Valuation Office Agency

DVS Property Specialists for the Public Sector

Updated Viability Report for Leisure World West Quay Road Southampton

Report for:
Simon Mackie
Southampton City Council

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

Tel: [redacted]

[redacted]

Case Number: 1755101

Client Reference: 20/01544/OUT

Date: 9 March 2021

DVS Property Specialists for the Public Sector

Contents

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	**Outline planning application for the demolition of existing buildings and comprehensive redevelopment of the site comprising residential accommodation (Use class C3), office floorspace (Use Class E), hotel accommodation (Use Class C1), cinema (Sui Generis Use), casino (Sui Generis Use) and other flexible business uses including retail and restaurants/cafes (Use Class E). With associated car and cycle parking, internal highways, open space, public realm and landscaping and ancillary works including utilities, surface water drainage, plant and equipment. Means of access for detailed consideration and layout, scale, external appearance and landscaping reserved matters for consideration.**
Subject of Assessment:	**Leisure World, West Quay Road, Southampton SO15 1RE**
Planning Ref:	**20/01544/OUT**
Applicant:	**Sovereign Centros On Behalf of Triton Property**
Applicant's Viability Advisor:	**Quod**

Non-Technical Summary of Viability Assessment Inputs

Proposed Scheme Inputs	Quod	DVS Viability Review	Agreed (Y/N)
Assessment Date	October 2020	March 2021	
Scheme, Net and Gross Internal Area	For Sale Residential - 20,553m2 net BTR Residential - 19,249 m2 net Hotel/Apart Hotel 9,910 m2 Hotel - 5,142 m2 Cinema – 4,265 m2 Casino – 2,192 m2 Leisure – 2,282 m2	For Sale Residential – 20,553 m2 BTR Residential – 19,249 m2 Hotel/Apart Hotel – 9,910 m2 Hotel – 5,142 m2 Cinema – 4,265 m2 Casino – 2,192 m2 Leisure – 2,282 m2	Y

	A3 units – 1,515 m2 Offices – 8,375 m2 Health & Wellness – 4,674 m2 Total Gross -90,952 m2	A3 units – 1,515 m2 Offices – 8,375 m2 Health & Wellness – 4,674 m2 Total Gross – 90,952 m2	
Construction Period Sale Period	**Total - 64 months For Sale - 16 months BTR - 1 month after PC Commercial – 1 month after PC**	**Total - 64 months For Sale - 16 months BTR - 1 month after PC Commercial – 1 month after PC**	**Y**
Gross Development Value	**£286,452,647**	**£288,488,623**	**N**
For Sale Housing	**£88,492,800 £4,306 per m2**	**£88,492,800 £4,306 per m2**	**Y**
BTR Housing	**£76,662,520 gross**	**£76,662,520 gross**	**Y**
Affordable Housing	**N/A**	**N/A**	**Y**
Commercial incl ground rents, retail and car parking	**£126,164,750 gross**	**£128,219,703 gross**	**N**
Purchasers Costs	**£4,867,423**	**£4,886,400**	**N**
Planning Policy / S.106 Total	**CIL - Nil S.106 – Nil Flood Man - Nil**	**CIL - £4,584,580 S.106 - £1,806,120 Flood Man - £1,345,150**	**N N N**
Construction Cost Inc. Externals & Abnormals.	**£218,956,776**	**£204,809,462**	**N**
Contingency	**5%**	**5%**	**Y**
Professional Fees & Surveys etc	**10%**	**10%**	**Y**
Finance Interest and Sum	**6.5% debit rate 0.0% credit rate**	**6.5% debit rate 2.0% credit rate**	**Y N**
Other Fees			
Marketing Fees	**2.0%**	**1.5%**	**N**
Sales / Agency Fees	**1%**	**1%**	**Y**
Legal Fees	**0.5%**	**0.25%**	**N**
Commercial Letting	**15%**	**15%**	**Y**
Commercial Sale Fees	**1.5%**	**1.25%**	**N**
Land Acquiring Costs	**N/A**	**N/A**	**Y**
Profit Target %	**For Sale - 20% of GDV BTR – 15% of GDV Commercial - 15% of GDV**	**For Sale - 17.5% of GDV BTR – 15% of GDV Commercial 15% of GDV**	**N Y Y**
EUV	**N/A**	**N/A**	
EUV Premium to BLV	**N/A**	**N/A**	
AUV	**N/A**	**N/A**	
Benchmark Land Value	**N/A**	**N/A**	

Purchase Price (if relevant)	**N/A**	**N/A**	
Viability Conclusion	**Profit of £8 ,908,480 (3.06% of GDV) Deficit excluding land - £36,923,944 (Estimated)**	**Profit of £19,350,789 (6.71 of GDV) Deficit excluding land - £25,717,825**	**N** **N**
	Scheme Not Viable	**Scheme Not Viable**	**Y**

2. Introduction

2.1 I refer to your instructions dated 20 November 2020 and my Terms of Engagement dated 27 April 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 October 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 27 April 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 Quod, 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

Leisure World, West Quay Road, Southampton SO15 1RE

3. Date of Assessment / Date of Report

The date of updated viability assessment is 9 March 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 deficit /surplus which is the same method as Quod and compared against the target Profit.

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.

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 on the edge of the city centre, approx 0.5 kilometres from the train station and close to all the major city centre facilities including the Westquay Shopping Centre. The site is bounded by uses associated with port uses, car parking, cruise terminal and industrial uses plus access roads.

13.2 Description

The existing site comprises the Odeon IMAX cinema, Oceana nightclub, Grosvenor Casino, restaurants and food outlets forming a leisure complex known as Leisure World. In addition the site includes the former John Lewis distribution warehouse and a public house and parking.

13.3 Site Area

The planning application form states that the site area is 6.25 hectares (15.44 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 20/01544/OUT - Outline planning application for the demolition of existing buildings and comprehensive redevelopment of the site comprising residential accommodation (Use class C3), office floorspace (Use Class E), hotel accommodation (Use Class C1), cinema (Sui Generis Use), casino (Sui Generis Use) and other flexible business uses including retail and restaurants/cafes (Use Class E). With associated car and cycle parking, internal highways, open space, public realm and landscaping and ancillary works including utilities, surface water drainage, plant and equipment. Means of access for detailed consideration and layout, scale, external appearance and landscaping reserved matters for consideration.
Status Awaiting decision.

In addition to the NPPF and NPPG the Southampton Development plan comprises:

- The City Centre Action Plan 2015
- Amended Southampton Core Strategy 2015
- Amended Local Pan Review 2015

- 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 – £750,000 (Estimated)
- Solent Disturbance Mitigation Project - £598,599
- Employment & Skills Plan - £84,321

- Carbon Management Plan - £343,200
- Late Night Community Safety Facilities - £30,000
- Total 106 - £1,806,120

- Site Flood Plan - £1,345,150

- CIL - £4,584,580.47

Quod have excluded any CIL and section 106 contributions.

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 Scheme Floor Areas

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.

An outline area schedule has been provided for the mixed use scheme which has been adopted as follows:

Proposed Mixed Use Scheme

Type / Description	No of Units	Total Sq m	Total Sq Ft	Total Gross Sq m	Net to Gross Ratio
Phase 1					
Hotel/Apart Hotel	230 beds	9,910	106,671	9,910	100%
Casino		2,192	23,595	2,192	100%
Cinema		4,265	45,913	4,265	100%
A3 Retail		1,515	16,303	1,515	100%
D2 Leisure		2,282	24,568	2,282	100%

Phase 2					
Offices		8,375	90,146	9,305	90%
Build to Rent Units					
Studio	10				
1 Bed	117				
2 Bed	172				
3 Bed	11				
Total B to R	310	19,249	207,196	24,902	77.30%
Phase 3					
For Sale Units					
Studio	23				
1 Bed	158				
2 Bed	139				
3 Bed	20				
Total	340	20,553	221,232	26,765	76.80%
Hotel	145 beds	5,142	55,348	5,142	100%
Phase 4					
Health & Wellness		4,674	50,311	4,674	100%
Total Residential	**650**	**39,802**	**428,428**	**51,667**	**77%**
Total Hotels	**375 beds**	**15,052**	**162,019**	**15,052**	**100%**
Commercial		**23,303**	**250,836**	**24,233**	**96%**
Overall Total		**78,157**	**841,283**	**90,952**	**86%**
Multi Storey CP	**863 spaces**	**23,604**	**254,073**	**23,604**	
Podium Parking	**139 spaces**	**4,439**	**47,781**	**4,439**	

According to the outline area schedule the gross internal area of the residential is 51,667 sq m which represents a net to gross ratio of 77% which is within the range we would normally expect for scheme of this type.

In respect of the offices the net to gross ratio is 90% which again is within the range we would normally expect whilst the remainder of the commercial is at 100%.

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 although flood protection works are required.

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 Quod if we believe them to be reasonable.

We have used a copy of our bespoke excel based toolkit with cash flow to assess the scheme which is attached whilst Quod 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 Quod have research the market in the area and from their evidence have adopted the following:

18.1.2 Residential – For Sale

From the evidence researched taking into account transactions from other new build schemes in the past 18 months values equate to approx £3,875 per sq m (£360 per sq ft). However Quo have adopted £4,305 per sq m (£400 per sq ft) to reflect a regeneration premium due to the scale of the scheme and proposed public realm improvements with a total GDV of £88,492,800.

We have also undertaken our own research in the area of new build schemes as follows:

- Saxon Gate – Average of £3784 per sq m (£352 per sq ft)
- Royal Crescent Apartments - £3209 per sq m (£298 per sq ft)
- Ogle Rd - £4042 per sq m (£376 per sq ft)

In addition assessment of other schemes undertaken recently in the city centre range from £3486 to £3927 per sq m.

In addition from the Zoopla area guide for SO15 the average sale price for flats is £177,123 (£3035 per sq m) for 1.7 beds whilst the current asking prices are

- 1 bed - £127,601
- 2 Bed - £178,079
- 3 Bed - £256,738

On the basis the evidence researched I'm prepared to accept the value proposed by Quod for the For Sale residential units as reasonable.

18.1.3 Residential - Build to Rent

Quod have undertaken research as to rental levels in Southampton City Centre which they state average approx £770 pcm for 1 bed and £950 pcm for 2 beds or £15 – £18 per sq ft. The BTR revenue adopted is approx £21 per sq ft less 25% operating costs capitalised at 4.25% with a gross capital value of £76,622,520 before purchasers costs are deducted. They state that this equates to £370 per sq ft or approx 93% of the for sale open market value of £400 per sq ft which exceeds the upper end of the usual range of approx 80-90% for the discount to vacant possession.

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 SO15 states that the current asking rents in the post code are as follows:

1 Bed Flat - £527 pcm
2 Bed Flat - £886 pcm
3 Bed Flat - £1,103 pcm

On the basis of our evidence, assessment of similar PRS/BTR schemes and the regeneration premium we have adopted the following rents:

- Studios - £825 pcm - £99,000 pa gross
- 1 Bed - £975 pcm - £1,368,900 pa gross
- 2 Bed - £1250 pcm - £2,580,000 pa gross
- 3 Bed - £1600 pcm - £211,200 pa gross

Total - £4,259,100 pa gross

Taking into account recent evidence and other PRS/BTR schemes assessed in the area I'm of the opinion that a net deduction of 25% for management and operational costs (Voids, repairs, letting fees etc) is reasonable with a net rental of £3,194,325. Whilst a yield of 4.25% is currently keen it's not unreasonable for prime regional centres according to research from CBRE and has been adopted with a gross capital value before purchasers costs are deducted of £75,160,588.

On this basis £76,662,520 adopted by Quod has been accepted as reasonable.

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 units

Quod 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 £1,360,000 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 57 car parking spaces provided on the podium for the BTR units and 82 spaces for the for sale units. Quod have included a capital rate of £15,000 per space or a capitalised rental income of £15,000 per space.

I'm of the opinion 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 therefore adopted £20,000 per space.

In addition there is a multi-storey car park of 863 spaces and whilst a cost has been included at this stage no value has been attributed to it save as detailed below.

18.1.7 Commercial

Quod have undertaken research as to the values for the various commercial uses and have adopted the following:

Hotel - £140,000 per room
Cinema, Casino, Health & Leisure - £15 per sq ft pa capitalised at 6%
Retail/A3 units - £20 per sq ft capitalised at 6%
Office - £20 per sq ft pa capitalised at 6%

Having taken into account our own evidence researched and recent schemes assessed in Southampton I'm prepared to accept the values adopted by Quod as reasonable.

However it should be noted that the values assumed for the commercial are on the basis that the MSCP is provided free of charge and the values reflect this. As a sensitivity a value has been included for the car park but with corresponding reduction in the commercial values.

In addition we have not been advised if there are any pre-lets or pre-sales in place in respect of the commercial uses or the BTR residential and it would be useful if Quod could confirm.

However at this stage no voids or rent free periods have been taken into account.

18.1.8 Total GDV of For Sale Scheme

	DVS	Qood
Market Units	£88,492,800	£88,492,520
Build to Rent Units	£76,662,520	£76,662,520
Car Parking – 139 spaces	£2,780,000	£2,085,000
MSCP	NIL	NIL
Affordable Units	NIL	NIL
Ground Rents	£1,360,000	NIL
Hotels	£52,500,000	£52,500,000
Cinema	£11,477,115	£11,478,250
Casino	£5,898,672	£5,898,750
Leisure	£6,140,862	£6,142,000
A 3 Units	£5,435,820	£5,434,333
Offices	£30,049,500	£30,048,667
Health & Wellness	£12,577,734	£12,577,750
Less Purchasers Costs	£4,886,400	£4,867,423
Total	£288,488,623	£286,452,647

The key differences between the parties is the inclusion of ground rents and the higher car park value.

18.2 Build Cost

18.2.1 Construction cost

Quod have adopted the mean BCIS costs for the various uses rebased to Southampton plus the costs issued by Gleeds for car parking, abnormal and external costs. The total adopted by Quod is £218,956,776 broken down as follows:

Item	Rate	Cost
Cinema	£1399 per sq m (£130 per sq ft)	£5,968,690
Casino	£1399 per sq m (£130 per sq ft)	£3,067,350
Leisure	£1399 per sq m (£130 per sq ft)	£3,193,840
A 3 Units	£1399 per sq m (£130 per sq ft)	£2,119,390
Offices	£1,970 per sq m (£183 per sq ft)	£18,329,646
Health & Wellness	£1399 per sq m (£130 per sq ft)	£6,540,430
Hotel/Apart Hotel	£2,164 per sq m (£201 per sq ft)	£21,440,871
B to R Units	£1,905 per sq m (£177 per sq ft)	£47,443,965
For Sale Units	£1,905 per sq m (£177 per sq ft)	£50,993,346
Hotel	£2,164 per sq m (£201 per sq ft)	£11,124,948
Total		**£170,222,476**
MSCP		£13,720,000
Podium Car Parking		£2,770,000
Phase 1 Abnormals & Externals		£12,071,000
Phase 2 Abnormals & Externals		£8,436,800
Phase 3 Abnormals & Externals		£8,573,500

Phase 4 Abnormals & Externals		£3,163,000
Total		**£48,734,300**
Overall Total		**£218,956,776**

The abnormals and externals include piling, etc, flood risk measures sprinklers and acoustic measures, public realm, and site preparation.

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 commercial rate of £1,063 per sq m, Hotel rate of £2,071 per sq m Office of £1,938 per sq m and podium car parking at £827 per sq m and multi storey at £570 per sq m plus abnormals and externals as follows:

Item	Rate	Cost
Cinema	£1,063 per sq m	£4,533,695
Casino	£1,063 per sq m	£2,330,096
Leisure	£1,063 per sq m	£2,425,766
A 3 Units	£1,063 per sq m	£1,610,000
Offices	£1,938 per sq m	£18,033,090
Health & Wellness	£1,063 per sq m	£4,968,462
Hotel/Apart Hotel	£2,071 per sq m	£20,523,610
B to R Units	£1,749 per sq m	£43,553,598
For Sale Units	£1,749 per sq m	£46,811,985
Hotel	£2,071 per sq m	£10,649,082
Total		**£155,439,829**
MSCP	£570 per sq m	£13,454,280
Podium Car Parking	£827 per sq m	£3,671,053
Phase 1 Abnormals & Externals		£12,071,000
Phase 2 Abnormals & Externals		£8,436,800
Phase 3 Abnormals & Externals		£8,573,500
Phase 4 Abnormals & Externals		£3,163,000
Total		**£49,369,633**
Overall Total		**£204,809,462**

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.

Whilst we have adopted the median BCIS rate Quod have adopted the mean which includes the extremes and is not a realistic average. The abnormals and externals costed by Gleeds have been accepted at this stage.

Overall the difference in build costs is £14,147,314 (6.5%) due to the BCIS rates adopted.

18.2.2 Contingency

Quod have adopted a contingency of 5% (£10,947,839) 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 (£10,240,473).

18.3 Development Costs

18.3.1 Professional Fees

Quod have adopted 10% (£22,990,461) for professional fees. This is within the all-inclusive range we normally adopt for outline flatted schemes of 7% to 12% and have therefore adopted 10% (£20,480,946) as reasonable.

18.3.2 CIL/Section 106 Costs

Quod have not included for any CIL or section 106 contributions.

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

- Affordable Housing – 35%
- Highways/Transport – £750,000 (Estimated)
- Solent Disturbance Mitigation Project - £598,599
- Employment & Skills Plan - £84,321
- Carbon Management Plan - £343,200
- Late Night Community Safety Facilities - £30,000
- Total 106 - £1,806,120
- Site Flood Plan - £1,345,150

- CIL - £4,584,580.47

In addition we have assumed that the section 106 costs and the CIL costs are phased over the development period in accordance with previous schemes assessed.

18.3.3 Marketing and Agency Costs

Quod have included the following as fees:

Marketing Costs – 2% - £1,769,856
Leasing Agent Fee – 10% - £429,479
Leasing Legal Fee – 5% - £214,739
Sale Agent Fee – 1% - £2,864,526
Legal Sale Fees – 0.5% - £1,432,263

Total - £6,710,864

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

Residential Marketing – 1.5% - £1,327,392
Commercial Marketing – 0.21% - £250,000

Letting Agent Fee – 10% - £429,478
Letting Legal Fee – 5% - £214,739
Agent Sale Fees – 1% - £2,884,886
Legal Sale Fees – 0.25% - £721,222

Total - £5,827,717

18.3.4 Finance Costs

Quod in their report state that they have adopted a finance debit rate of 6.5% and 2% credit rate however the appraisal does not include a credit rate.

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

Quod have adopted the following programme:

Phase 1 - Hotel, Apart Hotel, Commercial and MSCP – 22 month construction and sale 1 month after PC.

Phase 2 – Offices and Build to Rent units – 22 months construction with sale 1 month after PC

Phase 3 - Hotel and for sale units – 23 months construction, sale of hotel 1 month after PC and sales of residential units over a 16 month period

Phase 4 – Health & Wellness – 15 months construction and sale 1 month after PC.

Overall

- Construction – 64 Months
- Sales – 16 months
- Total Development period – 80 months

I have adopted a similar programme as reasonable when compared to similar schemes as follows:

Phase 1 – Construction month 31 to 52 (22 months) with sale in month 53

Phase 2 – Construction month 51 to 72 (22 months) with sale in month 73

Phase 3 – Construction month 72 to 94 (23 months) with sale of hotel in month 95 and residential from month 95 to 110 (16 months)

Phase 4 – Construction month 79 to 93 (15 months0 with sale in month 94

18.3.6 Profit

Quod have suggested a target profit of 20% of GDV on residential for sale and 15% on BTR investment and 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
BTR 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. Quod have not considered the BLV at this stage due to their appraisal results which show a large deficit with no land value.

19.2 Existing Use Value (EUV)

Quod are of the opinion that the BLV should be based on EUV plus but due to the appraisal results it has not been considered.

I agree that the BLV should be based on EUV plus but no detail has been provided in order to access the EUV.

19.3 Premium (EUV)

Not Accessed

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

Not applicable.

19.6 Alternative Use Value (AUV)

19.6.1 Not applicable in this case.

19.7 Other Evidence

19.7.1 Not applicable.

19.8 Benchmark Land Value Considerations

19.8.1 The methodology of using the EUV of the site plus a premium is considered reasonable in the case but due to the appraisal results no BLV has been assessed.

19.9 Benchmark Land Value Conclusion

19.9.1 For this stage one report this has not been assessed.

20. Applicants Viability Assessment

Quod have assessed the scheme and conclude that on the basis of no land value the scheme shows a profit of £8,908,480 which is 3% of GDV and is not viable.

On this basis Quod conclude that the scheme cannot viably support any planning obligations.

In addition with 4% growth per annum Quod state that the scheme can be viable with an 18% output return and the applicant is prepared to progress the scheme with a present day deficit.

21. Conclusions / Presentation of DVS Results

I have undertaken a review of the Quod assessment and undertaken our own research and appraisal with the following result:

1) On the basis of the proposed mixed use scheme including ground rents but excluding the value of the MSCP the appraisal shows a deficit of £25,717,825 which converts to a reduced profit of 6.71% and is not viable against the target profits. This appraisal excludes any land value. (Appraisal attached at 24.1)

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:

- In order for the proposed scheme, with no affordable, with ground rents to be viable the value of residential element of the scheme would need to increase by almost 16% again assuming no land value.

- If ground rents are excluded from the scheme the deficit increases to £26,790,270 which converts to a reduced profit of 6.30% assuming no land value. (Appraisal attached at 24.2)

- If current mean BCIS costs (As proposed by Quod) are included the total construction cost increases to £218,128,990 which is only £827,786 less than the cost adopted by Quod and the deficit increases £45,346,224 which converts to a negative profit assuming no land value.

- In order for the scheme with mean BCIS build costs to be viable the residential element of the scheme would need to increase by approx 27.5% assuming no land value.

- In addition I have also considered the viability on the basis that a value is attributed to the MSCP with a reduction in the value of the commercial. Talking into account the value of similar car parks in the area I have assumed a gross rental of £1,000 per space with a gross income of £863,000 less management costs of 25% with a net rental of £647,250, capitalised at 6% less purchasers cost with a net value of £10,000,000.

  In addition I have reduced the commercial value by 5% to £63,436,519 with a resultant deficit reduced to approx £16.5 m again assuming no land value. (Appraisal attached at 24.3)

23. Comments and Recommendations

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

1) Inclusion of Ground rents
2) Higher Value of Podium Car Parking
3) Lower Overall Build Cost of approx 6.5% due to BCIS rate adopted
4) CIL and S106 contributions as advised by the Council
5) Lower sale fees particularly re legals
6) For Sale Residential Profit of 17.5% rather that 20%

Clearly there are major issues in respect of the viability of the scheme and its deliverability as currently proposed. In order to assist this assessment and the question of deliverability we believe that the applicant should confirm if there are any pre-lets in place or any investors confirmed in respect of the commercial and BTR.

In addition if the Council wish to proceed at less than policy we would suggest that any section 106 agreement include a review mechanism which can be discussed further including triggers.

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
[redacted]
RICS Registered Valuer
DVS

24. Appendices

24.1 Development Appraisal of the Scheme with Ground Rents
24.2 Development Appraisal of the scheme without Ground Rents
24.3 Sensitivity Appraisal including a MSCP value
24.4 Terms of Engagement dated 27 April 2020

24.1 Development Appraisal – Proposed Scheme including Ground Rents

24.2 Development Appraisal – Proposed Scheme excluding Ground Rents

24.3 Sensitivity Appraisal including a MSCP value

24.4 Terms of Engagement