) Sales and Marketing fees

The applicant has included for agent sales fees, marketing costs and legal sales fees totalling 1.75% of gross development value as follows:

Marketing	0.5%
Agent Sales fees	1%
Legal Sales fees	0.25%

This is within the range that we would expect to see when compared with other similar schemes we have assessed in this location albeit at the lower end of the range.

g) Finance costs

The applicant has adopted finance costs at a rate of 6.25% to include all fees which again is considered reasonable and in line with other recent schemes we have assessed.

Development Programme:

The development timeframe adopted by the applicant is as follows:

- Pre-construction period of 4 months
- Build Period of 12 months
- Sale period of 10 months beginning upon practical completion.

We consider this to be an appropriate timescale and have adopted the same within our appraisal.

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 agent, in their appraisal, has indicated a developer profit of 20% on GDV but we consider 17.5% to be sufficient for this smaller scale development. This level of profit is in line with other recent agreements for similar types of scheme within Southampton.

i) 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 of the site taking account of the latest NPPF guidance and the RICS Guidance note, Financial Viability in Planning, 1st edition.

The site is currently occupied by an interlinked single storey warehouse originally built in the 1960s. Our office records show that it extends to approximately 993 m2.

In their report the applicant has adopted a benchmark land value of £310,000 stating that this represents the current existing use value of the property in-situ. This figure is based on comparable sales evidence from other similar properties within secondary location in Southampton.

We understand that the subject property was sold by way of public auction in September 2014 for £250,000 on an unconditional basis and is considered to be the best reflection of value for the property at that time. Whilst we consider there may have been some increase in value of the site, we would estimate the current existing use value to be in the region of £250,000 - £300,000, say £275,000 on the basis that it can be occupied with minimal repair or expense. Available comparable evidence of other similar properties appear to support this level of value.

However, we understand that the building is actually derelict and in poor internal repair and therefore in order to maintain the ongoing existing use a significant amount of work and expenditure will be required. At this stage the extent of work is unknown but for the purpose of this assessment we have assumed a cost of approximately £50,000 would be required in order to reinstate it for ongoing existing use. This effectively reduces the existing use value to approximately £225,000.

In line with RICS Guidance and the updated NPPF, a seller incentive of between 15% and 20% is appropriate and taking account of this, we consider a benchmark land value of £258,750 to be reasonable with the addition of a 15% incentive. We have therefore adopted this figure in our appraisal for the purposes of viability testing.

In addition, we have included for SDLT fees at the current rate together with agents and legal fees at 1.8%.

Overall assessment:

Following our desktop research and assessment we are of the opinion that a 100% private scheme incorporating a site value of £258,750 with CIL contributions totalling £125,949 is not viable and cannot provide any contribution towards affordable housing. Our appraisal shows a deficit figure of -£43,701 (see Appendix 1).

The applicant's submitted viability report is reasonably well evidenced and we broadly agree with many of their figures. The minor differences between our figures are as follows:

- S.106 Contribution
- Developer profit
- Benchmark land value

Our appraisal indicates that the scheme will achieve a profit level of approximately 15.8% on GDV which is at the lower end of the range generally required for the purpose of debt finance.

It should be noted that the applicant's submitted appraisal shows that the scheme will achieve a profit on GDV of just 12.43% on a 100% open market basis which is below the level generally accepted for the purposes of securing debt finance.

Factors affecting the viability of this scheme are the relatively low value nature of this location and lack of car parking for the proposed units which limits the achievable gross development value. The demolition and site clearance costs also have a slight detrimental impact on viability.

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.

We consider that it would be reasonable in these circumstances to require the applicant to enter into an agreement to build the site to core and shell within 18 months. If they had not achieved this within the timeframe then a second viability assessment would take place giving the Council the opportunity to achieve a contribution if the viability had improved.

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 if required.

Prepared by

[redacted]

[redacted]

Reviewed by

[redacted]

Appendices

Appendix 1 – 100% Open Market Appraisal