Valuation Office Agency

DVS Property Specialists for the Public Sector

Viability Report for Bargate Shopping Centre and adjoining land in Queensway, East Street, Hanover Buildings and High Street Southampton

Report for:
Simon Mackie
Southampton City Council

Prepared by:
[redacted] BSc MRICS
RICS Registered Valuer
DVS

Tel: [redacted]

[redacted]

Case Number: 1756209

Client Reference: 20/01629/FUL

Date: 1 February 2021

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1. Executive Summary

1.1 Proposed Development Details

This updated report provides an Independent Review of a Financial Viability Appraisal in connection with:

Proposed Development	**Redevelopment for mixed use development comprising 519 new homes (use class C3) and commercial uses (use class E) and drinking establishment/bar uses (Sui Generis), in new buildings ranging in height from 4-storeys to 13-storeys, with associated parking and servicing, landscaping and public realm**
Subject of Assessment:	**Bargate Shopping Centre and adjoining land In Queensway, East Street, Hanover Buildings and High Street Southampton SO14 1HF**
Planning Ref:	**20/01629/FUL**
Applicant:	**Bargate Property Limited C/O Tellon Capital LLP**
Applicant's Viability Advisor:	**JLL**

Non-Technical Summary of Viability Assessment Inputs

Policy Compliant Inputs	JLL	DVS Viability Review	Agreed (Y/N)
Assessment Date	November 2020	1 February 2021	
Scheme, Net and Gross Internal Area	Residential 29,348m2 net Commercial 2,490 m2 net 39,169 m2 gross	Residential 29,337m2 net Commercial 2,490m2 net 42,708 m2 gross	Y[1] Y N
Construction Period Sale Period	32 months For Sale 27 months PRS 1 month	32 months For Sale 27 months PRS 1 month	Y Y Y
For Sale Gross Development Value	£121,350,236	£124,289,026	N
PRS Gross Development Value	£100,195,913	£100,195,912	N
For Sale Housing	£111,250,000 £3,792per sq m	£111,250,000 £3,792 per sq m	Y
PRS Housing	£96,536,842 gross	£106,600,000 gross	N
Affordable Housing	N/A	N/A	Y

For Sale Commercial incl ground rents, retail and car parking	**£10,782,442 gross**	**£13,837,632 gross**	**N**
PRS Commercial incl retail and car parking	**£10,969,502 gross**	**£11,678,299 gross**	**N**
Purchasers Costs	**For Sale - £682,206** **PRS - £7,310,431**	**For Sale - £798,607** **PRS - £7,502,695**	**N** **N**
Planning Policy / S.106 Total	**CIL - £2,080,521** **S.106 - £280,200**	**CIL - £3,045,637** **S.106 - £520,888**	**N** **N**
Construction Cost Inc. Externals & Abnormals. Total and £/sq. ft.	**£88,083,597** **£2,249 psm net**	**£81,542,701** **£1,909 psm net**	**N**
Contingency	**5%**	**5%**	**Y**
Professional Fees & Surveys etc	**8%**	**8%**	**Y**
Finance Interest and Sum	**6.5% debit rate** **2.0% credit rate**	**6.5% debit rate** **2.0% credit rate**	**Y** **Y**
Other Fees			
Marketing Fees	**1.5%**	**1.5%**	**Y**
Sales / Agency Fees	**1%**	**1%**	**Y**
Legal Fees	**0.25%**	**0.25%**	**Y**
Commercial Letting	**20%**	**20%**	**Y**
Commercial Sale Fees	**1.25%**	**1.25%**	**Y**
Land Acquiring Costs	**N/A**	**N/A**	**Y**
For Sale Profit Target %	**Residential 20% of GDV** **Commercial 15% of GDV**	**Residential 17.5% of GDV** **Commercial 15% of GDV**	**N** **Y**
PRS Profit Target %	**15% of GDV**	**15% of GDV**	**Y**
EUV	**N/A**	**N/A**	
EUV Premium to BLV	**N/A**	**N/A**	
AUV	**N/A**	**N/A**	
Benchmark Land Value	**£7,975,000**	**£7,975,000**	**Y**
Purchase Price (if relevant)	**N/A**	**N/A**	
Viability Conclusion	**For Sale Scheme Deficit excluding land £12,983,597** **PRS Scheme Deficit excluding land £23,387,479**	**For Sale Scheme Deficit excluding land £6,569,070** **PRS Scheme Deficit excluding land £9,710,365**	**N**
	Schemes Not Viable	**Schemes Not Viable**	**Y**

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Y[1] - Agreed subject to rounding

2. Introduction

2.1 I refer to your instructions dated 7 December 2020 and my Terms of Engagement dated 15 October 2020.

2.2 This opinion of the development viability of the proposed development scheme assessed is based on a review of the planning applicants/agents report dated November 2020 submitted to the Local Authority.

2.3 As this is a desk top assessment I have not inspect the site and I have now finalised my viability assessment and I am pleased to report to you as follows.

2.4 A copy of my Terms of Engagement dated 15 October 2020 are attached.

2.5 Identification of Client

Southampton City Council

2.6 Purpose of Assessment

It is understood that the Southampton City Council require an independent opinion on the viability information provided by JLL, in terms of the extent to which the accompanying appraisal is fair and reasonable and whether the assumptions made are acceptable and can be relied upon to determine the viability of the scheme.

2.7 Subject of the Assessment

Bargate Shopping Centre and adjoining land in Queensway, East Street, Hanover Buildings and High Street, Southampton SO14 1HF

3. Date of Assessment / Date of Report

The date of viability assessment is 1 February 2021

Please note that values change over time and that a viability assessment provided on a particular date may not be valid at a later date.

4. Viability Methodology / Professional Guidance

4.1 The review of the applicant's viability assessment has been prepared in accordance with the recommended practice set out in the National Planning Policy Framework; the NPPG on Viability (July 2018, updated May 2019, September 2019) and the Royal Institution of Chartered Surveyors (RICS) Professional Statement, Financial Viability in Planning (**FVIP: Conduct and Reporting**) (effective from 1st September 2019) and the RICS (**FVIP**) Guidance Note (1st Edition) (GN 94/2012), where applicable.

4.2 The Residual appraisal methodology is established practice for viability assessments. In simple terms the residual appraisal formula is:

Gross Development Value less Total Development Cost (inclusive of S106 obligations, abnormal development costs and finance) less Profit, equals the Residual Land Value.

4.3 The Residual Land Value is then compared to the Benchmark Land Value as defined in the Planning Practice Guidance on Viability. Where the Residual Land Value produced from an appraisal of a policy compliant scheme is in excess of the Benchmark Land Value the scheme is financially viable, and vice versa:

Residual Land Value > Benchmark Land Value = Viable
Residual Land Value < Benchmark Land Value = Not Viable

4.4 The appraisal can be rearranged to judge the viability of a scheme in terms of the residual profit, which is compared to the target profit:

Residual Profit > Target Profit = Viable
Residual Profit < Target Profit = Not Viable

4.5 For this case the DVS appraisal produces a Residual Land Value which is then compared to the Benchmark Land Value as defined in the Planning Practice Guidance on Viability and expressed as a deficit /surplus which is the same method as JLL.

5. RICS Financial Viability in Planning Conduct and Reporting

In accordance with the above professional standard it is confirmed that:

5.1 In carrying out this viability assessment review the valuer has acted with objectivity impartiality, without interference and with reference to all appropriate sources of information.

5.2 The professional fee for this report is not performance related and contingent fees are not applicable.

5.3 DVS are not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.

5.4 The appointed valuer, [redacted] BSc MRICS, Registered Valuer is not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.

5.5 Neither the appointed valuer, nor DVS advised this local planning authority in connection with the area wide viability assessments which supports the existing planning policy.

5.6 DVS are employed to independently review the applicant's financial viability assessment, and can provide assurance that the review has been carried out with due diligence and in accordance with section 4 of the professional standard. It is also confirmed that all other contributors to this report, as referred to herein, have complied with the above RICS requirements.

6. Restrictions on Disclosure / Publication

6.1 The report has been produced for Southampton City Council only. DVS permit that this report may be shared with the applicant and their advisors as listed above, as named third parties.

6.2 The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers and solely for the purposes of the instruction to which it relates. Our report may not, without our specific written consent, be used or relied upon by any third party, permitted or otherwise, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our report. No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report.

6.3 Planning Practice Guidance for viability promotes increased transparency and accountability, and for the publication of viability reports. However, it is has been agreed that your authority, the applicant and their advisors will neither publish nor reproduce the whole or any part of this report, nor make reference to it, in any way in any publication. It is intended that a final report will later be prepared, detailing the agreed viability position or alternatively where the stage one report is accepted a redacted version will be produced, void of personal and confidential data, and that this approved document will be available for public consumption.

6.4 None of the VOA employees individually has a contract with you or owes you a duty of care or personal responsibility. It is agreed that you will not bring any claim against any such individuals personally in connection with our services.

6.5 This report is considered 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 and your council is expected to treat it accordingly.

7. Validity

This report remains valid for 3 months from its date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

8. Confirmation of Standards

8.1 The viability assessment review has been prepared in accordance with paragraph 57 of the National Planning Policy Framework, which states that all viability assessments should reflect the recommended approach in the National Planning Practice Guidance on Viability, (July 2018, updated May 2019 and September 2019).

8.2 The viability assessment review report has been prepared in accordance with the Professional Statement Financial Viability in Planning: Conduct and Reporting (effective from 1st September 2019). Regard has been made to the RICS Guidance Note “Financial Viability in Planning” 1st Edition (GN 94/2012), where applicable.

8.3 Valuation advice (where applicable) has been prepared in accordance with the professional standards of the Royal Institution of Chartered Surveyors: RICS Valuation – Global Standards 2020 and RICS UK National Supplement, commonly known together as the Red Book. Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuations Standards (IVS).

8.4 Whilst professional opinions may be expressed in relation to the appraisal inputs adopted, this consultancy advice is to assist you with your internal decision making and for planning purposes, and is not formal valuation advice such as for acquisition or disposal purposes. It is, however, understood that our assessment and conclusion may be used by you as part of a negotiation, therefore RICS Red Book professional standards PS1 and PS2 are applicable to our undertaking of your case instruction, compliance with the technical and performance standards at VPS1 to VPS 5 is not mandatory (PS 1 para 5.4) but remains best practice and they will be applied to the extent not precluded by your specific requirement.

8.5 Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuations Standards (IVS).

8.6 Where relevant measurements stated will in accordance with the RICS Professional Statement 'RICS Property Measurement' (2nd Edition) and, the RICS Code of Measuring Practice (6th Edition).

8.7 Agreed Departures from the RICS Professional Standards

8.7.1 As agreed, any commercial and residential property present has been reported upon using a measurement standard other than IPMS, and specifically Net Internal

Area has been used for value and Gross Internal Area for costs. Such a measurement is an agreed departure from 'RICS Property Measurement (2nd Edition)'. This method of measurement is standard practice for Viability assessments.

8.8 It is agreed that the DVS terms of engagement appended to this report will omit commercially confidential and personal data.

10. Conflict of Interest

10.1 In accordance with the requirements of RICS Professional Standards, DVS as part of the VOA has checked that no conflict of interest arises before accepting this instruction. It is confirmed that DVS are unaware of any previous conflicting material involvement and is satisfied that no conflict of interest exists however previous viability assessment where undertaken on behalf of the council on this site in 2016, 2018 and 2019.

10.2 It is confirmed that the valuer appointed has no personal or prejudicial conflict in undertaking this instruction. It is confirmed that all other valuers involved in the production of this report have also declared they have no conflict assisting with this instruction. Should any conflict or difficulty subsequently be identified, you will be advised at once and your agreement sought as to how this should be managed.

11. Engagement

11.1 The DVS valuer has / has not conducted any discussions negotiations with the applicant or any of their other advisors other than requests for confirmation of details provided.

12. Status of Valuer

12.1 It is confirmed that the viability assessment has been carried out by [redacted] BSc MRICS, Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge, skills and understanding necessary to undertake the viability assessment competently and is in a position to provide an objective and unbiased review. [redacted] is referred hereafter and in redacted correspondence as 'the DVS reviewer'.

13. Assessment Details

13.1 <u>Location / Situation</u>

The site is located in the City Centre to the east of the High Street and occupies back land within the urban block between East Bargate, East Street, Hanover Buildings and Queensway all of which have been cleared for development.

The site is served well by all local facilities as you would expect in a major city centre location.

13.2 Description

The existing site comprises the former covered Bargate Shopping Centre and multi storey car park and adjoining sites and buildings in Queensway, East Bargate and High Street and previous consents have been implemented with the properties on site having been demolished.

13.3 Site Area

The planning application form states that the site area is 1.398 hectares (3.45 acres)

14. Date of Inspection

As agreed with the Council the property has not been inspected but it is well known to the DVS Reviewer.

15. Planning Policy / Background

The current application, the subject of this review, is reference 20/01629/FUL - Redevelopment of the former Bargate Shopping Centre and multi-storey car park, 77-101 Queensway, 25 East Street, 30-32 Hanover Buildings, 1-16 East Bargate and 1-4 High Street, excluding frontage) for mixed use development comprising 519 new homes (use class C3) and commercial uses (use class E) and drinking establishment/bar uses (Sui Generis), in new buildings ranging in height from 4-storeys to 13-storeys, with associated parking and servicing, landscaping and public realm (Environmental Impact Assessment Development affects a public right of way and the setting of the listed Town Walls).

The site has been subject to the following applications and decisions:

- 16/01303/FUL – Mixed use scheme approved in August 2017 including 152 flats, 185 units of student residential accommodation and A1-A3 uses. Reviewed in November 2016 by DVS and assessed as not viable. This scheme was implemented and demolition has now been completed.
- 18/015/FUL – Mixed use scheme approved in December 2018 and replaced the student accommodation with additional residential (total of 287 flats) and a 240 bed hotel. This scheme was reviewed in November 2018 and July 2019 by DVS and it was assessed as not viable.
- 20/01629/FUL – Current application which increases the number of flats to 519, removes the hotel and reduces the amount of retail in light of the current market.

In addition to the NPPF and NPPG the Southampton Development plan comprises:
- The City Centre Action Plan 2015
- Southampton Core Strategy 2015

- Saved Policies of the Local Pan Review 2013
- CCAAP Policy AP9 allocates the site as appropriate for a mixed use development including residential
- Policy CS15 provides for 35% affordable housing on sites of 15 or more net dwellings.

16. Local Plan Policy Scheme Requirements / S106 Costs

I'm advised that in accordance with policy CS15 35% affordable housing is required plus the following planning obligations:

- Highways/Transport – £6,000 plus site specific works
- Solent Disturbance Mitigation Project - £219,374
- Employment & Skills Plan - £69,372 (Estimate)
- Carbon Management Plan - £95,514
- Late Night Community Safety Facilities - £20,000 (Estimate)
- Development Mitigation - £110,628 (Estimate)
- Total 106 - £520,888
- CIL - £3,045,637

JLL have included for:

- S106 - £280,200
- CIL - £2,080521

17. Development Scheme / Special Assumptions

17.1 The following assumptions and special assumptions have been agreed with the Council and applied:

- that your council's planning policy, or emerging policy, for affordable housing is up to date

- There are no abnormal development costs in addition to those which the applicant has identified, and (for cases with no QS review) the applicant's abnormal costs, where supported, are to be relied upon to determine the viability of the scheme, unless otherwise stated in our report.

17.2 <u>Scheme Floor Areas</u>

Measurements stated are in accordance with the RICS Professional Statement **'RICS Property Measurement' (2nd Edition)**, and where relevant, the **RICS Code of Measuring Practice (6th Edition)**.

As agreed, any commercial and residential property present has been reported upon using a measurement standard other than IPMS, and specifically Net Internal Area has been used for value and Gross Internal Area for costs. Such a measurement is an agreed departure from 'RICS Property Measurement (2nd

Edition)'. This method of measurement is standard practice for Viability assessments.

The accommodation schedule of the scheme has been provided and confirmed by JLL and these areas have been assumed to be correct and adopted as follows:

Type / Description	No of Units	Average Sq m	Average Sq Ft	Total Sq m	Total Sq Ft
Open Market Housing					
Studio	73	34.7-51.1	373-550		
1 Bed Flat	211	42.7-63.7	459-685		
2 Bed Flat	201	44.3-82.1	477-883		
2 Bed Duplex	6	73.0-74.7	785-804		
3 Bed Flat	28	78.9-86.3	849+-930		
	519				
Block A	24			1,396	15,023
Block B/C	225			12,436	133,862
Block D/F/G	198			10,760	115,820
Block E	72			4,745	51,080
Residential Total	**519**			**29,337 sq m**	**315,785 sq ft**
Commercial					
Block A	2			486	5,233
Block B/C	4			999	10,749
Block D/F/G	2			661	7,118
Block E	1			344	3,701
Total	**9**			**2,490 sq m**	**26,801 sq ft**

According to the Order of Cost Estimate dated 2 November 2020 the gross internal area of the residential is 39,169 sq m which represents a net to gross ratio of 75% which is within the range we would normally expect for scheme of this type.

In addition the Order of Cost Estimate includes a GIA of 2,527 sq m for the commercial which equates to a net to gross ratio of 98.5% which again is reasonable.

We also understand that the undercroft car park in Block B amounts to 50 spaces with a GIA of 1,011 sq m.

17.3 Mineral Stability

The property is not in an underground mining area and a Mining Subsidence Report has not been obtained.

17.4 Environmental Factors Observed or Identified

Not applicable since no inspection carried out and the site is currently a car park.

17.5 Tenure

We assume the site is held Freehold with vacant possession

17.6 Easements and Restrictions

It is assumed that there are no easements or restrictions affecting the property.

17.7 Services

It is assumed that all services are available to the site.

17.8 Access and Highways

It is assumed that access is available from the adopted highway.

18. Development Scheme information and Assessment

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

I understand that whilst the previous assessments on this site were carried out by GL Hearn following changes in personal the FVA has been transferred to JLL.

We have used a copy of our bespoke excel based toolkit with cash flow to assess the scheme which is attached whilst JLL have used Argos also with a cash flow.

We would summarise our assessment of the scheme as follows:

18.1 Gross Development Value (GDV)

18.1.1 Residential

JLL have undertaken two assessments for this scheme assuming:

- A for sale scheme when all residential units are sold individually (For Sale)
- All residential units are let individually and then the investment sold to a investor as a Private Rented Scheme (PRS)

18.1.2 For Sale Scheme

JLL have undertaken research as to values in the area as follows:

- Saxon Gate – 1 and 2 Bed units sold in 2019 – Average of £370 per sq ft (£3,982 per sq m)
- Portland Place – 1 and 2 bed units sold in 2019/2020 – Average of £365 per sq ft (£3,929 per sq m)
- Seafarers Court – 1 and 2 bed units 2019/2020 – Average of £360 per sq ft (3,875 per sq m)

- Royal Crescent Apartments – 1 and 2 bed units 2020 – Average of sold/asking £258 to £371 per sq ft
- Chapel Riverside – 1 and 2 bed sold in 2020 – Average of £332 to £385 per sq ft sold/asking.

On the basis of this evidence JLL have adopted the following:

Type	No	Size Ft2	Average Value	Rate per Ft2/m2
Studio	73	373-550	£168,630	£396/£4263
1 Bed Flat	211	459-685	£186,339	£363/£3907
2 Bed Flat	201	477-883	£245,759	£340/£3660
2 Bed Duplex	6	785-804	£260,000	£326/£3509
3 Bed Flat	28	849-930	£309,464	£345/£3714
Total	**519**	**315,785**	**£111,250,000**	**£352/£3789**

We have undertaken our own market research in the area of new build units including our own data base, recently assessed schemes and Zoopla/Rightmove.

The Zoopla area guide of post code SO14 states that the average current value for flats is £230,555 - £3,509 per sq m (1.8 beds) whilst the average asking prices in the post code are as follows:

1 Bed Flat - £140,582
2 Bed Flat - £221,355
3 Bed Flat - £459,748

In addition from recent schemes assessed the average rate per sq m adopted was £3,739 per sq m for 1 bed to 3 bed units in the city centre whilst in 2019 we agreed £3,063 per sq m and the Land Registry House Price Index for Southampton shows limited growth for flat over the period since.

On this basis I'm prepared to accept the values adopted by JLL as reasonable.

18.1.3 PRS Scheme

JLL have undertaken research as to rentals in the area as follows:

- Bow Square – 279 unit PRS scheme – Rents range from £870 pcm to £1050 for 1 bed to £1025 pcm to £1135 for 2 bed
- Saxon Gate - £750 to £1100 pcm
- Portland Place - £830 to £1000 pcm
- Empress Heights – Approx £795 pcm for a 1 bed flat

On the basis of their evidence JLL have adopted the following:

- Studios - £750 pcm - £612,000 pa gross
- 1 Bed - £900 pcm - £2,332,800 pa gross
- 2 Bed - £1100 pcm - £2,732,400 pa gross
- 3 Bed - £1300 pcm - £436,800

Total - £6,114,000 pa gross

We have undertaken our own market research in the area of new build units including our own data base, recently assessed schemes and Zoopla/Rightmove.

The Zoopla area guide of post code SO14 states that the current asking rents in the post code are as follows:

1 Bed Flat - £697 pcm
2 Bed Flat - £988 pcm
3 Bed Flat - £1364 pcm

On the basis of our evidence etc we have slightly amended the rents as follows:

- Studios - £750 pcm - £612,000 pa gross
- 1 Bed - £900 pcm - £2,332,800 pa gross
- 2 Bed - £1200 pcm - £2,9802,000 pa gross
- 3 Bed - £1400 pcm - £470,400

Total - £6,396,000 pa gross

JLL have then reduced the gross rent by 25% to take account of management and operational costs (Voids, repairs, letting fees etc) with a net income of £4,585,500 pa and then capitalised at 4.75% with a gross capital value of £96,536,842 before purchaser's costs.

Taking into account recent evidence and other PRS schemes assessed in the area I'm of the opinion that a net deduction of 25% is reasonable but 4.75% yield is currently slightly high and tasking into account other assessments and agents current research reports I have capitalised at 4.5% with a gross capital value of £106,600,000 before purchasers costs.

18.1.4 Affordable Housing

No affordable housing has been included by either party at this stage.

18.1.5 Ground Rents for the For Sale Scheme

JLL have not included any ground rents due to impending legislation.

It should be noted that the government have announced that they would crack down 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 the present time.

On this basis we have included for ground rents based on an average of £200 per unit pa capitalised at 5% which we believe is reasonable in the current, market and agreed on similar schemes with a total of £2,076,000 before purchaser's costs. This takes account of the limits placed by funders on ground rents.

However if legislation is enacted it could affect this assessment and I have included an appraisal without ground rents as a sensitivity.

18.1.6 Car Parking

I understand that there are 50 car parking spaces provided as an undercroft to Block B. JLL have assumed £15,000 per space for the For Sale scheme and £1,100 per space pa for the PRS scheme.

Whilst I'm of the opinion that £1,100 per space pa for the PRS scheme is reasonable in respect of the For Sale scheme I believe that due to the potential demand for these spaces and the range we normally consider of £15,000 to £20,000 per space that the higher rate is reasonable and I have adopted £20,000 per space.

18.1.7 Commercial

JLL have based their rental values on £30 per sq ft (£323 per sq m) capitalised at 7% less a 24 month rent free period/ capital package and purchasers costs.

Taking account of the location of the scheme and evidence reviewed I'm prepared to accept these rental values as reasonable but have increased the yield to 6.5% again as reasonable due to the location of the scheme in the City Centre but also included a 24 month rent free/ capital package and a 3 month void in the cash flow.

18.1.8 Total GDV of For Sale Scheme

	DVS	**JLL**
Market Units	£111,250,000	£111,250,000
Car Parking	£1,000,000	£750,000
Affordable Units	NIL	NIL
Ground Rents	£2,076,000	NIL
Commercial	£10,761,632	£10,032,442
Purchasers Costs	£798,607	£682,206
Total	£124,289,026	£121,350,236

18.1.9 Total GDV of PRS Scheme

	DVS	**JLL**
PRS Units	£106,600,000	£96,536,842
Car Parking	£916,667	£868,421
Affordable Units	NIL	NIL
Commercial	£10,761,632	£10,101,081
Less Purchasers Costs	£7,502,695	£7,310,431
Total	£110,775,604	£100,195,912

18.2 Build Cost

18.2.1 Construction cost

JLL have adopted in their appraisal a total cost of £88,082,455 excluding fees and contingency. This is based on the NPR Order of cost estimate although the appendix included shows an Order of Cost Estimate dated 2 November 2020 which totals £88,963,280 including a 1% contractor contingency or net £88,082,455. This is broken down as follows:

Block A -	£4,379,313 (£1,874 per sq m)
Block B/C -	£28,390,182 (£1,578 per sq m)
Block D/E/F -	£26,229,482 (£1,732 per sq m)
Block E -	£10,236,584 (£1,643 per sq m)
Block B Undercroft -	£907,547 (£898 per sq m)
Facilitating Works -	£985,374
External Works -	£2,700,149
Prelims -	£10,059,424 (13.6%)
Contractors OHP -	£4,194,403 (5%)
Contractor cont -	£880,825 (1%)
NRP Total -	**£88,963,280**

In accordance with advice from our QS we have taken account of the default median (January 2021) BCIS rate rebased to Southampton for 6 storey plus of £1,749 per sq m, the retail rate generally of £1,186 per sq m and undercroft car parking at £827 per sq m plus externals etc as follows:

Residential		
	Block A -	£3,172,868 (£1,749 per sq m)
	Block B/C -	£29,712,012 (£1,749 per sq m)
	Block D/F/G -	£25,325,520 (£1,749 per sq m)
	Block E -	£10,298,112 (£1,749 per sq m)
Commercial		
	Block A -	£620,278 (£1,186 per sq m)
	Block B/C -	£1,184,814 (£1,186 per sq m)
	Block D/F/G -	£783,946
	Block E -	£407,984
Undercroft Parking		
	Block B -	£836,097 (£827 per sq m)
Externals etc -		£7,234,145 (10%)
Additional Items -		£780,000
DVS Total -		**£81,542,701**

Overall we have used BCIS to benchmark the build costs as above but please advise if a separate QS review is required although considerably more detail would be required in order for this to be undertaken.

18.2.2 Contingency

JLL have adopted a contingency of 5% (£4,404,180) which is within the range of 3% to 5% we adopt as reasonable and due to the complexity of the scheme and the current issues of Covid 19 I believe that 5% is reasonable (£4,077,135) and previously agreed in 2019.

18.3 Development Costs

18.3.1 Professional Fees

JLL have adopted 8/% (£7,046,688) for professional fees. This is within the all-inclusive range we normally adopt for flatted schemes of 7% to 12% and have therefore adopted 8% (£6,523,416) as reasonable which was adopted in 2019.

18.3.2 CIL/Section 106 Costs

JLL have included for the following:

- CIL - £2,080,521
- Section 106 - £280,200

You have now advised us that the following contributions are required:

- Affordable Housing – 35%
- Highways/Transport – £6,000 plus site specific costs
- Solent Disturbance Mitigation Project - £219,374
- Employment & Skills Plan - £69,372 (Estimate)
- Carbon Management Plan - £95,514
- Late Night CSF - £20,000 (Estimate)
- Development Mitigation - £110,628 (Estimate)
- Total Section 106 - £520,888

- CIL - £3,045,637

In addition we have assumed that the section 106 costs would be payable at start on site and the CIL costs phased over the development period in accordance with previous schemes assessed.

18.3.3 Marketing and Agency Costs

JLL have included the following as fees:

- For Sale Scheme -

Residential Agent and Marketing Costs – 2.5% - £2,781,250
Legal Sale Fees – 0.25% - £303,376
Retail Sales Fee – 1% - £93,502
Commercial Letting Fees – 20% - £160,806
Total - £3,338,934

- PRS Scheme

Sale Agent Fees – 1% - £993,275
Sales Legal Fee – 0.25% - £250,490
Letting Fees – 20% - £160,806
Total - £1,404,571

NB I do not believe that the sale agent fees include for the commercial

I have adopted the following as reasonable and compare to similar schemes:

- For Sale Scheme

Residential Marketing Costs – 1.5% - £1,668,750
Commercial Marketing – 0.5% - £50,429
Residential Agent Sale Fees – 1% - £1,112,500
Residential Legal Sale Fees – 0.25% - £278,125
Commercial Letting Fees – 20% - £160,807
Commercial sale fees incl car parking and ground rents – 1.5% - £162,988
Total - £3,409,184

- PRS Scheme

Sale Agent Fees – 1% - 1,107,756
Sales Legal Fees – 0.25% - £276,939
Letting Fees – 20% - £160,806
Total - £1,545,501

18.3.4 Finance Costs

JLL have adopted a finance debit rate of 6.5% and 2% credit rate calculated in accordance with their cash flow.

I have also used an all-inclusive debit rate of 6.5% which is within the range of 6% to 7% plus 2% credit rate that we normally adopt as reasonable and calculated in accordance with the cash flow.

18.3.5 Programme

JLL have adopted the following programmes:

For Sale Scheme:

Block A – 3 months pre construction, 17 months construction and 3 months sales.
Block B/C – 6 months pre construction, 26 months construction and 22 months sales.
Block D/F/G – 12 months pre construction, construction 25 months and 19 months sales.
Block E – 18 months pre construction, 20 months construction and 7 months sales.
Overall

- Construction – 32 Months
- Sales – 27 months

PRS Scheme:

Block A – 3 months pre construction, 17 months construction and 1 month letting and sale.
Block B/C – 6 months pre construction, 26 months construction and 3 months letting and one month sale.

Block D/F/G – 8 months pre construction, construction 25 months and 3 months letting and one month sale.
Block E – 16 months pre construction, 20 months construction and 1 months letting and sale.
Overall

- Construction – 30 Months
- Sales – 1 month from PC of each Block

I have adopted the following programme as reasonable when compared to similar schemes:

For Sale Scheme:

Site Purchase – Month 1
Lead in – 6 months
Construction – Month 7 to 38 (32 months)
Sale of Residential – 27 months (Phased from month 24 to month 56)
Sale of Commercial – 3 months after PC of each block to allow for a void period
Sale of Ground Rents – Month 56

PRS Scheme:

Site Purchase – Month 1
Lead in – 6 months
Construction – Month 7 to 36 (30 months)
Sale of Residential – 1 month from PC of each block
Sale of Commercial – 1 months after PC of each block

18.3.6 Profit

JLL have suggested a target profit of 20% of GDV on residential for sale, 15% on PRS investment and 15% on commercial.

The latest NPPF guidance suggests a profit level of 15-20%. On this basis I have adopted the following as reasonable and agreed on similar schemes:

For Sale Residential – 17.5% of GDV
PRS investment – 15% of GDV but this could reduce if a pre-sale in place
Commercial – 15% of GDV

In respect of affordable units if included on site I would adopt a profit level of 6% due to the reduced risk on the basis of a forward sale to an RP.

19. Benchmark Land Value (BLV)

19.1. JLL have adopted a Benchmark Land Value of £7,975,000.

19.2 Existing Use Value (EUV)

JLL have adopted the existing use value as a shopping centre of £7,975,000 based on the GL Hearn valuation as part of the previous assessment exclusive of a 20% landowner's premium.

In our previous assessments of this site we adopted the following:

1) Properties surrounding the Bargate Centre - £6,595,000

2) The Bargate Shopping Centre

Although the centre was vacant GLH assessed its valued based on a refurbishment - £1,380,000

3) No additional premium was added

We reviewed all the evidence previously provided and undertook our own research as to rental values and yields for these types of properties in the city and were of the view that the base values adopted were not unreasonable.

Therefore in accordance with our 2016/2018 and 2019 viability assessments we have also adopted a BLV of £7,975,000.

19.3 Premium (EUV)

JLL have not included a premium.

19.4 Purchase Price

19.4.1 The PPG and the RICS encourage the reporting of the purchase price to improve transparency and accountability.

19.4.2 RICS FVIP (1st edition) 2012 guidance states at para 3.6.1.2 **"**It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition..”

19.4.3 However, the NPPG on viability very much dissuades the use of a purchase price as a barrier to viability this is reinforced at several places in the PPG: The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan. And under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.

19.4.4 The PPG does not invalidate the use and application of a purchase price, or a price secured under agreement, where the price enables the development to meet the policies in the plan.

19.4.5 We are not aware of the purchase price for the site.

19.5. Market Transactions

Market transactions for residential and PRS schemes were taken into account in order to establish the EUV of the site.

19.6 Alternative Use Value (AUV)

19.6.1 Not applicable in this case.

19.7 Other Evidence

19.7.1 Other Evidence from recent schemes assessed for Southampton City Council has been taken into account in this assessment.

19.8 Benchmark Land Value Considerations

19.8.1 The methodology of using the EUV of the site and based on a refurbishment of the shopping centre is considered reasonable in the case and as previous no landowners premium has been added.

19.9 Benchmark Land Value Conclusion

19.9.1 For this stage one report we have adopted a BLV of £7,975,000 with no premium.

20. Viability Assessment

JLL have concluded the following:

1) A For Sale Scenario which shows a residual land value of a negative £12,938,597 and when the BLV of £7,975,000 is taken into account the total deficit is £20,958,597 and is not viable

2) The PRS Scenario is reported with a residual land value of a negative £25,219,568 and when the BLV of £7,975,000 is taken into account the deficit is £31,362,479 and is not viable. However the appraisal shows a negative RLV of £23,387,479 not £25,219,568.

JLL advise that although the scheme could be deemed unviable the applicant, contractors, funders and advisors have worked extensively over the course of 3 applications to ensure that a deliverable scheme can be delivered although any affordable housing and increased planning obligations could jeopardise the delivery of the scheme.

However with these level of deficits the schemes may well be termed undeliverable and the deficits may be underestimated since no finance has been included on the BLV.

21. Conclusions / Presentation of Results

I have undertaken two assessments as follows:

1) For Sale Scheme – On the basis of a scheme including 519 for sale units, 50 parking spaces, ground rents and 2,490 sq m of retail the scheme excluding a land value shows a deficit of £6,569,070 and if the BLV is included a total deficit of £17,917,903 including finance.

2) PRS Scheme – On the basis of a scheme including 519 PRS units, 50 parking spaces and 2,490 sq m of retail the scheme excluding a land value shows a deficit of £9,710,365 and if the BLV is included a total deficit of £20,073,450 including finance.

Clearly both of these schemes are unviable and undeliverable unless costs reduce and values increase.

22. Sensitivity Analysis and Testing

As set out in the RICS Professional Standard 'Financial viability in planning: conduct and reporting' (effective from 1st September 2019), I have carried out sensitivity tests to test the robustness of the viability conclusions described above as follows:

1) If ground rents are excluded from the For Sale scheme the deficit before the BLV is taken into account increases to £7,086,948
2) In order for the For Sale scheme to be viable on the basis of the DVS costs which are approx 7.5% less than JLL residential values would need to increase by over 20%.
3) In order for the PRS scheme to be viable on the basis of the DVS costs which are approx 7.5% less than JLL the PRS value would need to increase by almost 25%.

23. Comments and Recommendations

Following a review of the viability assessment undertaken by JLL the key differences are:

1) Inclusion of Ground rents in For Sale Scheme
2) Higher Value of Car Parking in both Schemes

3) Higher Rentals for 2 bed and 3 bed units in PRS scheme
4) Yield of PRS units in PRS scheme – 4.5% as opposed to 4.75%
5) Lower Overall Build Cost of approx 7.5%
6) Higher CIL and S106 contributions as advised by the Council
7) For Sale Residential Profit of 17.5% rather that 20%

Clearly there are major issues in respect of the viability of both of the proposed schemes and if the Council wish to proceed at less than policy we would suggest that any section 106 agreement include a review mechanism.

23.1 Market Uncertainty

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted many aspects of daily life and the global economy – with some real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, in the case of the subject property there is a shortage of market evidence for comparison purposes, to inform opinions of value.

Our valuation of this property is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact that COVID-19 might have on the real estate market and the difficulty in differentiating between short term impacts and long-term structural changes, we recommend that you keep the valuation[s] contained within this report under frequent review.

I trust that the above report is satisfactory for your purposes. However, should you require clarification of any point do not hesitate to contact me further.

Yours sincerely

[redacted] BSc MRICS
RICS Registered Valuer
DVS

24. Appendices

24.1 Development Appraisal of the For Sale Scheme
24.2 Development Appraisal of the PRS Scheme
24.3 Terms of Engagement dated 15 October 2020

24.1 Development Appraisal – Proposed For Sale Scheme

24.2 Development Appraisal – Proposed PRS Scheme

24.3 Terms of Engagement