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Southampton
Hampshire. SO15 1GW

Our Reference: 1699225/[redacted]
Your Reference: 18/01820/FUL

[redacted]

Date : 22nd January 2019

Dear Simon,

REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT

ADDRESS: **The Firehouse, Vincents Walk, Southampton, Hampshire. SO14 1JY**

APPLICATION REF: **18/01820/FUL**

I refer to your email dated 18th December 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: 18/01820/FUL) as follows:

Redevelopment of the site. Demolition of the existing building and the erection of a 9-13 storey building comprising 39 flats (11 x 2-bedroom and 28 x 1-bedroom) together with 160 sq.m of commercial floorspace (Use Class A1).

This report is not a formal valuation.

The date of assessment is 22nd January 2019.

We have reviewed the assessment provided by Robinson Low Francis LLP on behalf of the applicant Mr George Macari of Shaftesbury Pub Co 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. 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 a corner plot facing both Pound Tree Road and Vincents Walk, and is on the eastern fringe of the main city centre retail area. Directly to the east lies the main city centre bus stop area and beyond this is Houndwell Park with a large children's play area.

The location is within easy walking distance of the central train station (0.5 miles), bus routes and the main city retail area. It is currently occupied by a single large detached building occupied as a public house and premises with 100% site coverage. The subject property is adjoined to the neighbouring properties on the west and south sides.

The applicant is stating that following their assessment, the scheme with no affordable housing but with CIL contributions of £204,191.51 is not viable. Their submitted appraisal shows that the proposed scheme will produce a developer profit of approximately 12.6% 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 9-13 storey building comprising 39 flats (11 x 2-bedroom and 28 x 1-bedroom) together with 160m2 of commercial floor space (Use Class A1).

The schedule of accommodation is as follows:

Floor	**Type**	**No.**	**Area** (m^2)
First Floor	2 bed	1	72.6
	1 bed (Studio)	1	35.1
	1 bed	1	44.1
Second Floor	2 bed	1	72.6
	1 bed (Studio)	1	35.1
	1 bed	1	44.1
	1 bed	1	43.4
Third Floor	2 bed	1	72.6
	1 bed (Studio)	1	35.1
	1 bed	1	44.1
	1 bed	1	43.4
Fourth Floor	2 bed	1	62.2
	1 bed (Studio)	1	35.1
	1 bed	1	44.3
	1 bed	1	43.4
Fifth Floor	2 bed	1	62.2
	1 bed (Studio)	1	35.1
	1 bed	1	44.3
	1 bed	1	43.4
Sixth Floor	1 bed	1	52.0

	2 bed	1	68.9
	1 bed	1	43.4
Seventh Floor	1 bed	1	52.0
	2 bed	1	68.9
	1 bed	1	43.4
Eighth Floor	1 bed	1	52.0
	2 bed	1	68.9
	1 bed	1	43.4
Ninth Floor	1 bed (Studio)	1	37.5
	2 bed	1	68.9
	1 bed	1	43.4
Tenth Floor	1 bed (Studio)	1	37.5
	2 bed	1	68.9
	1 bed	1	43.4
Eleventh Floor	1 bed (Studio)	1	37.5
	2 bed	1	68.9
	1 bed	1	43.4
Twelfth Floor	1 bed (Studio)	1	37.5
	1 bed	1	43.4
TOTAL		**39**	**1,935.4**

In addition, the scheme will provide;

- 156.6m2 of commercial space (115.2m2 Gnd floor Unit and 41.4m2 1st floor unit)
- Basement bin/refuse stores and
- Basement cycle storage.

We are informed that the gross internal area (GIA) for the proposed block will total 2,936.7m2 (including basement areas) against a net saleable area of 2,092m2 (including commercial space). This equates to a net – gross ratio of approximately 71% excluding the basement area. If the basement area is included then gross-net ratio falls to approximately 65% which is at the low to mid end of the range that we would expect to see for this type of development with double lift shaft.

Within the applicant's report they comment on the relatively inefficient design of the building. This is partly due to the tight plot size and height, and also needing to utilise the existing basement area.

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 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 our bespoke Excel spreadsheet 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 a five mile radius of the site to substantiate their proposed figures.

On the basis of open market values, the sales values adopted are based on a sales rate of £3,390.6 per m2 which equates to a range of values from £119,011 for the smallest 1 bedroom studio units to £246,160 for the largest 2 bed units. The average values adopted are as follows:

Unit Type	Average sales value	Average rate per sq.m
1 bed apartment	£142,818	£3,390
2 bed apartment	£232,905	£3,390

We have undertaken our own research and have utilised our database of land Registry transactions, as well as Rightmove, and consider the overall level of value put forward by the applicant for the units to be within the range we would expect to see considering there will be no car parking spaces for the units.

However, it should be noted that no variation of value has been applied for floor level and potential views of higher level units. Also, we do not consider that there would be as large a disparity between the 1 bedroom and 2 bedroom units. However, overall we do not consider the total value of the scheme to be understated.

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. This equates to 13.3 on-site units for the proposed scheme but 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.

However the government announced last year that they would crackdown 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 this stage. If this changes it could affect this assessment.

d) Commercial:

The applicant has included a total value of £681,759 (£499,551 for larger ground floor unit and £182,208 for smaller 1st floor unit) for the commercial space which is based on a rental value of £20 per square foot (215.28 per m2). These figures have been calculated based on a 20 year income period and allow for a 6 month void period and costs.

Very limited comparable evidence has been provided to us to support the rental levels adopted and no other details of the capitalisation rate or methodology have been provided. However, on the basis of an all-risks yield over the lifetime of the potential investment, the figures adopted appear to have been capitalised based on a yield of between 4% and 5% (allowing for costs at 5.75%).

From our own research we do not disagree with the rental level adopted and also do not consider the adopted yield to be overstated. On the assumption that there is no pre-let agreement in place for occupation of the units, the yield adopted appears slightly optimistic.

The larger ground floor unit would be well suited to a convenience store for a large supermarket chain and if a pre-let agreement could be reached with such a tenant, the values adopted are broadly what we would expect to see.

However, the site is in a good position and very close to the heart of the city centre retail area and we have therefore included the same figures within our appraisal. We have also allowed for a 6 month void period in line with the applicant.

e) Total Development Value:

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

	Applicant	DVS
Private Residential	£6,560,866	£6,560,866
Ground Rents	£0	£128,000
Commercial	£681,759	£681,759
Total	**£7,242,625**	**£7,370,625**

2) Development Costs -

a) Build Cost:

For the purpose of their assessment the applicant has provided a summary of costs and basic breakdown, but no detail of specification or materials is included in this summary. The total submitted construction costs are £4,913,968 and include demolition works, associated external works costs and a 5% contingency, but exclude professional fees.

Also included within this figure are the following over/extra costs:

£68,800: Demolition
£45,000: Piling works
£137,500: Extra value for windows

We have not been provided with a ground condition report but due to the height of the proposed building it is assumed that piling works will be required, and these costs will be reflected within the BCIS figures for this size of structure.

Similarly, we have not been provided with any details of why additional costs are required for the windows but it is assumed that is relates to noise attenuation due to its busy central location. Based on the quantity of windows the costs do not seem unreasonable.

If the demolition costs, additional window costs and contingency are stripped out of the total, the remaining figure for base build costs and external works is £4,473,670. Based on a total gross internal area of 2,936.7m2, this equates to an overall build rate of £1,523.37 per m2 including all external works and utility connection costs.

This build rate site broadly in line with current BCIS Lower Quartile rate levels for a 6+ storey residential block adjusted for this location.

There are some areas of the proposed scheme which will not require as high a cost as the current residential BCIS rate such as the basement storage areas and to a lesser extent the commercial areas, but overall, taking account of the anticipated sales revenue and general nature and value of the location we consider the submitted construction costs not to be overstated and have therefore included the same within our appraisal.

b) Abnormal Build Costs:

The site is currently occupied by an existing 3 storey building extending to approximately 860m2 which will need to be demolished (although the basement area will be retained). The applicant has included £68,800 for demolition costs which is considered to be reasonable for this building.

With regard to the additional £137,500 over/extra costs relating to the windows, at this stage we have not been provided with any details of why these are required but it is assumed that is relates to noise attenuation due to its busy central location. Based on the quantity of windows within the proposed building, the costs do not seem unreasonable.

In the context of abnormal works costs it is also worth noting that no allowance has been made for potential party wall issues or rights of light. The current building is attached on the west and south sides to properties facing Above Bar Street and so there may be additional costs involved here.

c) Build Contingency

The agent, in their appraisal, have included for a build contingency at 5% of base build cost, including external works. However, we consider 3% to be appropriate for this scheme as the planning application is a full application and we would therefore expect many of the finer details to have been worked through.

d) Professional Fees

The applicant, in their report, have included professional fees at 9% of base build costs which includes £50,962 of historic costs related to the scheme. Whilst we would not usually reflect historic costs for the purpose of viability testing, 9% is still within the range we would expect to see for development sites of this nature 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 £204,191.51 in their appraisal plus S.106 contributions totalling £26,971.74. We are informed by you that the following contributions will be required for the scheme:

Planning Obligations (Direct Cost)	Detail
Affordable Housing	35%
Highways/Transport	Estimated - £60,000
Solent Disturbance Mitigation Project	£14,793
CIL	£218,265
Employment & Skills Plan	£12,174
Carbon Management Plan	£3,915 (max)

We have therefore included the contributions as set out in the table above within our appraisal instead.

f) Sales and Marketing fees

The applicant has included for agent sales fees and marketing costs for the residential units totalling 1% of gross development value as follows:

Marketing	0.5%
Agent Sales fees	0.5%

In addition, legal sales fees of £20,000 has been included which equates to £513 per unit.

Overall, the fees included are below the levels we would typically expect to see, but are not considered to be overstated and we have therefore adopted the same within our appraisal.

g) Finance costs

The applicant has adopted finance costs at a rate of 3% to include all fees which again is below the usual range we would expect and it is assumed that this reflects the personal circumstances of the applicant. However, they are not considered to be overstated and so we have included the same within our appraisal.

Development Programme:

No live appraisal has been provided to us but within their written report the applicant has indicated the following timeframe:

- Build Period of 13 months
- Sale period of 12 months beginning upon practical completion (3.25 units per month)

We consider this to be an appropriate timescale and have adopted the same within our appraisal. We have also included a 3 month pre-construction period in line with other similar schemes where a full planning application has been submitted.

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

For the commercial element we have also adopted a profit level of 17.5% on GDV on the basis that the units are being built speculatively with no pre-let agreement in place at the date of this assessment.

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 (EUV) of the site plus an incentive to bring forward land for development taking account of the latest NPPF guidance and the RICS Guidance note, Financial Viability in Planning, 1st edition (Benchmark Land Value).

The site is currently occupied by an existing 3 storey building extending to approximately 860m2. It has been run as a public house and premises for more than 20 years and is still operational, and therefore assumed to be structurally sound and in reasonable condition internally.

Our office records show that the property was acquired by the applicant on 2nd August 2013 for the sum of £420,000. This is believed to be an open market transaction bought by the developer for potential redevelopment, and it is therefore our opinion that the price paid reflected any seller incentive.

At this point no comparable sales evidence for the existing property has been provided by the applicant's agent and they have adopted the purchase price of £420,000 within their appraisal. Whilst we have not been provided with recent trading figures, it is understood to be a popular venue with regular rock and metal music events taking place.

Therefore we have adopted £420,000 as a benchmark land value for the purpose of viability testing within our appraisal in line with the applicant.

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 £420,000 with CIL contributions totalling £218,265 is not viable and cannot provide any contribution towards affordable housing. Our appraisal shows a deficit figure of -£143,131 (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:

- Gross Development Value (ground rents only)
- Construction costs (build contingency only)
- Developer profit

Our appraisal indicates that the scheme will achieve a profit level of approximately 15.5% on GDV which is at the lower end of the range generally required for the purpose of debt finance. On this basis we consider that the scheme can provide full CIL and S.106 contributions with the exception of the affordable housing contribution.

The applicant recognises in their report that the current building design is inefficient and it is not known whether a value/design engineering process has been carried out yet. Whilst a gross – net ratio of 65% is not particularly efficient, it is also not deemed to be grossly inefficient for a 13 storey building with double lift shaft.

Other factors affecting the viability of this scheme are the average value nature of this location and lack of car parking for the proposed units which limits the achievable gross development value. The abnormal 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]

Reviewed by

[redacted]

Appendices

Appendix 1 – 100% Open Market Appraisal