



Valuation Office
Agency

DVS Property Specialists
for the Public Sector

Viability Review Report
Former Debenhams
Queens Buildings
Queensway
Southampton

Report for:

[REDACTED]
Southampton City Council

Prepared by:

[REDACTED]
Sector Head
RICS Registered Valuer
DVS

[REDACTED]
[REDACTED]
Case Number: 1787842

Client Reference:
21/01851/FUL

Date: 3 March 2022

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Not for Publication

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 the existing vacant department store and redevelopment of the site to deliver a residential-led development with the erection of 3 blocks 6-17 storeys in height comprising 614 residential units and 2 no. ground floor commercial units (Use Class E) to East Street, and associated car parking and landscaping and public realm.
Subject of Assessment:	Former Debenhams, Queens Buildings Queensway Southampton SO14 1NH
Planning Ref:	21/01851/FUL
Applicant / Developer:	Southampton Estates Ltd
Applicant's Viability Advisor:	S106 Affordable Housing (S106)

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 S106 outlines in their report the following:

- the proposed scheme incorporating 614 all private Residential Flats for sale, Car Parking and Retail units produces a residual land value of **£1,254,093**;
- the proposed scheme incorporating 614 Residential Flats for sale including affordable, Car Parking and Retail units produces a residual land value of a **negative £808,832**;
- the proposed scheme incorporating 614 Residential BTR Flats, Car Parking and Retail units produces a residual land value of **£1,808,516**;
- the Benchmark Site Value, adopting an EUV/AUV approach is **£13,890,156**;

A deficit of between £12,081,640 and £14,698,988 below the Benchmark Site Value exists for all 3 schemes and none are viable.

It is my considered and independent opinion that:

- the proposed scheme incorporating 614 all private Residential Flats for sale, Car Parking and Retail units produces a residual land value of **£2,162,937**;
- the proposed scheme incorporating 614 Residential BTR Flats, Car Parking and Retail units produces a residual land value of **£8,182,429**;
- the Benchmark Site Value, adopting an EUV/AUV approach, is rounded to **£11,000,000**;
- a deficit of **£8,837,063** below the Benchmark Site Value exists for the All Private For Sale scheme and a deficit of **£ 2,813,295** exists for the BTR scheme.

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

1.4 Non- Technical Summary of Viability Assessment Inputs

- All Private For Sale Scheme

All Private For Sale Inputs	S106	DVS	Agreed (Y/N)
Assessment Date	26 November 2021	3 March 2022	
Scheme, Gross Internal Area, Site Area	614 All Private units - 37,937 sq m net Retail – 421 sq m Gross Area – 51,783 sq m	614 All Private units - 37,622 sq m net 108 Residential Car Spaces Retail – 421 sq m Gross Area – 51,783 sq m	N ¹
Development Period	6 months pre-con 30 months construction 24 months	3 months pre-con 24 months construction 19 months	N
Gross Development Value	£147,404,903	£154,826,046	N
Residential	£146,086,367 £3,851 per sq m	£151,453,000 £4,026 per sq m	N
Car Parking	NIL	£2,160,000	N
Commercial	£1,318,536 net	£1,213,046 net	N
CIL/Planning Policy / S.106 Total	CIL – £2,613,529 S106 - NIL	CIL – £2,835,963 S106 – £1,462,908	N
Construction Cost Total incl contingency	£98,596,452	£103,824,063	N

Contingency %	3.00%	3.00%	Y ²
Abnormals	Incl above	Incl above	
Professional fees (% of construction costs)	7.00%	7.00%	Y ²
Finance Interest and Sum	Finance Rate 6.5% Credit Rate 0.0% Total £8,072,043	Debit Rate 5.00% Credit Rate 2% Total £6,003,802	N
Marketing	Incl below	Residential 1.0% Commercial - £10,000	N
Sales / Agency Fees	Residential - 2.5% of GDV Commercial – 2.0% of GDV	Residential 1.5% of GDV Commercial – 1.0% of GDV	N
Legal Fees	Residential - £750 per unit Commercial – Incl above	Residential - £750 per unit Commercial – 0.25% of GDV	N
Letting Fees	NIL	15% of commercial income	N
Land Acquiring Costs	SDLT +1.75%	SDLT +1.5%	N
Profit Target %	17.5% of Residential GDV 15% of Commercial GDV	17.5% of Residential GDV 15% of Commercial GDV	Y
Residual Land Value	£1,254,093	£2,162,937	N
EUV/AUV	£13,890,156	£11,000,000	N
Premium	NIL	NIL	Y
Benchmark Land Value	£13,890,156	£11,000,000	N
Viability Conclusion	Not Viable	Not Viable	Y

N¹ denotes that whilst the scheme is agreed we have adopted the areas in the schedule of accommodation.

Y² denotes that whilst the inputs are agreed, the total sum differs due to amendments made elsewhere in the appraisal.

- All Private BTR Scheme

All Private BTR Inputs	S106	DVS	Agreed (Y/N)
Assessment Date	26 November 2021	3 March 2022	
Scheme, Gross Internal Area, Site Area	614 All Private units - 37,937 sq m net Retail – 421 sq m Gross Area – 51,783 sq m	614 All Private units - 37,622 sq m net 108 Residential Car Spaces Retail – 421 sq m Gross Area – 51,783 sq m	N ¹
Development Period	6 months pre-con 30 months construction 12 months to month 36	3 months pre-con 24 months construction Month 29	N
Gross Development Value	£135,994,886	£156,288,340	N
Residential	£134,676,350	£152,915,294	N

Car Parking	NIL	£2,160,000	N
Commercial	£1,318,536 net	£1,213,046 net	N
CIL/Planning Policy / S.106 Total	CIL – £2,613,529 S106 - NIL	CIL – £2,835,963 S106 – £1,462,908	N
Construction Cost Total incl contingency	£98,596,452	£103,824,063	N
Contingency %	3.00%	3.00%	Y ²
Abnormals	Incl above	Incl above	
Professional fees (% of construction costs)	7.00%	7.00%	Y ²
Finance Interest and Sum	Finance Rate 6.5% Credit Rate 0.0% Total £5,522,051	Debit Rate 5.00% Credit Rate 2% Total £7,354,720	N
Marketing	NIL	Residential NIL Commercial - £10,000	N
Sales / Agency Fees	Residential - NIL Commercial – 2.0% of GDV	Residential 0.75% of GDV Commercial – 1.0% of GDV	N
Legal Fees	Residential - £29,994 Commercial – Incl above	Residential – 0.25% of GDV Commercial – 0.25% of GDV	N
Letting Fees	NIL	15% of commercial income	N
Land Acquiring Costs	SDLT +1.75%	SDLT +1.5%	N
Profit Target %	15% of Residential GDV 15% of Commercial GDV	15% of Residential GDV 15% of Commercial GDV	Y
Residual Land Value	£1,808,516	£8,182,429	N
EUV/AUV	£13,890,156	£11,000,000	N
Premium	NIL	NIL	Y
Benchmark Land Value	£13,890,156	£11,000,000	N
Viability Conclusion	Not Viable	Not Viable	Y

N¹ denotes that whilst the scheme is agreed we have adopted the areas in the schedule of accommodation.

Y² denotes that whilst the inputs are agreed, the total sum differs due to amendments made elsewhere in the appraisal.

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 Former Debenhams, Queens Buildings, Queensway Southampton SO14 1NH
- 2.3 The date of the viability assessment is 3 March 2022. 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 18 January 2022. It is understood that Southampton City Council require an independent opinion on the viability information provided by S106 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, Tony Williams 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 Tony Williams 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.
- Market Value 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.

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.
- 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, bounded by Houndwell Place to the north, Queensway to the west and East Street 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 department store, formerly occupied by Debenhams, with an existing GIA of 26,505 sq m, with 19,495 sq m of retail and 7,010 sq m of ancillary.

5.3 Site Area

We understand that the site extends to approximately 1.1 hectares (2.72 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 the schedule of accommodation (Rev P4 dated 7/12/2021) and the plans on the Councils planning web site summarised below:

Type	No of Units	Average Size	Total Area
Residential			
1 Bed, 1 Person	58	39.5	2,291
1 Bed, 2 Person	176	50.2	8,835
2 Bed, 3 Person	157	61.3	9,624
2 Bed, 4 Person	165	70.7	11,666
3 Bed, 5 Person	43	89.3	3,840
3 Bed, 6 Person	6	89.3	536
Town House – 2 Bed, 3 Person	3	77.6	233
Town House – 2 Bed, 4 Person	3	92.0	276
Town House – 3 Bed, 6 Person	3	107.2	321
Total	614		37,622 sq m
Retail			
	2	210	420
Total	2		420 sq m
Overall Total			38,042 sq m
Overall Gross			51,783 sq m

I have taken the gross area from the schedule of accommodation provided which shows a total net to gross area of 73.25% which is within the range we normally expect for this type of development.

However S106 have a net area of 37,937 sq m but a gross area of 51,783 sq m.

In addition I understand from the plans and the schedule of accommodation that there are 108 dedicated residential car spaces and 480 cycle spaces.

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 21/01851/FUL –

Demolition of the existing vacant department store and redevelopment of the site to deliver a residential-led development with the erection of 3 blocks 6-17 storeys in height comprising 614 residential units and 2 no. ground floor commercial units (Use Class E) to East Street, and associated car parking and landscaping and public realm.

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)
- City Centre Action Plan (adopted 2015)
- Residential Design Guide SPD 2006
- City Centre Master Plan 2013
- Development Design Guide SPD 2004
- Development Contributions SPD

- Affordable Housing – Policy CS15 – 35% affordable

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

- Section 106

Highways/Transport - £380,000

SDMP - £314,144
Carbon Management – £115,074
Employment & Skills - £33,616
Health Facilities - £620,074
Section 106 total - £1,462,908

- **CIL – £2,835,963**

S106 have included for CIL of £2,6136,629 but no S106 contributions.

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 S106 dated 26 November 2021 for the proposed scheme and the appraisals therein.

6.2 Summary of Applicant's Appraisal

The agent's appraisal has been produced using the EAT 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. However the EAT model does not include a cashflow and is not really appropriate for this scale of scheme.

S106 concludes in their report for the proposed scheme the following:

- the proposed scheme incorporating 614 all private Residential Flats for sale, Car Parking and Retail units produces a residual land value of **£1,254,093**;
- the proposed scheme incorporating 614 Residential Flats for sale including affordable, Car Parking and Retail units produces a residual land value of a **negative £808,832**;
- the proposed scheme incorporating 614 Residential BTR Flats, Car Parking and Retail units produces a residual land value of **£1,808,516**;
- the Benchmark Site Value, adopting an EUV/AUV approach is **£13,890,156**;

A deficit of between £12,081,640 and £14,698,988 below the Benchmark Site Value exists for all 3 schemes and none 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 scheme comprises:

- Pre construction – 6 months;
- 30 months for construction;
- Sale - For Sale Scheme - 24 months from month 24 to month 48;
- Sale - BTR Scheme – 12 months from month 24 to month 36;
- Commercial – Letting/Sale – Month 24
- Overall development period – 48 months for the For Sale scheme and 36 months for the BTR scheme;

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

- 3 month lead in since it's a full application;
- 24 month construction period. BCIS suggests a range of 100-131 weeks for this scale of contract with an average of 115 weeks;
- For Sale Scheme – 25% sold at PC with the remainder sold over an 18 month period;
- BTR Scheme – Sold to an investor at one month after PC;
- Commercial – Sold at PC i.e. month 28
- Overall development period – 41 months for the For Sale Scheme and 29 months for the BTR Scheme;

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.

All Private For Sale Scheme - The overall total GDV in the applicant's appraisal is £147,404,903 based on the following:

- Private For Sale Flats - £146,086,367
- Retail - £1,318,536 net
- **Total Development Value - £147,404,903**

BTR Scheme - The overall total GDV in the applicant's appraisal is £135,994,886 based on the following:

- BTR Flats - £134,676,350
- Retail - £1,318,536 net
- **Total Development Value - £135,994,886**

8.1 Residential

For Sale Scheme:

S106 have considered comparable properties either on the market or recently sold within 0.25-0.5 miles from the site.

The only comparable newbuild scheme currently on the market is the Seafarers Building on Queens Terrace where 1 bed flats are available from £150,000 to £160,000 and 2 bed flats from £195,000 to £240,000.

In addition they have taken account of sold evidence at Saxon Gate and Riverside House which in 2020 ranges from £3,037 per sq m to £4,270 per sq m.

Taking this into account they have adopted the following average values:

- One Bed Flats - £190,138
- Two Bed Flats - £246,868
- Three Bed Flats - £325,231
- **Total - £146,086,367 - £3,850 per sq m**

We have also taken account the recent evidence and schemes assessed in Southampton during 2021 as follows:

According to Zoopla in the last 12 months the average sold prices in SO14 for flats was £263,047. We have also researched sold prices for 2 relatively new schemes:

- Portland Place, Ogle St – Average sold prices Since Oct 2019 - £4,068 per sq m
- Saxon Gate – Average sold prices since 2019 - £3,754 per sq m

In addition we have agreed and adopted the following for recent assessments:

- Leisure World, Southampton – March 2021 - £4,306 per sq m
- Bargate Assessment – February 2021 - £3,792 per sq m

Taking this into account we have adopted the following as reasonable:

- One Bed Flats - £199,846 (£4203 per sq m)
- Two Bed Flats - £264,472 (£4,000 per sq m)

- Three Bed Flats - £335,000 (£3,751 per sq m)
- 2 Bed Town Houses - £318,000 (£3,750 per sq m)
- 3 Bed Town Houses - £402,000 (£3,750 per sq m)
- **Total - £151,453,000 (£4,026 per sq m)**

Build To Rent Scheme:

S106 have based the residential value on the basis of typical market rents for new properties within 0.5 miles and have adopted £800 pcm for one bed flats and £950 pcm for two bed flats less management costs, repairs, voids and service charge equating to approx. 25% and then capitalized at 4% yield to show a net rate of £3,550 per sq m which they have adopted across all unit types with a **total value of £134,676,350**. I'm of the opinion that this is a somewhat simplistic approach.

We have also undertaken research as to market rents in the area and taking account of current asking rents on Rightmove and Zoopla and other recent assessments in Southampton particularly the Leisure World Development and Toys R Us schemes I have adopted the following rentals as reasonable:

- Small 1 Bed, 1 person - £825 pcm
- 1 Bed, 2 Person - £975 pcm
- 2 Bed, 3 Person - £1,250 pcm
- 2 Bed, 4 Person - £1,300 pcm
- 3 Bed - £1,600 pcm
- 2 Bed Town House, 3 Person - £1,350 pcm
- 2 Bed Town House, 4 Person - £1,400 pcm
- 3 Bed Town House, 6 Person - £1,750 pcm
- **Gross Rental Value - £8,665,200**

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 £6,498,900**.

Taking account of the evidence available and the CBRE Published Investment Yield research I'm of the opinion that a net investment yield of 4.25% is reasonable with a **Gross Development Value of £152,915,294. This equates to approx. £4,064 per sq m**

8.2 Affordable Housing

I have not assessed any Affordable values at this stage whilst S106 have adopted approx. 84% of Market Value.

8.3 Car Parking

S106 have not included any value for the residential car spaces.

I understand from the Accommodation Schedule that there are 108 car spaces and based on an average capital value of £20,000 per space as used elsewhere in Southampton I have included a total value of £2,160,000 for these spaces.

8.4 Market Value of the Commercial

Retail – S106 have taken account of available evidence and have adopted £20 per sq ft rental capitalised at 6.5% less costs of 5.7%. No rent free or void period has been taken into account

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 6.5% but with a 12 month rent free/incentive package less purchasers costs of 6.8%. This yield is in line with the CBRE Investment Yield research dated October 2021.

8.5 Total GDV

1) Proposed All Private For Sale Scheme:

Use	DVS	S106
614 Private Units	£151,453,000	£146,086,367
108 Car Spaces	£2,160,000	NIL
Retail net of rent free and costs	£1,213,046	£1,318,536
GDV	£154,826,046	£147,404,903

2) Proposed All Private BTR Scheme:

Use	DVS	S106
614 BTR Private Units	£151,453,000	£134,676,350
108 Car Spaces	£2,160,000	NIL
Retail net of rent free and costs	£1,213,046	£1,318,536
GDV	£156,288,340	£135,994,886

9.0 Total Development Costs

9.1 Construction Cost

S106 have adopted a cost based on the median BCIS rate for 6 storey apartments (11/2021) of £1,779 per sq m, £1,200 per sq m for commercial, 10% for externals and costs for demolition and site clearance with a total of £98,596,452 incl contingency broken down as follows:

Residential incl externals - £95,122,423

Commercial - £520,356
Demolition etc - £100,000
Contingency at 3% - £2,853,673
Total - £98,596,452

Following advice from our QS I have adopted the current (12/02/2022) default median BCIS rate rebased to Southampton for 6 storey or above flats of £1,859 per sq m, the BCIS default rate for shell retail of £1,003 per sq m, 5% externals, demolition costs with a total of £103,823,063 incl contingency broken down as follows:

Residential - £95,483,259 (£1,859 per sq m)
Commercial - £421,561 (£1,003 per sq m)
Externals at 5% - £4,795,241
Demolition etc - £100,000
Contingency at 3% - £3,024,002
Total - £103,824,063

I have adopted the default BCIS rate rather than the median rate due to the sample size and 5% externals taking account of the works shown on plan.

9.2 Contingency

S106 have adopted a contingency of 3% which is within the range of 3% to 5% we adopt as reasonable and taking account of the issues caused by Covid 19, the size of contract and that it's a full application I have also used 3% as reasonable.

9.3 Professional Fees

S106 have included an allowance of 7% for the proposed scheme in their appraisal which is within the range of 7% 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 S106 have adopted the following;

S106 – NIL
CIL - £2,613,529

You have confirmed that the following are required:

- Affordable Housing – 35% (215 On-Site Units)
- Highways/Transport – £380,000
- SDMP - £314,144
- Carbon Management - £115,074

- Employment & Skills - £33,616
- Health Facilities - £620,074
- Total - £1,462,908

- CIL - £2,835,963

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 the CIL will be phased.

9.5 Marketing and Agency Costs

S106 have included for the following fees:

All Private For Sale Scheme

- Agent Sale and marketing Fees – 2.5%
- Legal Sale Fees – £750 per unit
- Commercial – 2.0%

BTR Scheme

- Sale Fees – Nil
- Legal Fees - £49 per unit
- Commercial – 2.0%

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

All Private For Sale Scheme

- Residential Marketing Fees – 1.00%
- Commercial Marketing - £10,000
- Agent Residential Sale Fees – 1.5%
- Agent Commercial Sale Fees – 1.00%
- Residential Legal Fees – £750 per unit
- Commercial Legals Sale Fees – 0.25%
- Commercial Letting Fees – 15%

BTR Scheme

- Commercial Marketing - £10,000
- Residential Investment Agent Sale Fees – 0.75%
- Commercial Agent Sale Fees – 0.75%
- Investment Legal Fees – 0.25%
- Commercial Legals Sale Fees – 0.25%
- Commercial Letting Fees – 15%

9.6 Finance

S106 have included an all-inclusive debit rate of 6.5% but no credit rate with a total of £8,072,043 for the proposed All Private for sale scheme and £5,522,051 for the BTR scheme but no cash flow has been provided.

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 scale and types of schemes and assessed in accordance with the cash flow and programme at 7.2 with a total of £6,003,802 for the All Private for sale scheme and £7,354,270 for the All Private BTR scheme.

9.8 Other Development Costs

Acquisition Costs – S106 have included for SDLT plus 1.75% whilst I have adopted SDLT plus 1.5% as agreed on similar scale schemes.

9.9 Developers Profit

S106 has adopted a profit of 17.5% of the all private for sale residential GDV, 6% for affordable, 15% for the BTR units and 15% for the commercial.

The latest NPPF guidance suggests a profit level of 15-20% and in accordance with similar schemes we have adopted 17.5% for the all private for sale residential units, 15% for the BTR units, 15% for the commercial units plus 6% for any affordable units included.

However if the BTR units were forwarded funded I would adopt a profit level of 12.5% of GDV due to the reduced risk.

The profit on the BTR scheme represents just over 17.5% of total development costs whilst on the For Sale scheme it represents approx. 21% on cost.

9.9 Residual Land Value

Based on the above inputs, my appraisals arrive at a residual land value (RLV) for each scheme as follows:

All Private for sale scheme – **RLV of £2,162,937**

BTR Scheme – **A RLV of £8,186,429**

These compare to £1,254,093 and £1,808,516 respectively adopted by S106.

9.10 Summary of Unagreed Inputs

The following key inputs have not been accepted as reasonable:

- GDV
- Build Cost
- CIL and Section 106;
- Sale and marketing fees;
- Finance rates and Programme

10.0 **Benchmark Land Value (BLV)**

10.1 Applicant's BLV

S106 has adopted a Benchmark Land Value of £13,890,156 based on their assessment of the Existing Use Value as refurbished.

10.2 Existing Use Value (EUV)

S106 confirm that the existing site contains a store of 26,505 sq m split 19,495 sq m as retail and 7,010 sq m as ancillary. S106 have undertaken a very simplified existing use assessment to include for refurbishment in order to return the premises to a lettable standard as a multi let building. However no detailed appraisal has been produced save as follows in accordance with their research:

Retail income at £15 per sq ft - £3,147,810
 Ancillary Income at 8.50 per sq ft - £641,317
 Total Income - £3,789,127
 Capitalised at a Yield of 8.5% - £44,577,964
 Less Refurbishment at £1,000 per sq m - £26,505,000
 Less Professional Fees at 5% - £1,325,250
 Less 6 months rent free - £1,894,564
 Less Purchasers costs of 5.75% - £962,994
EUV - £13,890,156

We have also considered the EUV on the same basis but have undertaken a full appraisal which is included as Appraisal 3 and summarised as follows compared to S106:

	S106	DVS
Development Value		
Retail Rent	£3,147,810 (£15 per sq ft)	£3,147,663 (£15 per sq ft)
Ancillary Rent	£641,317 (£8.50 per sq ft)	£565,917 (£7.50 per sq ft)
Total	£3,789,127	£3,713,580

Yield	8.5%	8.5%
GDV	£44,577,964	£43,689,176
Less Rent Free Period	£1,894,564 (6 months)	£3,713,580 (12 months)
Purchasers costs	£962,994	£2,718,341
NDV	£41,720,406	£37,257,256
Development Costs		
Refurbishment cost	£26,505,000 (£1,000 per sq m)	£13,782,600 (£520 per sq m)
Externals	Nil	£689,130 (5%)
Contingency	Nil	£723,587 (5%)
Professional Fees	£1,325,250	£723,587 (5%)
Marketing Costs	Nil	£25,000
Letting Fees	Nil	£557,037 (15%)
Sale Fees	Nil	£546,115 (1.25%)
Finance	Nil	£1,854,993 (5%) 12 months construction 6 months void after PC
Profit	Nil	£6,553,376 (15%)
Site Acquisition Costs	Nil	£710,440 (SDLT + 1.5%)
Total Development Costs	£27,830,250	£26,165,864
Residual Land Value	13,890,156	£11,091,392

I have used industry standards for most of the cost inputs whilst the refurbishment cost is based on the current BCIS median refurb cost of £520 per sq m.

S106 have provided no evidence as to the demand for retail and limited incentives. I have assumed that there will be demand at the competitive rentals included and I have also allowed for a 12 month rent free period plus a letting void in the cash flow after PC.

Overall the RLV is £11,091,392 which I have rounded to £11,000,000 as the EUV as refurbished.

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

S106 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 from S106 that the site was sold in 2018 for £23.5m.

10.8 Benchmark Land Value Conclusion

The reasonableness of the applicant's Benchmark Land Value of £13,890,156 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 £11,000,000** based on a refurbished EUV but with no premium.

11.0 DVS Viability Assessment

11.1 DVS Appraisal 1 – All Private For Sale Scheme

My viability review assessment has been produced using a bespoke excel toolkit and I have arrived at a residual land value of **£2,162,937** which compares to **£1,254,093** assessed by S106.

It is my independent conclusion that the All Private For Sale scheme shows a deficit of £8,837,063 against the BLV of £11,000,000 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 **£8,182,429** which compares to **£1,808,516** assessed by S106.

It is my independent conclusion that an all private BTR scheme shows a deficit of £2,817,571 against the BLV of £11,000,000 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 – All Private For Sale Scheme

For the proposed all private for sale scheme to be viable the blended profit would need to reduce from 17.46% to approx. 10.32%.

On the basis of no increase in build costs values would need to increase by over 8.5% for the scheme to be viable.

Finally if the Health contribution of £620,074 was removed the residual land value would increase from £2,162,937 to £2,735,562 against a benchmark land value of £11,000,000.

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

For the proposed all private BTR scheme to be viable the blended profit would need to reduce from 15.0% to approx. 12.86%.

On the basis of no increase in build costs values would need to increase by just over 2.5% for the scheme to be viable.

If the Health contribution of £620,074 was removed the residual land value would increase from £8,186,705 to £8,755,054 against a benchmark land value of £11,000,000.

Finally although we have no detail as to the funding of this scheme, if it was forwarded funded the profit level could be reduced to 12.5% due to reduced risk which would increase the residual land value to £11,417,228 which is greater than the benchmark land value of £11,000,000 and could provide a contribution towards affordable housing.

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 All Private For Sale scheme produces a residual land value of **£1,254,093**;
- the proposed All Private BTR scheme produces a residual land value of **£1,808,516**;
- the Benchmark Site Value is **£13,890,156**;
- a deficit of **£12,636,063** and **£12,081,640** respectively below the Benchmark Site Value exists.
- On the basis of these deficits S106 state that the schemes are not viable and at these levels of deficit we must question the deliverability;

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

- the proposed policy All Private For Sale scheme produces a residual land value of **£2,162,937**;
- A proposed all private BTR scheme shows a residual value of **£8,182,429**;
- the Benchmark Site Value, adopting the EUV/AUV approach, is **£11,000,000**;
- a deficit of **£8,837,063** below the Benchmark Site Value exists for the All Private For Sale scheme and a deficit of **£2,817,571** for the all private BTR 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 12.86% (against an required assessed blended profit of 15%) and would only need an small increase in values of just over 2.5% to be viable and start contributing to affordable housing;**
- **In addition if a residential profit of 12.5% was used as a forwarded funded scheme a contribution of approx. £420,000 could be available as an affordable contribution.**

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 reference 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, 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,

Tony Williams BSc MRICS
Head of Viability (Technical)
RICS Registered Valuer
DVS

16.0 Appendices

- 1 DVS Terms of Engagement
- 2 DVS Appraisal 1 – All Private For Sale Scheme
- 3 DVS Appraisal 2 – All Private BTR Scheme
- 4 DVS Appraisal 3 – EUV Appraisal for the BLV

1 DVS Terms of Engagement

Not for Publication

2 DVS Appraisal 1 – All Private For Sale Scheme

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3 DVS Appraisal 2 – All Private BTR Scheme

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4 DVS Appraisal 3 – EUV Appraisal for the BLV

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