DVS Property Specialists for the Public Sector

Simon Mackie
Planning Agreements Officer
Infrastructure Planning and Development Service
Southampton City Council
Civic Centre
Southampton
SO14 7LY

[redacted]

Date : 15th February 2019

Dear Simon,

REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT

ADDRESS: **Compass House, Romsey Road, Southampton. SO16 4HP**
APPLICATION REF: **18/01644/FUL**

I refer to your email dated 4th January 2019 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: 18/01644/FUL) as follows:

Erection of an additional fourth floor to facilitate 19 flats (11 x 1, 5 x 3 and 3 x 2 bed) with associated car parking (225 spaces shared between 245 flats, approved under 17/00178/PA56 and proposed 19 flats) and cycle storage.

This report is not a formal valuation.

The date of assessment is 15th February 2019.

We have reviewed the assessment provided by James R. Brown and Co Ltd dated 2nd November 2018 on behalf of the applicant BMR Compass 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 comprises the rooftop of an existing (former) office building known as Compass House, which itself currently benefits from a Prior Approval consent for conversion to 245 flats (approved in March 2017 - application ref. 17/00178/PA56).

The site is located in the Maybush district of Southampton approximately 2.5 miles north-west of the city centre. It is accessed via the main through road known as Romsey Road which is a main bus route and provides easy access to the M27 motorway and the city centre.

The immediate surrounding areas are primarily residential with local amenities and larger supermarkets within 1 mile. There are a number of recently built residential schemes adjacent to the site, some contemporary, some more traditional in scale and appearance.

The applicant is stating that following their assessment, the scheme with no affordable housing but with CIL and S.106 contributions of £130,000 is not viable. Their submitted appraisal shows that the proposed scheme will produce a negative residual land value of -£540,154 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 erect a single storey vertical extension to the existing building Compass House comprising 19 flats (11 x 1 bedroom, 3 x 2 bedroom, and 5 x 3 bedroom), together with associated car parking.

The schedule of accommodation is as follows:

Floor	**Type**	**No.**	**Area per unit** (m^2)
Fourth Floor	1 bed	11	52.0
	2 bed	3	82.0
	3 bed	2	86.5
	3 bed	3	91.0
TOTAL		**19**	**1,264.0**

In addition, the scheme will provide;

- Balcony areas for all units
- Basement bin/refuse stores and
- Basement cycle storage.

We are informed that the gross internal area (GIA) for the proposed block will total 1,532.90m2 against a net saleable area of 1,264m2. This equates to a net – gross ratio of approximately 82.5% which is reasonable for this type of development with a lift shaft.

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 small range of comparable sales evidence of both modern and older purpose-built flats within the locality of the site to substantiate their proposed figures.

On the basis of open market values, the sales values adopted are as follows:

Unit Type	Average sales value	Average rate per sq.m
1 bed apartment	£142,000	£2,731
2 bed apartment	£210,000	£3,390
3 bed apartment	£242,600	£2,714

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 2 and 3 bedroom units to be within the range we would expect to see. However, we consider the 1 bedroom units could achieve at least £160,000 per unit as an average value.

All of the proposed flats will be top floor units and will benefit from generous floor areas, balconies and better views than the rest of the converted units within the existing block. They are therefore quite unique for the location as there is nothing directly comparable within the vicinity.

The figures put forward for the proposed 2 and 3 bedroom units appear to reflect these advantages, but we do not consider that there would be as large a disparity between the 1 bedroom and 2 / 3 bedroom units.

We have identified the following comparable sales and marketing evidence of modern nearby 1 bedroom units within purpose-built blocks:

- 11 Colby Street, Southampton, 48m2, sold 24th January 2018 for £148,000. 1st floor unit with 1 parking space, very close to subject site.

- 81 Briarswood, Southampton, 51m2, sold 20th December 2018 for £157,000. Ground floor unit with parking. Similar value location to subject site.

- Willroy Gardens, Southampton, 42m2 approx., currently being marketed with an asking price of £140,000. Ground floor unit with parking Right next to subject site.

These sales/marketing values all reflect re-sales and so a new-build premium uplift needs to be considered for the subject units (between 5% - 10% in this instance as the comparable evidence is of modern units).

In addition, regard has to be had to the advantageous top-floor position that the proposed units will occupy. They will all have balconies and good views, and will also enjoy better privacy than the units below and these factors have factored in to our opinion of value for the proposed 1 bedroom units which we would expect to achieve at least £160,000 per unit.

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 6.65 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 included the following ground rental income which has been capitalised using a 6% yield:

1 beds	£200 per unit per annum
2 beds	£250 per unit per annum
3 beds	£300 per unit per annum

We agree with the rents adopted but have instead 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) Total Development Value:

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

	Applicant	**DVS**
Private Residential	£3,401,500	£3,603,000
Ground Rents	£70,000	£89,000
Total	**£3,471,500**	**£3,692,000**

2) Development Costs -

a) Build Cost:

The applicant has not provided a detailed breakdown of build costs or cost estimate from a chartered quantity surveyor for this scheme but has instead referred to current BCIS guide figures for new-build flatted schemes.

On this basis they have adopted a base construction rate of £1,600 per m2 which sits approximately between the current Median and Upper Quartile BCIS figures for 3-5 storey new-build apartment blocks adjusted to this location.

Given the complexity of this development, and the fact that it is an extension of an existing building which is also being converted as part of one larger scheme, we would expect to see a more detailed breakdown of build costs.

The BCIS guide for new build schemes takes account of all elements of construction including foundations and associated works which don’t necessarily apply fully to this proposed extension. It is therefore a very simplistic approach to calculating build costs for this unique and complex development.

The applicant contends that, due to the nature of this roof-space scheme that the cost is likely to be greater than for a conventional new-build scheme which may be the case. However, without a detailed cost estimate it is impossible to be certain.

Therefore, in the absence of a cost breakdown we have included the BCIS Median rate of £1,453 for new-build schemes within our appraisal at this stage but should additional evidence be made available then we would need to consider this, and this may affect our assessment.

In addition an external works allowance of 5% of base build costs has been included which we consider to be reasonable here and we have therefore included the same in our appraisal.

Overall, our construction costs total £2,338,671 compared with the applicant's construction costs of £2,575,320.

b) Abnormal Build Costs:

No abnormal or over/extra costs have been included by the applicant for this scheme.

c) Build Contingency

The applicant has included for a build contingency at 5% of base build cost, including external works. Usually we would expect to see closer to 3% for a full application scheme of this size but in this instance, due to the more complex nature of this vertical extension scheme we consider 5% to be appropriate.

d) Professional Fees

The applicant has included professional fees at 8% of base build costs which is within the range we would expect to see and we have therefore included the same in our appraisal.

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

The applicant has included CIL and S.106 contributions totalling £130,000 but you have informed us that the actual contributions required for this scheme are as follows:

Planning Obligations (Direct Cost)	Detail
Affordable Housing	35%
Highways/Transport	Works provision
SDMP	£12,436
Employment & Skills	£8,030
CIL	£169,050

We have therefore included these figures within our appraisal but if this differs then it will affect our assessment.

f) Sales and Marketing fees

The applicant has included for agent sales fees and marketing costs for the residential units totalling 2.75% of gross development value as follows:

Marketing	1.25%
Agent Sales fees	1.5%

In addition, legal sales fees of £30,000 has been included which equates to £1,579 per unit.

Whilst the marketing and agent sales fees are within the range we would expect to see (albeit towards the higher end of the range), the legal sales fees appear too high. We would expect these to be in the region of £500 - £1,000 per unit and have therefore adopted £750 per unit within our appraisal instead. This is in line with other recent schemes we have assessed.

g) Finance costs

The applicant has adopted finance costs at a rate of 6.75% plus a finance facility fee on all costs of 1.5% which they recognise typically equates to around 7% all-in.

We have instead adopted 6.5% debit rate and 2% credit rate which reflects all fees and on the basis of 100% debt finance which is in line with other recent similar sized schemes we have assessed.

It is worth noting however that our overall finance costs total £123,364 which is slightly higher than the applicant's total costs of £110,118.

Development Programme:

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

- Pre-construction/lead-in period of 3 months
- Build Period of 10 months
- Sale period of 6 months beginning upon practical completion (3.167 units per month)

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 applicant, in their appraisal, has indicated a developer profit of 22.5% on cost which equates to approximately 21.2% on GDV but we have instead adopted 17.5% on GDV in line with other recently agreed schemes in this location.

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).

Within their appraisal, the applicant has included a benchmark land value of £250,000 which is based on the assumption that the existing roof space could accommodate some income generating telecommunications aerials/masts. However, no details of how this figure has been arrived at have been provided to us.

The current NPPF rules state that the existing use value (EUV) + seller incentive approach should be considered when arriving at an appropriate benchmark land value, and that alternative use may only be considered where there is implementable planning consent.

The planning rules surrounding rooftop mast installations are complex and are currently covered by General Permitted Development Order (GPDO) 2018. These appear to offer a route for prior approval for such installations where the necessary criteria can be met. However, in order to gain prior approval, an application of sorts will still need to be made and there will be costs involved to do this. There may also be installation/infrastructure costs to the owner of the building in order to facilitate any mobile operators.

Whilst prior approval consent is also not necessarily guaranteed, our office records show that historically there have been a number of rooftop masts in situ which were owned by major operators (Orange, T Mobile, Vodafone, Hutchinson, O2) which would support the case for future prior approval installations.

However, these installations have all now been removed, the last one being the ‘O2’ mast in July 2013. We understand that technology in mobile network coverage has improved and changed significantly within the past decade and it appears likely that due to other alternative (and more cost effective) options, that the former rooftop masts are no longer required.

It is therefore our opinion that, if there were sufficient demand from existing operators for rooftop telecom installations at this site, they would still be in place. We would expect to see at least one or two to still be in operation, but it appears that at the date of this report, there are no operators currently in-situ.

No evidence or proof of demand for this type of use or network coverage has been provided by the applicant and we have therefore adopted a NIL land value within our appraisal.

Overall assessment:

Following our desktop research and assessment we are of the opinion that a 100% private scheme incorporating a site value of £0 with CIL and S.106 contributions totalling £189,516 is borderline in terms of being viable but cannot provide anything a contribution towards affordable housing. Our appraisal shows an overall deficit of -£8,121 (see Appendix 1).

The applicant’s submitted viability report is not particularly well evidenced and it is worth noting that their appraisal shows a negative land value of -£540,154 against a total developer profit of £736,834. This equates to a profit level well below the level generally required for the purposes of debt finance which leads us to question some of the inputs used, particularly the construction costs. It also leads us to question the sustainability and deliverability of the scheme.

Despite this, we have agreed with several of the applicant's figures with the differences being as follows:

- Gross Development Value (1 bedroom units and ground rents)
- Build costs
- Legal sales fees
- Finance costs (we are slightly higher)
- Developer profit
- Benchmark land value

Factors affecting the viability of this scheme are the average value nature of this location and complexity of construction due to this being a vertical extension of an existing building.

At this stage the construction costs for the proposed scheme are relatively unknown and no detailed cost estimate or breakdown of costs have been provided to us but should one become available it may cause us to revise our assessment.

Due to the sensitivity of the valuation appraisal, slight reductions or increases in any of the figures could have an influence on the residual value and thus impact on the viability of the scheme either on a positive or negative basis.

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 higher 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