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DVS Property Specialists for the Public Sector

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Simon Mackie
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Sent via e-mail only

Our Reference : [redacted]/1731742
Your Reference: 19/00838/OUT

Please ask for : [redacted]
Tel : [redacted]
e-mail : [redacted]

Date : 28 February 2020

Dear Simon

VIABILITY ASSESSMENT
ADDRESS: BITTERNE PARISH CHURCH OFFICE, WHTES ROAD

Thank you for your instruction to undertake a viability review of the planning application for the following:

'Outline application for the redevelopment of the Bitterne Parish Church site including 15 houses (4 x 4 bed and 6 x 3 bed in semi-detached pairs and 5 x 2 bed) with new access road and car parking following demolition of existing parish church hall and the removal of the existing bowling green and pavilion'

This report is not a formal valuation.

The date of assessment is 28 February 2020.

We have reviewed the January 2020 assessment provided by S106 Affordable Housing Ltd.

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

The principal objective of our Brief and the subject of this report are to establish whether there is financial justification for any affordable housing and section 106 contributions.

General Information

It is confirmed that the viability assessment has been carried out by [redacted], 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.

In undertaking this assessment, I have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information. In addition, no performance related or contingent fees have been agreed.

Checks have been undertaken in accordance with the requirements of the RICS standards and no conflict of interest has been revealed.

The client will neither make available to any third party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

You may wish to consider whether this report contains Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006.

Our assessment is provided for your benefit alone and solely for the purposes of the instruction to which it relates. Our assessment may not, without our specific written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our report. If we do provide written consent to a third party relying on our assessment, any such third party is deemed to have accepted the terms of our engagement.

None of our employees individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.

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

Following UK's exit from the EU on 31st January 2020, 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 the future relationship between the UK and the EU, and sudden fluctuations in value remain possible. We would therefore recommend that any valuation is kept under regular review.

Background:

The 1.057 Ha site comprises a number of existing buildings, including the "Wesley Centre", the Parish Hall and the Vicarage. The Wesley Centre and the Parish Hall are both understood to be in a less than reasonable state of repair and also surplus to modern requirements, they are therefore proposed to be demolished. The Vicarage however is to be retained on site.

The proposed development site is located in the centre of Bitterne to the south of the church with residential accommodation located to the south and a shopping area just north of the church.

The Wesley Centre and Parish Hall are both currently accessed off Whites Road, an access which is proposed to be blocked off.

The outline planning proposal relating to this site sets out to demolish the Wesley Centre and Parish Hall, retain the Vicarage and erect 15 new houses with a new vehicular access created off Bursledon Road.

It is understood that previously submitted planning applications have included for extensions and refurbishment of the adjacent church. This latest application does not include for this but instead outlines that funds from the price to be paid for the development site should be used to carry out any such works.

It is understood that in order to comply with current planning policy that the proposed development should provide 35% affordable housing on this site. This would equate to a total of 5 on-site affordable units for the proposed 15 unit scheme.

S106 AH have provided a viability appraisal and report in which they conclude that a policy compliant scheme is not financially viable. Further, they highlight that a scheme providing 100% Open Market housing would also result in a deficit and they therefore contend that the scheme is not able to provide any on-site affordable units.

In order to test this contention, I have carried out my initial review on the basis of a 100% Open Market scheme.

The Scheme:

The proposed scheme to be assessed comprises the following accommodation:

House type	GIA (m^2)	No. of units
2 bed terrace	82	3
2 bed semi	82	2
3 bed semi	98	6
4 bed semi	117	4
	1,466	**15**

Viability Assessment:

This assessment has been undertaken following my own detailed research into both current sales values and current costs. In some cases, I have used figures put forward by S106 AH if I believe them to be reasonable.

S106 AH have used the HCA Development Appraisal Tool (DAT) model when assessing the financial viability of the proposed scheme, whereas I have used the widely recognised Argus Developer toolkit.

1) Development Value -

a) **Residential:**

S106 AH have provided comparable evidence of houses in the locality that have either recently sold or are currently on the market. They state that this evidence supports a Gross Development Value (GDV) for the 15 houses of £4,390,000. This figure is based on the following average unit values:

- Two bed house : £230,000
- Three bed house : £300,000
- Four bed house : £360,000

The overall GDV equates to £2,995/m².

I have carried out my own research using our in-house property sales database plus online resources such as Rightmove. Following my research, I note that new build houses of a similar size to those proposed have sold for prices higher than the values proposed by S106 AH, with average sales values based on £3,350/m².

However, the evidence available to me does relate to houses that are generally located in higher value areas, on the fringes of Bitterne. Nevertheless, I am of the view that an average rate of £2,995 is too low and does not reasonable reflect the likely sales values of the proposed units.

I have analysed and adjusted the sales evidence of new build houses in the locality available to me and adopted the following units values:

Type	GIA	No.	DVS OMV
2 bed terrace	82	3	£240,000
2 bed semi	82	2	£250,000
3 bed semi	98	6	£325,000
4 bed semi	117	4	£375,000
	1,466m²	**15**	**£4,670,000**

My opinion of GDV for the 15 houses is therefore £4,670,000 which equates to approx. £3,125/m² and in my opinion more reasonably reflects the likely sales values of new build houses on a relatively small development in this location.

My adopted GDV is some £280,000 (c. 6%) higher than that submitted by S.106 AH.

b) **Grant Funding:**

No grant funding has been included by either party.

2) Development Costs -

a) Build Cost:

S106 AH have adopted a base build cost of £1,243/m² giving a total of £1,822,238.

I note that this rate is in line with the most up to date BCIS Median rate adjusted for the Southampton location. I am of the view that for a scheme of this size and type, in this location the use of the BCIS median rate is reasonable, and I have therefore adopted the same base build cost figure in my appraisal.

In addition, S106 AH have included 15% of build costs to reflect the external works required and a figure of £40,000 for the demolition works required. I would usually expect to see a more detailed breakdown for a scheme such as this. However, at this outline stage and with reference to other similar schemes, I do not consider the adopted figures for the external works and demolition costs to be unreasonable. I have therefore adopted the same for the purposes of my financial viability review.

My total build cost is therefore the same as that adopted by S106 AH at **£2,135,574**, excluding contingency and professional fees.

b) Contingency:

S106 AH have included a contingency of 5% in their appraisal which I judge to be reasonable for this scheme, on this previously developed site. This level of contingency has also been agreed on other similar schemes in the locality.

c) Professional Fees:

S106 AH have adopted professional fees of 7% which is deemed acceptable for this development and in line with other similar recent schemes DVS have reviewed.

d) CIL and Section 106/278 costs:

S106 AH have not allowed for any S.106 contributions but have included CIL at £33,924 within their appraisal for 100% Open Market Units.

I understand from your authority that the following S.106 contributions are required, and I have included them in my appraisal:

- Highways/Transport : £30,000 (Estimate)
- SDMP : £9,490
- Carbon Management Plan : £4,398
- Employment & Skills Plan : £8,030

TOTAL : £51,918

In addition, I understand a CIL figure of £124,728 is required and I have therefore also included this sum in my appraisal.

e) Sales & marketing costs:

S106 AH have adopted sales and marketing fees at 2.75% of sales values and sales legal fees at £750 per unit.

With regard to other similar schemes, I have adopted 2.5% for sales and marketing and £750 per unit for sales legal fees.

f) Development Programme:

I have adopted the following programme, which is broadly in-line with that adopted by S106 AH:

- Pre-construction - 6 Months
- Construction - 12 Months
- Sales - 4 Months

g) Finance costs:

S106 AH have included a debit interest rate of 7% to include all fees.

Based on other similar schemes agreed in the locality I have adopted a debit interest rate of 6.5% and in addition I have adopted a credit rate at 2%, as is good practice.

h) Developers profit:

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

For the purposes of viability testing S106 AH have adopted a profit level of 17.5% on GDV for the private residential units. With regard to other similar schemes in the locality I am of the view that a profit of 17.5% is in line with recently agreed levels and the NPPF.

I have therefore adopted the same in my appraisal.

i) Land Value/Costs:

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, 1st edition.

The most up to date viability guidance published by the Ministry of Housing, Communities & Local Government (MHCLG) in September 2019 states that:

"To define land value for any viability assessment, a benchmark land value 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. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements."

S106 AH have submitted a BLV figure of £1,249,973. This is based on their opinion of EUV at £1,086,933 plus a premium to incentivise a reasonable landowner of 15%.

In reaching their opinion of EUV S106 AH have adopted an annual rent of £97,750 (approx. £86/m²) and capitalised this figure using a yield of 9%.

I have carried out my own research and am of the view that £86/m² and the 9% yield adopted are not unreasonable for D1 use accommodation in this location. However, with reference to the latest planning documents and by checking our digital mapping system I note that the GIA for the buildings on site appears to be 1,073m², and not 1,136m².

Therefore, applying the £86/m² to the adjusted floor area gives an annual rent of say £92,250. Capitalising this at 9% gives an EUV in the region of £1,025,000, which is not unreasonable, when compared to sales evidence of other D1 use buildings in the area.

The addition of a 15% uplift to the EUV in order to incentivise a reasonable landowner to sell for redevelopment has been accepted across the region and in my view there are no factors that support a larger or smaller incentive to be applied in this particular case.

On this basis, I am of the opinion that a BLV figure of **£1,177,500** is reasonable for the subject site and I have had regard to this figure when considering the financial viability of the 15 unit proposed scheme.

I have also included stamp duty at the current rate plus acquisitions costs at 1.80%.

Overall assessment:

S106 AH conclude that a scheme providing 100% Open Market housing would result in a deficit of £454,751 and they therefore contend that the scheme is not able to provide any on-site affordable units.

In order to test this conclusion, I have carried out an appraisal based on a scheme providing 100% open market residential units, adopting the inputs outlined in this report. My resulting Residual Land Value (RLV) for a scheme on this basis is **£943,141** which is below my adopted BLV and therefore indicates that a scheme on this basis is not financially viable (see Appendix A).

In order for the scheme to be delivered the developers profit would need to be accepted at less than 12%, and at this level the deliverability of the scheme needs to be questioned.

In light of my conclusions, if your Authority is minded to grant permission on the basis of less than policy required contributions, I would suggest that a time scale for delivery is agreed which if not met triggers a viability review.

I trust this provides the information that is required however please do not hesitate to contact me if you have any queries and I would welcome the opportunity of discussing this with you in greater detail.

Yours sincerely

Prepared by

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[redacted]
RICS Registered Valuer
DVS

Reviewed by

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Appendices

Appendix A - DVS Appraisal - 100% Open Market Scheme