Valuation Office Agency

DVS Property Specialists for the Public Sector

Viability Review Report Former Toys R Us Western Esplanade Southampton

Report for:
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Southampton City Council

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21/01837/FUL

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1.0 Executive Summary

1.1 Proposed Development Details.

- **This report provides an independent review of a viability assessment in connection with:**

Proposed Development	Demolition of all existing buildings and structures and site clearance and hybrid planning permission for the redevelopment of the site for major mixed-use development comprising: A. Full planning permission for the demolition of the existing building and structures; construction of 4 buildings (Blocks A, B, C and D) of between 7 and 25 storeys with Block A comprising commercial floorspace (Class E) and Blocks B, C and D comprising 603 residential units (Class C3) and ground floor commercial floorspace (Class E); together with associated access, parking, servicing, landscaping (including Sustainable Drainage Systems), amenity space, public realm and substations. B. Outline planning permission for the construction of 1 building (Block E) of up to 8 storeys for flexible commercial/residential/overnight accommodation (C1/C3/Class E Uses) and/or co-living (Sui-Generis) with associated access, parking, servicing, landscaping and amenity space (all matters reserved except for access) (Amended Description).
Subject of Assessment:	Land At The Former Toys R Us, Western Esplanade, Southampton SO15 1QJ
Planning Ref:	21/01837/FUL
Applicant / Developer:	Packaged Living (Freof V Southampton) LLP
Applicant's Viability Advisor:	CBRE

1.2 Instruction

In connection with the above application Southampton City Council’s Planning Department require an independent review of the viability conclusion provided by the applicant in terms of the extent to which the accompanying appraisal is fair and reasonable and whether the assumptions made can be relied upon to determine the viability of the scheme.

1.3 Viability Conclusion

The applicant' advisor CBRE outlines in their report the following:

- the proposed applicants scheme incorporating 5 blocks including 482 Build to Rent (BTR) private units, 121 (20%) BTR affordable units, Car Parking, Offices, Retail, and Hotel produces a residual land value of **a negative £8.29m;**
- the proposed All Private scheme incorporating 5 blocks including 603 Build to Rent (BTR) private units, Car Parking, Offices, Retail, and Hotel produces a residual land value of **a negative £4.51m;**
- the Benchmark Site Value, adopting an EUV/AUV approach is **£4,046,440;**

A deficit of £12.33m below the Benchmark Site Value exists for the scheme with affordable but £8.56m for the all private scheme and both are not viable.

It is my considered and independent opinion that:

- the proposed BTR scheme appraisal with 121 BTR affordable units (20%) shows a residual land value of **a negative £2,473,999;**
- the proposed All Private BTR scheme appraisal shows a residual land value of **a £707,953;**
- the Benchmark Site Value, adopting an EUV/AUV approach, is rounded to **£4,000,000**;
- a deficit of **£6,473,999** below the Benchmark Site Value exists for the BTR scheme with 20% affordable units and a deficit of **£3,292,047** exists for the All Private BTR scheme.

I am of the opinion that there is a deficit for both schemes and therefore the scheme is not viable to provide either on site or a contribution towards affordable housing;

1.4 Non- Technical Summary of Viability Assessment Inputs

Inputs for scheme with 20% affordable	CBRE	DVS Viability Review	Agreed (Y/N)
Assessment Date	**December 2021**	**March 2022**	
Scheme, Gross Internal Area, Site Area	**482 Private BTR units - 287,680 sq ft net** **121 Affordable BTR Units - 70,340 sq ft net** **51 Residential Car Spaces** **180 Bed Hotel – 50,893 sq ft net** **Offices - 70,913 sq ft** **Retail – 9,617 sq ft** **Gross Area – 712,341 sq ft**	**482 Private BTR units - 26,726 sq m net** **121 (20%) Affordable BTR Units - 6,535 sq m net** **51 Residential Car Spaces** **180 Bed Hotel – 4,480 sq m net** **Offices – 6,588 sq m** **Retail – 894 sq m** **Gross Area – 64,683 sq m**	Y[1]
Development Period	3 months pre-con 42 months construction Sales in months 29 and 47	3 months pre-con 42 months construction Sales in months 29 and 47	Y
Gross Development Value	£197,990,369	£199,602,025	N
Net Development Value	£194,071,449	£195,736,737	N
CIL/Planning Policy / S.106 Total	CIL – £4,136,356 S106 - £350,000	CIL – £4,568,943 S106 – £803,618	N
Construction Cost Total incl contingency	£147,620,488	£147,467,847	N
Contingency %	5.00%	5.00%	Y[2]
Abnormals	Incl above	Incl above	
Professional fees (% of construction costs)	8.00%	8.00%	Y[2]
Finance Interest and Sum	Finance Rate 5.00% Credit Rate 0.0% Total £6,513,432	Debit Rate 5.00% Credit Rate 2% Total £6,654,031	N
Sales / Agency Fees	1.00%/0.65% of GDV	1.00%/0.75% of GDV	N
Legal Fees	0.5% of GDV	0.25% of GDV	N
Letting Fees	20% of commercial income	20% of commercial income	Y
Land Acquiring Costs	SDLT +1.5%	SDLT +1.5%	Y
Profit Target %	15% of total GDV	12.5% of Private BTR GDV Affordable – 6% of GDV Commercial – 15% of GDV	N
Residual Land Value	- £8,286,692	- £2,473,999	N
EUV/AUV	£4,046,440	£4,000,000	Y[3]
Premium	NIL	NIL	Y
Benchmark Land Value	£4,046,440	£4,000,000	Y[3]

Viability Conclusion	Not Viable	Not Viable	**Y**

Y[1] denotes that the scheme is agreed but minor differences in respect of gross area.
Y[2] denotes that whilst the inputs are agreed, the total sum differs due to amendments made elsewhere in the appraisal.
Y[3] denotes that the sum has been agreed but rounded.

A site specific viability assessment review has been undertaken, the inputs adopted herein are unique to this site and scheme and may not be applicable to other viability assessments undertaken or reviewed by DVS.

2.0 Instruction and Terms

2.1 The Client is Southampton City Council.

2.2 The Subject of the Assessment is Land At The Former Toys R Us, Western Esplanade, Southampton SO15 1QJ

2.3 The date of the viability assessment is 16 February 2022, updated on 2 March 2022 in respect of the site specific transport requirements. 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.

2.4 Confirmation of instructions and PON were received on 11 January 2022. It is understood that Southampton City Council require an independent opinion on the viability information provided by CBRE 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.

Specifically, DVS have been appointed to:

- assess the Viability Assessment submitted on behalf of the planning applicant / developer, taking in to account the planning proposals as supplied by you or available from your authority's planning website.

- advise Southampton City Council in writing on those areas of the applicant's Viability Assessment which are agreed and those which are considered unsupported or incorrect, including stating the basis for this opinion, together with evidence. If DVS considers that the applicant's appraisal input and viability conclusion is incorrect, this report will advise on the cumulative viability impact of the changes and in particular whether any additional affordable housing and / or s106 contributions might be provided without adversely affecting the overall viability of the development.

2.5 Conflict of Interest Statement - 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.

2.6 Inspection - As agreed, the property/site has not been inspected, and this report is provide on a desk top basis but the site is well known to the DVS valuer.

2.7 DVS/ VOA Terms of Engagement were issued on 20 December 2021, a redacted version is attached at **Appendix 1.**

3.0 Guidance and Status of Valuer

3.1 Authoritative Requirements

The DVS viability assessment review will be prepared in accordance with the following statutory and other authoritative mandatory requirements:

- The '**National Planning Policy Framework'**, which states that all viability assessments should reflect the recommended approach in **the 'National Planning Practice Guidance on Viability'**. This document is recognised as the 'authoritative requirement' by the Royal Institution of Chartered Surveyors (RICS).

- RICS Professional Statement **'Financial viability in planning: conduct and reporting'** (effective from 1 September 2019) which provides the mandatory requirements for the conduct and reporting of valuations in the viability assessment and has been written to reflect the requirements of the PPG.

- RICS Professional Standards PS1 and PS2 of the '**RICS Valuation – Global Standards'**.

3.2 Professional Guidance

Regard will be made to applicable RICS Guidance Notes, principally the best practice guidance as set out in RICS GN **'Assessing viability in planning under the National Planning Policy Framework 2019 for England'** (effective 1 July 2021).

Other RICS guidance notes will be referenced in the report and include RICS GN '**Valuation of Development Property'** and RICS GN **'Comparable Evidence in Real Estate Valuation'.**

Valuation advice will be prepared in accordance with the professional standards of the of the '**RICS Valuation – Global Standards'** and the **'UK National Supplement'**, which taken together are commonly known as the RICS Red Book. Compliance with the RICS Professional Standards and Valuation Practice Statements (VPS) gives assurance also of compliance with the International Valuations Standards (IVS).

Whilst professional opinions may be expressed in relation to the appraisal inputs adopted, this consultancy advice is to assist you with your decision making for planning purposes and is not formal valuation advice such as for acquisition or disposal purposes. It is, however, understood that our review assessment and conclusion may be used by you as part of a negotiation. The RICS Red Book professional standards are applicable to our undertaking of your case instruction, with PS1 and PS 2 mandatory. While compliance with the technical and performance standards at VPS1 to VPS 5 are not mandatory (as per PS 1 para 5.4) in the context of your instruction, they are considered best practice and have been applied to the extent not precluded by your specific requirement.

3.3 RICS Financial Viability in Planning Conduct and Reporting

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

a) 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.

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

c) 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.

d) The appointed valuer, [redacted] 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.

e) 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.

f) 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.

3.3 Most Effective and Efficient Development

It is a mandatory requirement of the RICS Conduct and Reporting Professional Statement for the member or member firm to assess the viability of the most effective and most efficient development.

The applicant's advisor has assessed the viability based on the proposed application scheme. The DVS valuer has also assessed the viability based upon the application scheme in accordance with the plans and passes no comment on whether this is the most effective and most efficient development. The impact on viability of different schemes have not been appraised, however should this be pursued another viability assessment may be necessary.

3.4 Signatory

a) 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.

3.5 Bases of Value

The bases of value referred to herein are defined in the terms of engagement at **Appendix 1** and are sourced as follows:

- Benchmark Land Value is defined at Paragraph 014 of the NPPG.
- Existing Use Value is defined at Paragraph 015 of the NPPG.
- Alternative Use Value is defined at Paragraph 017 of the NPPG
- Market Value is defined at VPS 4 of RICS Valuation – Global Standards.
- Market Rent is defined at VPS 4 of 'RICS Valuation – Global Standards'
- Gross Development Value is defined in the Glossary of the RICS GN Valuation of Development Property (February 2020).

4.0 Assumptions, and Limitations

4.1 Special Assumptions

As stated in the terms the following special assumptions have been agreed and will be 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 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.
- That the development as proposed is complete on the date of assessment in the market conditions prevailing on the date.
- In respect of the proposed redevelopment it is assumed that a new 250 year lease is granted by Southampton City Council to Packaged Living Ltd in accordance with the Development Agreement negotiated between the parties subject to planning.

4.2 General Assumptions

The site has not been inspected. The below assumptions are subject to the statement regarding the limitations on the extent of our investigations, survey restrictions and assumptions, as expressed in the terms of engagement.

a) Tenure - A report on title has not been provided. The review assessment assumes that the site is held freehold by Southampton City Council subject to a lease to Packaged Living.

b) Easements / Title restrictions - A report on title has not been provided. The advice is provided on the basis the title is available on an unencumbered freehold or long leasehold basis with the benefit of vacant possession. It is assumed the title is unencumbered and will not occasion any extraordinary costs over and above those identified by the applicant and considered as part of abnormal costs.

c) Access / highways - It is assumed the site is readily accessible by public highway and will not occasion any extraordinary costs over and above those identified by the applicant and considered as part of abnormal costs.

d) Mains Services - It is assumed the site is or can be connected to all mains services will not occasion any extraordinary costs over and above those identified by the applicant and considered as part of abnormal costs.

e) Mineral Stability - It is assumed that the property is not affected by any mining subsidence, and that the site is stable and would not occasion any extraordinary costs with regard to Mining Subsidence over and above those identified by the applicant and considered as part of abnormal costs.

f) Environmental Factors Observed and/or Identified - it is assumed the site will not occasion any extraordinary costs relating to environmental factors over and above those identified by the applicant and considered as part of abnormal costs.

g) Flood Risk – According to the Environment Agency Website the site is in flood zone 1, an area with a low probability of flooding.

h) Asbestos - it is assumed any asbestos where identified present will not occasion any extraordinary costs over and above those identified by the applicant and considered as part of abnormal costs.

5.0 Proposed Development

5.1 Location / Situation

The site is located on the edge of the city centre of Southampton, fronting the Western Esplanade but with access to the south via a roundabout from Harbour Parade which is close to West Quay Retail Park and Mountbatten Retail Park. In addition there is a separate service access and pedestrian routes connecting to the railway station to the north and retail units to the south.

The site is served by a number of public transport links and is in close proximity to all normal city centre services.

5.2 Description

The site currently comprises a large vacant retail unit , formerly occupied by Toys R Us, of approx. 41,430 sq ft (3,849 sq m) plus car parking at grade for 305 cars.

5.3 Site Area

We understand that the site extends to approximately 1.86 hectares (4.6 acres)

5.4 Schedule of Accommodation/ Scheme Floor Areas

DVS make no comment about the density, design, efficiency, merit or otherwise, of the proposed scheme and the accommodation details have been taken from CBRE's Viability Assessment and the cost plan and are summarised below:

Block	Type	No of Units	Average Size	Total Area
Block A	Offices			6,588 sq m 70,913 sq ft
	Retail			369 sq m 3,972 sq ft
Block B	Private Residential - BTR	254	56.3 sq m 606 sq ft	14,302 sq m 153,946 sq ft
Block C	Private Residential - BTR	120	55.5 sq m 597 sq ft	6,655 sq m 71,631 sq ft
Block D	Private Residential - BTR	108	53.4 sq m 575 sq ft	5,769 sq m 62,100 sq ft
	Affordable Residential - APR	121	54.0 sq m 581 sq ft	6,535 sq m 70,340 sq ft
Blocks B&C	Retail			408 sq m 4,389 sq ft
Block D	Retail			117 sq m 1,256 sq ft
Block E	Hotel	180 beds		4,480 sq m 48,227 sq ft
Totals	**Residential**	**603**	**55.16 sq m**	**33,261 sq m**
	Offices			**6,588 sq m**
	Retail			**893 sq m**
	Hotel			**4,480 sq m**
Overall Total				**45,223 sq m**
Overall Gross				**64,683 sq m**

I have taken the gross area from the cost plan provided which shows a total net to gross area of 70% which is within the range we normally expect for this type of development.

However CBRE have a net area of 45,470 sq m and a gross area of 66,178 sq m which shows a net to gross of 68.7%.

CBRE state that the scheme with 121 affordable units is policy compliant however this is only 20% affordable and less than the Councils policy requirements.

In addition I understand from the plans that there are 59 dedicated residential car spaces (The CBRE reports states 59 but includes 51 in their appraisal). In addition the plans show 46 office car parking spaces and it is assumed that these will be included within the leases granted to the occupiers.

As agreed in the terms, the residential property present has been reported upon using a measurement standard other than IPMS, and specifically Net Internal Area

/ Gross Internal Area has been used. Such a measurement is an agreed departure from 'RICS Property Measurement (2nd Edition)'.

This measurement standard is how the applicant has presented their data, is common and accepted practice in the construction/ residential industry, and it has been both necessary and expedient to analyse the comparable data on a like with like basis.

5.5 Planning Policy Requirements for the Scheme

The current application, the subject of this review, is reference 21/01837/FUL –

Demolition of all existing buildings and structures and site clearance and hybrid planning permission for the redevelopment of the site for major mixed-use development comprising:

A. Full planning permission for the demolition of the existing building and structures; construction of 4 buildings (Blocks A, B, C and D) of between 7 and 25 storeys with Block A comprising commercial floorspace (Class E) and Blocks B, C and D comprising 603 residential units (Class C3) and ground floor commercial floorspace (Class E); together with associated access, parking, servicing, landscaping (including Sustainable Drainage Systems), amenity space, public realm and substations.

B. Outline planning permission for the construction of 1 building (Block E) of up to 8 storeys for flexible commercial/residential/overnight accommodation (C1/C3/Class E Uses) and/or co-living (Sui-Generis) with associated access, parking, servicing, landscaping and amenity space (all matters reserved except for access) (Amended Description).

In addition to the NPPF and NPPG the statutory development plan for the site comprises:

- Core Strategy Partial Review (adopted 2015)
- Saved Policies in the Local Plan Review (amended 2015)
- Southampton City Centre, The Master Plan Report 2013
- City Centre Action Plan
- Residential Design Guide SPD 2006
- Parking Standards SPD 2011
- Development Design Guide SPD 2004
- Development Contributions SPD 2013
- Solent Disturbance Mitigation SPD 2014
- Solent Mitigation Strategy 2017

- Affordable Housing – Policy CS15 – 35% affordable

In addition I understand that the following planning obligations are required:

- Section 106

Highways/Transport – £380,000
SDMP - £152,900 (Inc 105 car spaces)
Carbon Management - £202,056
Employment & Skills - £58,662
CCTV - £10,000
Section 106 total - £803,618

- **CIL – £4,568,943**

CBRE have included for section 106 contributions of £350,000 and CIL of £4,136,361 for the scheme with affordable and only CIL of £5,048,837 for the all private scheme.

I have included payment of any 106 contributions at start on site with CIL phased through the development.

6.0 Summary of Applicant's Viability Assessment

6.1 Report Reference

DVS refer to the Viability Assessment Update prepared by CBRE dated December 2021 for the proposed scheme and the appraisal therein.

6.2 Summary of Applicant's Appraisal

The agent's appraisal has been produced using the Argus model and follows established residual methodology, and this is where the Gross Development Value less the Total Development Costs and Profit, equals the Residual Land Value. The Residual Land Value is then compared to the Benchmark Land Value as defined in the Planning Practice Guidance, to establish viability.

CBRE concludes in their report for the proposed BTR scheme the following:
- The BTR scheme with 20% affordable (In the form of 121 discount to open market rents), car parking, hotel and commercial, CIL and s106 contributions of £350,000 produces a residual land value of **a negative £8.29m;**
- The all private BTR scheme with car parking, hotel and commercial, CIL but no s106 produces a residual land value of **a negative £4.51m**
- the Benchmark Site Value, adopting an EUV approach, is **£4,046,440;**
- a deficit of **£12,333,132** below the Benchmark Site Value exists in respect of the scheme with affordable and a deficit of **£8,557,638** in respect of an all private scheme and both are not viable;

To review the reasonableness of this conclusion, the reasonableness of the applicant's appraisal inputs is considered in the next sections.

7.0 Development Period/ Programme

7.1 The development period adopted by the agent for the proposed BTR scheme comprises:

- Pre construction – 3 months;
- 24 months for construction for Blocks A-D and then 18 month construction for Block E, an overall total of 42 months;
- Sale of Block A-D – 1 month after practical completion i.e. month 29;
- Sale of Block E – 1 month from practical completion i.e. month 47;
- Overall development period – 47 months;

7.2 I have adopted the following for the proposed BTR scheme as reasonable:

- 3 month lead in;
- 24 month construction period for Blocks A-D. BCIS suggests a range of 103-136 weeks for this scale of contract;
- 18 month construction period for Block E (Hotel) – BCIS suggests up to 83 weeks for this scale of contract.
- Sale of Block A-D – 1 month after practical completion i.e. month 29;
- Sale of Block E – 1 month from practical completion i.e. month 47;
- Overall development period – 47 months;

8.0 Gross Development Value (GDV)

The Gross Development Value of the site has been arrived at by:

- Reviewing the GDV proposed with regards to RICS Guidance Notes '**Assessing viability in planning under the National Planning Policy Framework 2019 for England'** and '**Comparable Evidence in Real Estate**
- Assessing the market values of both the flats and commercial by reference to available evidence.

The overall total GDV in the applicant's appraisal is **£197,990,369** based on the following:

- BTR Private Units - £114,842,241
- BTR Affordable Units - £22,569,600
- Car Parking - £1,440,000
- Hotel - £21,600,000
- Offices - £34,970,570
- Retail - £2,567,958
- **Gross Development Value - £197,990,369**

- Less Purchasers costs of £3,918,921
- **Net Development Value - £194,071,449**

8.1 Residential

CBRE have based the residential value on the basis of Build to Rent units and have reviewed the market taking account of new build and relet apartments in the locality of the site as follows:

Gatehouse Apartments – Purpose BTR apartments launched in March 2021 consisting of a 132 unit scheme with 46 one bed and 86 two bed incl a gym, co working space. Resident's lounge, private dining area and outdoor terrace with the following asking rents:

- 1 Bed - £950 pcm or £20.97 per sq ft
- 2 Bed - £1,100 pcm or £17.52 per sq ft

Bow Square – Purpose BTR apartments consisting of 279 one and two bed incl a resident's lounge and on-site parking(at an extra cost) and CBRE understand that the following rents have been achieved:

- 1 Bed - £930 pcm
- 2 Bed - £1,087 pcm

Castle Place – Re let rental accommodation with the following asking rents:

- 1 Bed - £775 pcm
- 2 Bed - £1,100 pcm

Telephone House – Re let rental accommodation with the following asking rents:

- 1 Bed - £900 pcm
- 2 Bed - £1,250 pcm

Oceana Boulevard – Re let accommodation with a communal gym with the following asking rents:

- 1 Bed - £713 pcm
- 2 Bed - £1,198 pcm

On the basis of this evidence CBRE have adopted the following open market ERV's for the proposed development optimistically for a residential development in a peripheral city centre location:

- Studios - £787 pcm to £836 pcm
- 1 Bed - £950 pcm to £956 pcm
- 2 Bed - £1,292 pcm to 1,320 pcm
- 3 Bed - £1,610 pcm to 1,656 pcm

- **Gross Rental PA - £6,507,727**

CBRE have then reduced the gross rental by 25% to reflect the projected minimum operational managements costs and voids with a **net rental of £4,880,795.**

CBRE have then considered sale evidence of a BTR scheme in Bournemouth and have adopted a forwarded funded net investment yield of 4.25% with a **Gross Development Value of £114,842,241.**

We have also undertaken research as to market rents in the area. I have verified the evidence provided by CBRE and taking account of current asking rents on Rightmove and Zoopla and other recent assessments in Southampton particularly the Leisure World Development I have adopted the following rentals as reasonable:

- Studio - £825 pcm
- 1 Bed - £975 pcm
- 2 Bed - £1,300 pcm
- 3 Bed - £1,600 pcm
- **Gross Rental Value - £6,550,200**

Taking into account recent evidence and other 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 £4,912,650**.

Taking account of the evidence available and the CBRE Published Investment Yield research I'm of the opinion that a forward funded net investment yield of 4.25% is reasonable with a **Gross Development Value of £115,591,765**

If a fully private scheme is assessed CBRE have adopted a **GDV of £143,054,224** whilst I have assessed at a **GDV of £144,513,529.**

8.2 Affordable Housing

CBRE have included for 121 affordable units in their policy compliant scheme. However this is only 20% affordable and not in accordance with the Councils policy of 35%.

Although they state that Southampton City Council do not have a policy for affordable BTR units CBRE have adopted a discount of 20% to market rents as follows:

Block D – 121 units

- Studio - £626 pcm
- 1 Bed - £749 pcm
- 2 Bed - £1,027 pcm

- 3 Bed - £1,288 pcm
- **Gross Rental Value - £1,278,944**

I have adopted the same basis as reasonable as follows:

Block D – 121 units
- 7 x Studio units - £660 pcm
- 60 x 1 Bed - £780 pcm
- 47 x 2 Bed - £1,040 pcm
- 7 x 3 bed - £1,280 pcm
- **Gross Rental Value - £1,311,120**

On the basis of a 25% reduction for management costs and a yield of 4.25% CBRE have adopted an **affordable GDV of £22,569,600** whilst on the same basis I have included for an **affordable GDV of £23,137,412**.

However please confirm if this is an acceptable method of assessing the affordable BTR units taking account of policy.

8.3 Car Parking

CBRE advise that there are 59 car parking units for Blocks B,C & D which they have valued on the basis of £1,200 per annum with a total value of £1,440,000 although they include only 51 spaces.

I have included a total of £1,475,000 for the 59 spaces based on a capital value of £25,000 per space as used elsewhere in Southampton.

8.4 Market Value of the Commercial

8.4.1 **Retail** – CBRE have taken account of evidence of £15 per sq ft but optimistically adopted £20 per sq ft rental capitalised at 7% with a 12 month rent free/incentive package.

I have also taken account of the available evidence and recent similar assessments and have also adopted a rental of £20 per sq ft, capitalised at 7% with a 12 month rent free/incentive package. This yield is in line with the CBRE Investment Yield research dated October 2021.

8.4.2 **Offices** – CBRE have optimistically adopted a range of £28 per sq ft and £32 per sq ft taking account of the evidence available and capitalised at a yield of 5.5% with rent free periods of between 18 months and 33 months.

Taking account of the evidence available I have adopted a average rental of £30 per sq ft and a yield of 5.5% following the CBRE October yield research of 4.75% to 7% for regional cities and good secondary. In addition I have included a rent free package of 20 months as reasonable.

8.4.3 **Hotel** – Assuming a midscale hotel CBRE have adopted a value of £120,000 per room.

Taking into account the available evidence and recent assessments I have also adopted £120,000 per room as reasonable for a midscale hotel in this location.

8.5 Total GDV

1) BTR Scheme with 20% affordable:

Use	DVS	CBRE
482 BTR Private Units	£115,591,765	£114,842,241
121 Affordable BTR Units	£23,137,412	£22,569,600
59 Car Spaces	£1,475,000	£1,440,000
Hotel – 180 bed	£21,600,000	£21,600,000
Offices	£35,242,475	£34,970,570
Retail	£2,555,374	£2,567,958
GDV	**£199,602,025**	**£197,990,369**
Less Purchasers Costs	£3,865,288	£3,918,921
NDV	**£195,736,737**	**£194,071,448**

2) Proposed All Private BTR Scheme:

Use	DVS	CBRE
603 BTR Private Units	£144,513,529	£143,054,224
59 Car Spaces	£1,475,000	£1,440,000
Hotel – 180 bed	£21,600,000	£21,600,000
Offices	£35,242,475	£34,970,570
Retail	£2,555,374	£2,567,958
GDV	**£205,386,378**	**£203,632,752**
Less Purchasers Costs	£3,865,288	£3,918,921
NDV	**£201,521,090**	**£199,713,831**

9.0 Total Development Costs

9.1 Construction Cost

CBRE have adopted the total cost of £126,466,500 for Blocks A-D and works to the public realm etc as advised by AECOM acting for the applicant plus the BCIS cost of £204.02 per sq ft for the hotel broken down as follows:

Block	Gross - Sq ft	Overall Rate per sq ft	Cost
Block A	121,124	£188.06	£22,778,800
Block B&C	343,015	£196.87	£67,528,800
Block D	178,971	£184.53	£33,025,600

Block E	69,231	£204.02	£14,124,441
Externals			Incl
Total	712,341 sq ft 66,178 sq m	£192,97 per sq ft £2,077 per sq m	£137,457,641
Car Park Ramp			£1,948,700
Public Realm Works			£1,184,600
Overall Total			**£140,590,941**

Following advice from our QS I have adopted the current (29/01/2022) default median BCIS rate rebased to Southampton plus externals etc broken down as follows:

Offices - £2,388 per sq m
Retail - £1,402 per sq m
Residential - £1,859 per sq m
Hotel - £2,274 per sq m
Externals – 7.5%

Block	**Gross - Sq M**	**Overall Rate per sq M**	**Cost**
Block A	10,246	£2,352	£24,103,405
Block B&C	31,644	£1,853	£58,639,852
Block D	16,362	£1,856	£30,363,362
Block E	6,432	£2,274	£14,625,724
Externals		7.5%	£9,579,926
Total	64,683 sq m 696,248 sq ft	£2,123 per sq m £197 per sq ft	£137,312,269
Car Park Ramp			£1,948,700
Public Realm Works			£1,184,600
Overall Total			**£140,445,569**

Our gross areas have been taken from the cost plan prepared by AECOM.

Overall the difference is only £145,372 or 0.1%. In addition you have advised that the Public Realm works cost, although not agreed, has been deemed to be reasonable to provide the Permitted Route through the site.

9.2 Contingency

CBRE have adopted a contingency of 5% which is within the range of 3% to 5% we adopt as reasonable and taking account of the issues caused by Covid 19 I have also used 5% as reasonable.

9.3 Professional Fees

CBRE have included an allowance of 8% for the proposed scheme in their appraisal which is within the range of 8% to 10% that we normally use for this type of bespoke scheme which I have also adopted as reasonable.

9.4 CIL/Section 106 costs

For the proposed schemes CBRE have adopted the following;

Scheme with 20% affordable:
S106 - £350,000
CIL - £4,136,356

All Private Scheme:
S106 – NIL
CIL - £5,048,832

You have confirmed that the following are required:

- Affordable Housing – 35%
- Highways/Transport – £380,000
- SDMP - £152,900
- Carbon Management - £202,056
- Employment & Skills - £58,662
- CCTV - £10,000

- CIL - £4,568,943

I have adopted these for both schemes at this stage and I have assumed that any section 106 cost would be payable at start on site whilst CIL is phased.

9.5 Marketing and Agency Costs

CBRE have included for the following fees:

- Agent Letting Fees (Block A) – 15% of income
- Legal Letting Fees (Block A) – 5% of income
- Agent Sale Fees (Block A) – 1%
- Agent Sale Fees (Blocks B-E) – 0.65%
- Legal Sale Fees – 0.5%

- Total - £2,792,033

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

- Agent Letting Fees (Blocks A-D) – 15%
- Legal Letting Fees (Blocks A-D) – 5%

- Agent Sale Fees (Block A) – 1.0%
- Agent Sale Fees (Blocks D-E) – 0.75%
- Legals Sale Fees – 0.25%

- Total - £2,549,384

9.6 Finance

CBRE have included an all-inclusive debit rate of 5% but no credit rate with a total of £6,513,432 for the scheme with affordable in accordance with their cash flow.

I have adopted an all-inclusive rate of 5.0% debt rate and 2.0% credit rate in this case as reasonable, agreed on similar schemes and assessed in accordance with the cash flow and programme at 7.2 with a total of £6,645,031 for the proposed scheme with affordable.

9.8 Other Development Costs

The following cost inputs have been accepted as reasonable and adopted by DVS in the review assessment:

Cost	S106	Comments
Land acquisition fees	Current rate of SDLT plus fees of 1.5%	Agreed as reasonable

9.9 Developers Profit

CBRE has adopted a profit of 15% on GDV with a total of £29,698,555.

The latest NPPF guidance suggests a profit level of 15-20%. However the applicants have purchased the site in order to build a mixed use development including 603 BTR units. Since this is effectively presold to the applicants I have adopted the following profit as reasonable:

Private BTR Units and parking – 12.5% of GDV on the assumption its pre-sold
Affordable BTR Units – 6% of GDV
Hotel – 15% of GDV
Commercial – 15% of GDV
Total - £24,931,268

This represents a blended profit of 12.75% of the total GDV or almost 15% of total development costs.

9.9 Residual Land Value

Based on the above inputs, my appraisal arrives at a residual land value of **a negative £2,473,999** for the proposed BTR Scheme with 20% affordable and **£743,470** for the all private BTR scheme. This compares with the agents of **a negative of £8,286,692** for the scheme with affordable and **a negative of £4,511,198** for the all private scheme excluding 106 contributions included as a sensitivity.

9.10 Summary of Unagreed Inputs

The following key inputs have not been accepted as reasonable:

- GDV
- CIL and Section 106;
- Sale and marketing fees;
- Profit

10.0 Benchmark Land Value (BLV)

10.1 Applicant's BLV

CBRE has adopted a Benchmark Land Value of £4,046,440 based on their assessment of the Existing Use Value which they state equates to approx. £924,000 per acre (although on the basis of a site of 4.6 acres this equates to £880,000 per acre).

10.2 Existing Use Value (EUV)

CBRE confirm that the existing site contains a retail unit of approx. 41,430 sq ft plus parking at grade for approx. 290 car spaces. Assuming a subdivision of the unit to 2 x 20,000 sq ft and that the car park is operated on a pay a display basis CBRE have undertaken an existing use viability appraisal to also include for the remedial works as prepared by AECOM in order to return the premises to a lettable standard.

The CBRE appraisal is based on a rental of £10 per sq ft capitalised at 10% but with a 24 month rent free period. The value of the car park is based on an offer received from YourParkingSpace of an annual income of £406,649 which CBRE have then capitalised at 15%. Their total GDV adopted after costs is £5,905,107.

CBRE have then adopted the refurb cost of £361,200 as costed by AECOM plus standard contingency, professional fees, letting an agency fees and finance plus a profit of 15% of cost which produces a residual land value of £4,046,440 which they state is the EUV of the site and adopted as the Benchmark Land Value.

We have also considered the EUV as refurbished on the same basis and are of the opinion that the rates etc adopted are reasonable and if anything are at the low end of the range that we would expect but take account of the current retail market etc. In addition it is assumed that that the existing ground lease is not renewed i.e. with 90 years of the 125 lease from the council remaining and that planning is not required for any subdivision.

I have prepared an appraisal (Appraisal 3) which is attached as appendix 4 which shows a Residual Land Value of £3,960,496 which has been rounded up to £4,000,000.

10.3 Alternative Use Value (AUV)

Although not stated since the property is be refurbished etc it is a redevelopment for existing use and technically the AUV in accordance with NPPF.

10.4 Premium

CBRE have not included a premium.

On the basis that the EUV was being adopted to calculate the BLV I'm of the opinion that 15% would be sufficient incentive and agreed on many schemes in the region.

However in this case NPPF is quite clear that where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing the BLV and the AUV includes the premium to the landowner.

10.5 Residual Land Value

I have considered what the residual land value of the site, assuming actual or emerging policy requirements, and this assessment of land value can be cross checked against the EUV.

10.6 Adjusted Land Transaction Evidence

There are no recent relevant land transactions

10.7 Purchase Price

The NPPG on viability encourages the reporting of the purchase price to improve transparency and accountability, however it discourages the use of a purchase price as a barrier to viability, stating *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.*

The PPG does not, however, 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.

We understand that the site was purchased from the receiver by Packaged Living Limited for £3,750,000 in May 2021.

In addition we are advised that Packaged Living has negotiated a development agreement and a new 250 year lease of the site with Southampton City Council as the freeholders, subject to planning but the full details are unknown.

10.8 Benchmark Land Value Conclusion

The reasonableness of the applicant's Benchmark Land Value of £4,046,440 has been considered against:

- Existing Use Value;
- Alternative Use Value;
- The Residual Land Value of the proposed schemes;
- BLV's adopted and agreed in the region;
- Any Market evidence;
- Purchase Price;

However on the basis of the EUV as refurbished it is my balanced and professional opinion having considered all of the above approaches and giving greatest weight to the EUV/AUV approach, that an appropriate **Benchmark Land Value would be £4,000,000** based on a refurbished EUV but with no premium.

11.0 DVS Viability Assessment

11.1 DVS Appraisal 1 – BTR Scheme with 20% affordable

My viability review assessment has been produced using a bespoke excel toolkit and I have arrived at a residual land value of **a negative £2,473,999** which compares to **a negative £8,286,692** assessed by CBRE.

It is my independent conclusion that the BTR scheme with 20% affordable shows a deficit of £6,473,999 against the BLV of £4,000,000 and is not viable.

11.1 DVS Appraisal 2 – All Private BTR Scheme

My viability review assessment has been produced using a bespoke excel toolkit and I have arrived at a residual land value of **£743,470** which compares to **a negative £4,511,198** assessed by CBRE.

It is my independent conclusion that an all private scheme shows a deficit of £3,292,047 against the BLV of £4,000,000 and is not viable.

12.0 Sensitivity Analysis

12.1 Further to mandatory requirements within the RICS Professional Statement **'Financial viability in planning: conduct and reporting'**, sensitivity tests are included to support the robustness of the viability conclusion described above.

12.2 Sensitivity Test 1 – Appraisal 1 – BTR Scheme with 20% affordable

For the proposed scheme with affordable to be viable the blended profit would need to reduce from 12.4% to approx. 8.75%.

On the basis of no increase in build costs values would need to increase by almost 5% for the scheme with affordable to be viable.

12.3 Sensitivity Test 2 – Appraisal 2 – All Private BTR Scheme

For the proposed all private scheme to be viable the blended profit would need to reduce from 13.5% to approx. 11.5%.

On the basis of no increase in build costs values would need to increase by less than 2.5% for the all private scheme to be viable.

13.0 Recommendations

Summary of key issues and recommendations.

13.1 Viability Conclusion

The applicant's consultant outlines in their report the following:

- the proposed scheme with 121 Affordable BTR provision produces a residual land value of **a negative £8,286,692**;
- the Benchmark Site Value is **£4,046,440;**

- a deficit of **£12,333,132** below the Benchmark Site Value exists.
- On the basis of this deficit CBRE summarise that a BTR scheme with 20% affordable is not financially viable;
- However as a sensitivity they have assessed an all private BTR scheme without any s106 contributions which shows a residual land value of **a negative £4,511,198** which is also not viable and shows a profit level of 10.20% on GDV or 11.6% on cost and they state it is a commercial decision whether the applicants proceed with the proposed development;

Following consideration of all the component parts of the agent's report, I conclude as follows:

- the proposed BTR scheme with 121 affordable BTR provision produces a residual land value of **a negative £2,473,999;**
- A proposed all private BTR scheme with full CIL and 106 contributions shows a residual value of **£707,953**;
- the Benchmark Site Value, adopting the EUV/AUV approach, is **£4,000,000;**
- a deficit of **£6,473,999** below the Benchmark Site Value exists for the scheme with affordable and a deficit of **£3,292,047** for the all private scheme;
- **On the basis of these deficits I conclude that the proposed schemes are not viable however the all private BTR scheme could be deliverable since it currently shows a blended profit of 11.5% (against an assessed blended profit of 13.5%) and would only need a small increase in values of less than 2.5% to be fully viable and start contributing to affordable housing;**

13.2 Viability Review

Further to my conclusion above and the advice that your Council's full planning policy requirements will not be met; a review clause might be appropriate as a condition of the permission, in line with paragraph 009 of the PPG Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the project. DVS can advise further on this should you so require.

13.3 Market Commentary- Coronavirus (COVID-19)

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

For the avoidance of doubt, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation opinion was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of COVID-19 we highlight the importance of the valuation/ assessment date.

14.0 Engagement

14.1 The DVS valuer has not conducted any discussions or negotiations with the applicant or any of their other advisors.

14.2 Should the applicant disagree with the conclusions of our initial assessment; we would recommend that they provide further information and evidence to justify their position. Upon receipt of further information and with your further instruction, DVS would be willing to review the new information and reassess the scheme's viability.

14.3 If any of the assumptions stated herein this report and/or in the attached appraisal are factually incorrect the matter should be referred back to DVS as a re-appraisal may be necessary.

14.4 Following any new information and discussions a Stage Two report may then be produced, however if the conclusion is unchanged, a redacted version of this report including refence to the discussions will be provided.

15.0 Disclosure / Publication

15.1 **This initial review report is not for publication.**

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

15.3 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 (named or otherwise) who may seek to rely on the content of the report.

15.4 Planning Practice Guidance for viability promotes increased transparency and accountability, and for the publication of viability reports. However, it has been agreed that your authority, the applicant and their advisors will neither publish nor reproduce the whole or any part of this initial assessment 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 initial review report is accepted, a redacted version will be produced, void of personal and confidential data, and made available for public consumption.

15.5 As stated in the terms, 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.

15.6 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.

The DVS valuer assumes that all parties will restrict this report's circulation as appropriate, given the confidential and personal data provided herein.

If the parties do not wish to discuss or contest this report, a redacted version suitable for publication can be issued following your formal request.

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

16.0 Appendices

1 DVS Terms of Engagement
2 DVS Appraisal 1 – BTR Scheme with 20% affordable
3 DVS Appraisal 2 – All Private BTR Scheme
4 DVS Appraisal 3 – EUV Appraisal for the BLV

1 DVS Terms of Engagement

2 DVS Appraisal 1 - BTR Scheme with 20% affordable

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4 DVS Appraisal 3 – EUV Appraisal for the BLV