

**Private and Confidential**

**Simon Mackie**  
Planning Agreements Officer  
Infrastructure Planning and Development Service  
Southampton City Council

***Sent via e-mail only***



Our Reference: [REDACTED]  
Your Reference: 19/00346/FUL

Please ask for: [REDACTED]  
Tel: [REDACTED]  
E-mail: [REDACTED]

Date : 02 May 2019

Dear Simon

**REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT  
ADDRESS: 128-130 WEST END ROAD, SOUTHAMPTON, SO18 6PH**

I refer to your formal instructions to carry out a viability assessment in respect of the above proposed development. I have been provided with the initial assessment undertaken by Goadsby in April 2019 on behalf of the applicant. I have now completed my own research and assessment and report as follows:

This report is not a formal valuation.

The date of assessment is 02 May 2019.

I have reviewed the assessment provided by Goadsby.

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

The principal objective of my Brief and the subject of this report are to establish whether there is financial justification for the provision of any on-site affordable housing and other s106 contributions.

**General Information**

It is confirmed that the viability assessment has been carried out by [REDACTED], an 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 no conflict of interest has been revealed.

Our valuation is provided for your benefit alone and solely for the purposes of the instruction to which it relates. Our valuation 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.

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.

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 remain possible. We would therefore recommend that any valuation is kept under regular review.

### **Background & The scheme:**

This viability assessment is in relation to a proposed full planning application involving the erection of 10 x 3-bed, 2-storey dwellings with accommodation in roof space, in a terrace block of 5 units, a terrace block of 3 units and 2 x semi-detached units, with associated car port, parking and cycle/refuse storage, following demolition of existing public house (ref: 19/00346/FUL).

This latest planning application follows refusal of a previous application that proposed a similar development scheme (planning ref: 17/00750/FUL). Planning consent was granted in March 2018 for the Change of use from a drinking establishment (Class A4) to flexible use within A1, A2, A3 or A4 (Retail, financial, professional services, restaurants, cafe and drinking establishments).

The site is approximately 0.21 hectares (0.52 acres) and is currently occupied by the former Big Cheese public house, which is understood to have closed in Feb 2017. Since closure the property has been subject to vandalism and has been allowed to fall into a state of disrepair. The site is located on the corner of Dean Street and West End Road and fronts onto a busy roundabout.

Goadsby have provided an assessment of the financial viability of the proposed scheme on this site, including two appraisals; one for a scheme providing 100% open market units and another providing 1 x Shared Ownership affordable unit.

Goadsby conclude in their report it is not financially viable to provide any on-site affordable housing.

I understand that the planning policy requirement for the proposed development scheme on this particular site is a 20% on-site affordable housing provision. However, as the site is a brownfield site with a vacant building on it, account must be taken of the Vacant Buildings Credit (VBC). The overall floor area increase proposed is approx. 50% and by applying the recommended approach in determining VBC the 2 x affordable units that would be required by the planning policy is reduced to 1 x affordable unit, as agreed with the local planning authority.

On this basis, I have assessed the scheme on the basis of providing 1 x affordable unit (10% on-site provision), and have assumed this will be shared ownership tenure.

My review has regard to current values and costs in accordance with the latest NPPF and the RICS "Financial Viability in Planning" Guidance note.

### **Viability Assessment:**

This report deals with each major input into the viability assessment of the scheme and has been undertaken following my own research into both current sales values and current costs. I have used figures put forward by Goadsby if I believe them to be reasonable.

Goadsby have used the a viability software package known as Circle to assess the scheme whereas I have used the Argus developer appraisal software.

I summarise my assessment of the Scheme as follows:

#### **1) Development Value –**

##### **a) Private Residential:**

A breakdown of the GDV adopted by Goadsby for the 10 proposed 3 bed houses is shown in the table below:

<b>Unit</b>	<b>Type</b>	<b>Beds</b>	<b>GIA</b>	<b>Submitted OMV</b>
1	End terrace	3	97	£295,000
2	Mid terrace	3	97	£290,000
3	Mid terrace	3	97	£290,000
4	Mid terrace	3	97	£290,000
5	End terrace	3	97	£295,000
6	Semi-detached	3	97	£300,000
7	Semi-detached	3	97	£300,000
8	End terrace	3	97	£295,000
9	Mid terrace	3	97	£290,000
10	End terrace	3	97	£295,000
<b>Totals</b>			<b>970</b>	<b>£2,940,000</b>

I have carried out my own research into the current market values of the proposed units using our internal database of actual market transactions for comparable new build sales evidence. I have also reviewed marketing details for other comparable properties.

Following my research, I am of the view that the unit values submitted by Goadsby are lower than they would likely sell for in the current market. Based on the sales evidence available to me I am of the view that more reasonable unit values are as follows:

Unit	Type	Beds	GIA	DVS OMV
1	End terrace	3	97	£310,000
2	Mid terrace	3	97	£305,000
3	Mid terrace	3	97	£305,000
4	Mid terrace	3	97	£305,000
5	End terrace	3	97	£310,000
6	Semi-detached	3	97	£315,000
7	Semi-detached	3	97	£315,000
8	End terrace	3	97	£310,000
9	Mid terrace	3	97	£305,000
10	End terrace	3	97	£310,000
<b>Totals</b>			<b>970</b>	<b>£3,090,000</b>

I acknowledge that the houses included in my sales evidence (Appendix A) are in a more desirable location than the subject site, however I am of the view that the submitted unit values at approx. 10% lower do not reflect the fact that the site is located towards the outskirts of Bitterne Village and towards the West End parish.

Considering all the evidence available, I am of the opinion the proposed, new build 3 bed houses in this locality would achieve sales values in the region of 5% higher than those submitted by Goadsby. I have adopted a difference in value between various house types that is similar to Goadsby.

My GDV figure is therefore approx. 5% (£150,000) higher at **£3,090,000**, for a scheme providing 100% open market housing.

For a policy compliant scheme providing 1 x affordable unit, the GDV for the 9 x private residential units is **£2,785,000**.

**b) Affordable Values**

In their scheme providing 1 x affordable unit, Goadsby have reduced the Open Market Value of the selected house by 35% to reflect the price likely to be achieved for an intermediate affordable unit (e.g. Shared Ownership).

Based on my most recent experience and agreements on other similar schemes in the locality, I have adopted the same approach in establishing the value of the affordable unit.

In my appraisal, I have selected a mid-terrace unit at £305,000 and applied the 35% reduction to give a GDV for the single affordable unit of **£198,250**.

**c) Gross Development Value (GDV)**

Based on a policy complaint scheme my total GDV is therefore **£2,983,250**, which compares to the GDV submitted by Goadsby as follows:

Type	DVS	Goadsby
9 x Private Units	£ 2,785,000	£ 2,645,000
1 x Affordable unit	£ 198,250	£ 191,750
<b>Total GDV</b>	<b>£ 2,983,250</b>	<b>£ 2,836,750</b>

My total GDV is approximately £146,500 higher than the comparable GDV that was submitted by Goadsby. This difference is attributable to the higher open market unit values I have adopted.

**2) Development Costs -**

**a) Build Costs & Abnormals:**

I have scrutinised the cost information submitted by Goadsby and have reached the following conclusions on costs.

Goadsby have adopted a base build cost of **£1,269,730**, which is has been established by applying £1,315/m<sup>2</sup> to the floor area of the terrace properties and £1,285/m<sup>2</sup> to the floor area of the semi-detached units. With reference to the latest BCIS data, I note that the most up to date build cost data for the proposed property types in Southampton is in line with what Goadsby have submitted. I have therefore adopted the same in my appraisal.

An addition 15% of plot build costs has been adopted by Goadsby to reflect the external works required. Having regard to the proposed site layout and having briefly discussed with a QS colleague, I am of the view that 15% is reasonable for this scheme and I have adopted this in my appraisal.

Goadsby have also included £30,000 for the demolition of the existing building on site. Following informal advice from a QS colleague, and with reference to demolition costs of other agreed scheme in the locality, I am of the view that this figure is not unreasonable, and have adopted the same in my appraisal.

On a like-for like basis my adopted build cost total is **£1,490,190**, excluding fees and contingencies. This is the same as the equivalent cost submitted by Goadsby.

**b) Contingency:**

Goadsby have included a developers contingency of 5% on costs.

The contingency fee is designed to cover unknown and unforeseen costs that may arise during the development period. A full planning application stage I would expect that most costs would have been allowed for and on this basis I am of the view that a contingency of 3% is reasonable and I have therefore adopted this in my appraisal.

**c) Professional Fees:**

Goadsby have adopted 6.5% of build costs for professional fees, which I have accepted as reasonable.

**d) CIL and Section 106:**

In their appraisal for a scheme providing 1 x affordable unit Goadsby have included for CIL at £42,365 and a s106 contribution for Solent Disturbance Mitigation at £6,530.

Your authority has provided the following CIL and s106 figures, which I have included in my appraisal:

• CIL	-	£ 40,551
• Highways	-	£ 10,000
• Solent Disturbance Mitigation Project	-	£ 6,530
• Employment & Skills Plan	-	£ 8,030
• Carbon Management Plan	-	£ 2,910
• <b>TOTAL</b>	-	<b>£ 68,021</b>

I understand the CIL figure provided by your authority is on the basis of a fully open market scheme so could be lower for a policy compliant scheme. Depending on the outcome of my assessment, an update may therefore be needed to take account of an amended CIL figure.

**e) Sale and Marketing Fees:**

Goadsby have included 1.25% of open market GDV for sales agent fees and 0.5% for legal fees.

In line with other similar schemes I have adopted 2.5% of open market GDV for sales and marketing and £750 per unit for legal fees. For the affordable unit I have allowed £1,000 to cover the legal transfer.

**f) Development Programme:**

Based on my experience of other similar schemes in the region, I have adopted a development programme that differs from that submitted by Goadsby, as detailed below:

	<b>Goadsby</b>	<b>DVS</b>
<b>Purchase</b>	1 month	1 month
<b>Pre-construction</b>	9 months	6 months
<b>Construction</b>	12 months	12 months
<b>Sales period</b>	6 months	6 months

I have assumed that sales start in month 15 of the 20 month scheme.

**g) Finance costs:**

Goadsby have adopted a finance debit rate of 6.5% for the scheme and have not included a credit interest rate.

In line with other similar schemes I have recently assessed, I have adopted a debit rate of 6.5% and a credit rate of 2%, as is good practice.

**h) Developers Profit:**

In the current market a range of 15% to 20% of GDV for private residential and 6% of GDV for affordable is considered reasonable.

Goadsby have acknowledged the above range in their report but have not explicitly stated the developers profit they judge to be reasonable in this case. In their appraisal they have adopted an approach where the profit is the residual element. For a scheme providing 1 x affordable unit, this is at 9.40% of GDV.

I consider a profit at 17.5% of GDV for the open market units to be sufficient for this relatively smaller scale development, and have adopted this in my appraisal. For the affordable unit I have adopted a profit of 6% to reflect the reduced risk associated with this tenure type. My resulting blended profit is at **16.76%**.

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 Benchmark Land Value (BLV) of the site taking account of the National Planning Policy Framework (NPPF) and The RICS Guidance note, Financial Viability in Planning, 1<sup>st</sup> edition.

The most up to date Viability Guidance published by Ministry of Housing, Communities & Local Government (MHCLG) in July 2018 provides guidance stating that:

*"A Benchmark Land Value (BLV) should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land."*

Goadsby have adopted a BLV of £651,000, which is understood to be the purchase price for the site achieved in Feb 2017.

The property was clearly bought with a view to redevelop, as evidenced by the planning application for resi development submitted in May 2017 (refused). The price paid therefore reflects an element of hope value and does not, in my opinion, represent an EUV. It is explicit in the MHCLG guidance that *"Existing use value is not the price paid and should disregard hope value."*

Furthermore, since the property was purchased it has been allowed to fall into disrepair, so the value will inevitably be lower, in my opinion.

A further planning application was submitted and approved in March 2018 to change the planning use to be more flexible and incorporate A1, A2 and A3 uses). I understand that no demand has been forthcoming for any of these alternative uses.

The pub has fallen into a poor state of repair over a 2 year period and to be brought back into use significant refurbishment works would be required. With reference to the most up-to-date BCIS data, I have adopted a Pub "rehabilitation" Lower Quartile rate of £818/m<sup>2</sup> and calculate that a cost in the region of £300,000 would be required to bring the pub back into a state of repair that would be suitable for a pub use to continue.

Planning consent exists for an A1, A2 or A3 use and I note that similar costs would be required to enable occupation for any of these uses too (e.g. shop, restaurant, cafe, offices).

I have researched the sale of pubs with vacant possession across Hampshire and Dorset and note that a range of sale prices between £220,000 - £700,000, with a number the properties sold at the higher end of this range having planning consent for residential (or D1) development.

On the basis of the required c. £300k of refurbishment costs required, I am of the opinion that the EUV would be low in comparison to the sale price. My view is that if the works were not required, an EUV between £400,000-£500,000 would be reasonable. Deducting the refurbishment costs results in a value of say £200,000, which I believe to be reasonable as a BLV.

Taking account of the physical state of repair of the building, I do not believe that a premium above the EUV would be required to incentivise a reasonable landowner to sell. I have therefore adopted a BLV of **£200,000** and had regard to this when considering the financial viability of the proposed scheme.

In my appraisal I have also allowed for both stamp duty at the appropriate rate, and agent/legal fees at 1.80%.

### **Overall assessment and Recommendations:**

In their report Goadsby conclude that a scheme providing 1 affordable unit (10% on-site provision) including CIL at £42,365 and S106 at £6,530 is only financially viable if a profit of 9.40% of GDV is accepted.

I have prepared a viability appraisal for the proposed scheme on the basis of a scheme providing 1 x affordable unit, CIL at £40,551 and S106 contributions totalling £27,470. My resulting Residual Land Value (RLV) for a scheme on this basis is **£593,596**, which is significantly above my adopted BLV. I am therefore of the opinion that a scheme on this basis is financially viable and should be deliverable on this site.

I have identified the main areas of dispute as being the GDV, where DVS and Goadsby are £150,000 apart, and the BLV where a difference of opinion of some £451,000 exists. I would welcome further discussions on these elements, should they be necessary.



I trust this report deals with the issues as required but please do not hesitate to contact me if you have any queries or require any further assistance.

Yours sincerely

Prepared by [REDACTED] MRICS  
Senior Surveyor  
RICS Registered Valuer  
DVS

Reviewed by [REDACTED] BSc MRICS  
Head of Viability (Technical)  
Registered Valuer  
DVS

### **Appendices**

Appendix A Residential Sales Evidence

Appendix B DVS Appraisal - 10% On-site Affordable Housing

## Appendix A

### Residential Sales Evidence (new build)

Sale date	Address	Sale price	Floor area from EPC (m <sup>2</sup> )	Type	Beds	£/m <sup>2</sup>
20-Feb-19	9, HAZEL CLOSE, WEST END	£340,000	99	Semi	3	£3,434
21-Mar-19	17, HAZEL CLOSE, WEST END	£320,000	91	Semi	3	£3,516
28-Mar-19	19, HAZEL CLOSE, WEST END	£320,000	91	Semi	3	£3,516
29-Mar-18	36, BAMBER CLOSE, WEST END	£359,000	95	Semi	3	£3,779
31-Jan-19	18, NOYCE COURT, WEST END	£290,000	95	Semi	3	£3,053
07-Jan-19	25, NOYCE COURT, WEST END	£315,000	95	Semi	3	£3,316
28-Sep-18	27, NOYCE COURT, WEST END	£329,950	95	Semi	3	£3,473
31-Jan-19	31, NOYCE COURT, WEST END	£290,000	95	Semi	3	£3,053
20-Dec-18	33, NOYCE COURT, WEST END	£325,000	95	Semi	3	£3,421
24-Dec-18	35, NOYCE COURT, WEST END	£335,000	95	Semi	3	£3,526
31-Jan-19	37, NOYCE COURT, WEST END	£290,000	95	Semi	3	£3,053
25-May-18	4, NOYCE COURT, WEST END	£349,000	95	Semi	3	£3,674
08-Aug-18	53, NOYCE COURT, WEST END	£335,000	95	Semi	3	£3,526
04-May-18	55, NOYCE COURT, WEST END	£335,000	95	Semi	3	£3,526
25-Jan-19	6, NOYCE COURT, WEST END	£335,000	95	Semi	3	£3,526
<b>Average sale price</b>		<b>£324,530</b>	<b>Average £/m<sup>2</sup></b>			<b>£3,426</b>

**Appendix B**

**DVS Appraisal - 10% On-site Affordable Housing**

**SEE SEPARATE SHEET**