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Review of ‘Financial Viability Assessment in support of the Planning Application reference 23/01247/FUL’

65 & 67 Portsmouth Road, Southampton

SO19 9BE

Prepared for

Southampton City Council

November 2023

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1 Introduction

Southampton City Council ('the Council') has commissioned BNP Paribas Real Estate to advise on a 'Financial Viability Assessment in support of the Planning Application reference 23/01247/FUL validated October 2023 prepared by *S106 Affordable Housing* ('the Applicant') in relation to its development proposals ('the Development') at 65 & 67 Portsmouth Road, Southampton SO19 9BE ('the Site').

The application is for the "*Demolition of No 65 and No 67 Portsmouth Road, and construction of 8 x 3-bedroom dwellings and 3 x 2-bedroom dwellings".*

The current status of this application is "awaiting decision".

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 34 countries in Europe, Middle East, India and the United States of America, including 18 wholly owned and 16 alliances.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ('RPs').

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Steve Pozerskis MRICS, RICS Registered Valuer.

The Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the provision of affordable housing.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report Structure

This report is structured as follows:

Section two provides a brief description of the Development;

Section three describes the methodology that has been adopted;

Section four reviews the assumptions adopted by the Applicant, and where necessary, explains why alternative assumptions have been adopted in our appraisals;

Section five sets out the results of the appraisals;

Section six sets out the conclusions from the analysis.

1.3 Disclaimer

This report is not a valuation and should not be relied upon as such. In accordance with PS1 (5.2) of the RICS Valuation – Professional Standards – Global Standards 2020 (the 'Red Book'), the provision of VPS1 to VPS5 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.

This report is addressed to Southampton City Council only. No liability to any other party is accepted.

For the avoidance of doubt, this document is a review of the Applicant's Financial Viability Submission. None of the residual valuations contained in this report represent an expression of our opinion of the market value of the Site.

2 Description of the Development

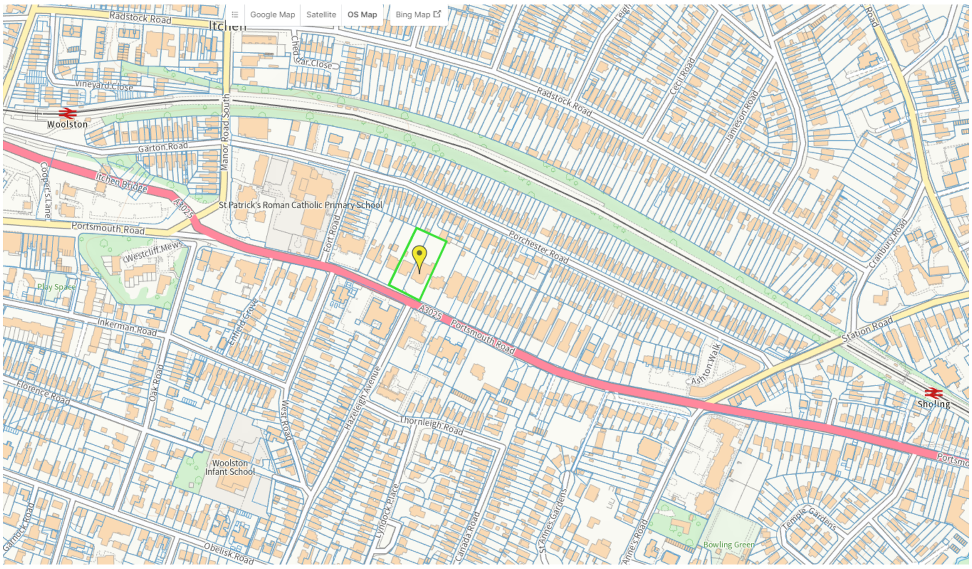
2.1 Site Location and Description

We have not accessed the property internally thus have relied upon an external inspection.

The site currently consists of two vacant properties being a former 21 bedroom care home and a former dentist surgery.

Both properties are understood to be in poor condition and beyond economical repair.

Figure 2.1.1: Site Plan



Source: LandInsight

Figure 2.1.2: Location Plan

Source: LandInsight

2.2 Planning History

The subject site has been the subject of the following application:

- 23/01247/FUL – Redevelopment of the site. Erection of 4 x two-storey buildings to create 11 houses (8x 3-bed and 3x 2-bed) with associated amenities, following demolition of existing buildings.

There have been no other relevant applications that we are aware of.

2.3 The Proposed Development

In October 2023, the Applicant submitted an application for the "*Demolition of No 65 and No 67 Portsmouth Road, and construction of 8 x 3-bedroom dwellings and 3 x 2-bedroom dwellings*".

It is this application which is the subject of S106 Affordable Housing's financial viability statement.

The proposals, if granted, would create 11 residential dwellings as follows:

Table 2.3.1: Residential units and floorspace

Type	Units		
	Number	Av.Sq ft	Total Sq ft
2B4P	3	851	2,554
3B5P (Terrace)	6	1,025	6,148
3B5P (Semi)	2	1,025	2,049
Total	**11**		**10,752**

3 Methodology

S106 Affordable Housing (S106) have undertaken their appraisal using the HCA DAT model which is a standard development appraisal tool widely used for the purposes of appraising development proposals, including for the purposes of secured lending valuations.

We have used Argus for the purposes of undertaking our own appraisals of the Applicant's proposals.

Argus is essentially a cash-flow backed model which allows the finance charges to be accurately calculated over the development/sales period. The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value. The model is normally set up to run over a development period from the date of the commencement of the project and is allowed to run until the project completion, when the development has been constructed and is occupied.

Essentially, such models all work on a similar basis:

- Firstly, the value of the completed development is assessed;
- Secondly, the development costs are calculated, using either the profit margin required or land costs (if, indeed, the land has already been purchased).

The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value.

In order to determine whether a scheme is viable with a given percentage of affordable housing, the key question is whether the residual land value is sufficient to incentivise the landowner to bring the site forward for development. The Planning Practice Guidance ('PPG') indicates that a 'benchmark land value' should be established on the basis of the existing use value of a site plus a premium for the landowner. The premium should "*provide a reasonable incentive, in comparison with other options available, for the landowner to sell the land for development while allowing a sufficient contribution to fully comply with policy requirements*" (paragraph 013).

The PPG recognises that landowners may also be able to develop their land for an alternative type of development to that proposed in their application. As an alternative to existing use value, paragraph 017 of the PPG indicates that benchmark land value may be established through a valuation of an alternative use, providing that the alternative scheme would "*fully comply with up to date development plan policies…. and… it can be demonstrated there is market demand for that use*". Furthermore, if an alternative use value approach is adopted, the PPG indicates that "*AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted*".

The PPG is explicitly clear that prices paid for sites are to be excluded from Financial Viability in planning and this report reflects this guidance.

4 Review of Assumptions

A review of the assumptions made by S106 has been undertaken as follows:

4.1 Benchmark Land Value

S106 have utilised the Existing Use Value Plus methodology regarding the Benchmark Land Value (BLV).

A district wide plan level viability assessment is referred to which assesses undeveloped land at £500,000 per hectare, which equates to £140,000 for this 0.28 hectare site.

4.2 Project Programme

S106 have provided the following development programme:

- Pre-construction – 6 months
- Construction – 12 months
- Sale – 3 months

There has been no supporting evidence provided regarding the above.

4.3 Market Housing Revenue

The S106 assessment relies upon comparable sales data from the Southampton area conclusion with a conclusion of a GDV in the region of £3,980,000 (£370 per sq ft).

There is limited analysis of the various sales and ongoing marketing of nearby schemes particularly regarding how the various locations / specifications compare to the proposals.

4.4 Construction Costs

S106 have relied upon a cost plan undertaken by *Nigel Grace Ltd Chartered Quantity Surveyors*. The conclusion is that a reasonable build cost would be £260 per sq ft.

4.5 Professional fees

S106 have applied an allowance of 7% of construction costs for professional fees.

4.6 Community Infrastructure Levy ('CIL') and Section 106 Payments

Input	Cost
CIL	£110,818
S106	£89,276
Affordable Contribution	£278,599
Total Planning Obligations	**£478,693**

4.7 Developer's Profit

The S106 report indicates that they have utilised a profit level of 17.5% (on GDV).

4.8 Finance Costs

The Applicant's viability assessment adopts a finance rate of 8%, applied to 100% of costs.

4.9 Marketing, Sales & Disposal Fees

S106 have applied an inclusive 2.5% agent fees plus £1,000 per unit to cover legal fees.

5 Analysis

5.1 Benchmark Land Value

Our approach to benchmark land value reflects the requirements set out in paragraphs 013 to 017 of the Planning Practice Guidance and other relevant planning guidance. Benchmark land value is not an expression of what a site might sell for in the market and the PPG warns against reliance on the prices paid for sites.

S106 state that the existing buildings on site are not suitable for refurbishment due to the costs associated, thus this option has been discounted from their calculations.

Instead, S106 refer to a "district wide plan level viability assessment" to assess the BLV at £140,000. We are not aware of such an assessment (and have confirmed with the Council that there is no such assessment) and therefore cannot comment on its validity.

We have therefore undertaken our own research in to potential existing use values.

- Land & Roadway, Hamilton Road, SO31 7LX – a 0.2 acre development site with potential for a single three bedroom townhouse. This sold in September 2023 for £137,000 or £685,000 per acre.
- Land north of Willow Herb Close, Locks Heath SO31 6XB – A 0.43 acre parcel of land that has very limited development potential being an open space within an existing residential development, sold in September 2023 for £28,000. This equates to £65,116 per acre.
- Land at Winchester Road, Bishops Waltham SO31 1RN – A 0.3 acre parcel of land within an existing residential development sold in August 2022 for £70,000. This equates to £233,000 per acre.

It is clear from the evidence above that there is a vast range of possible values for land locally.

There is clearly an existing use value of the site whether it be as a store, or a longer-term redevelopment of the existing dwellings either as commercial / residential care or as a return to single dwellings (which we assume were the original use).

We would therefore expect a value to be within the range noted above of between £65,000 and £685,000 per acre. We doubt the property would achieve a value at the top end of this range on the basis that the property at Hamilton Road was significantly smaller than the subject site thus quantum factors will come in to play. However, we would expect a higher value than achieved at Willow Herb Close, where it would appear there is no real alternative use other than as green space for the residential development it is part of.

The applicant has appraised the site at approximately £200,000 per acre. We do not agree with the methodology (on the basis that we are unaware of the policy document they refer to) however the rate per acre is not considered unreasonable in this instance given it is within the above range.

5.2 Scheme GDV

S106 have provided a very limited set of comparable evidence and conclude with an overall value of £370 per sq ft equating the following values:

Units	Type	Size	Value	£/ft2
3	2B4P	851	£320,000	£376
6	3B5P	1,025	£375,000	£366
2	3B5P	1,025	£385,000	£376

S106 provide the following evidence:

Address	Sq ft	Sale Price	Date	£/ft2
112 Portsmouth Road,	1,044	£382,000	Dec – 22	366
41 West Road	980	£350,000	Aug – 22	357
72a Porchester Road	1,012	£378,000	Oct – 22	374
39 Porchester Road	1,119	£342,000	Nov – 22	306
135 Porchester Road	1,163	£322,013	Mar – 23	277
9 Archery Grove	850	£345,000	Oct – 22	406
13 Temple Gardens	893	£300,000	Mar - 23	336

Overall, the above comparable evidence provides a range of between £277 and £406 per sq ft. We note that Archery Grove (at the top end of values) is a three bedroom (albeit with a “box” third bedroom) with a garage whilst the majority of other dwelling listed do not have garage space. However, Archery Grove does not have an ensuite whilst the proposed dwellings do.

Capital values range from £300,000 to £378,000.

The proposed units do not have access to garage space but do benefit from allocated, off-street parking.

Each dwelling will benefit from a new build specification and NHBC warranty, and furthermore have an ensuite. We would therefore expect a premium over and above the existing stock noted above.

S106 have utilised values of £320,000 for the two bedroom dwellings and £375,000 to £385,000 for the three bedroom dwellings.

We have undertaken a search of the local area for comparable evidence. As suggested by the Applicant, there is no suitable comparable new build properties in the vicinity of the subject site.

We are aware of a development from circa 2018 known as Ashton Walk a short distance to the east of the subject site. Sales details are as follows:

Address	Sq ft	Type	Sale Price	Date	Ind Adj.	£/ft2
3, Ashton Walk	915	3 Bed Terraced	£290,000	11/10/2018	£350,821	£383
4, Ashton Walk	915	3 Bed Terraced	£285,000	12/09/2018	£343,814	£376
2, Ashton Walk	915	3 Bed Terraced	£290,000	31/08/2018	£351,918	£385
1, Ashton Walk	915	3 Bed Terraced	£292,500	10/08/2018	£354,952	£388
7, Ashton Walk	915	3 Bed Semi-Detached	£295,000	12/07/2018	£364,238	£398
6, Ashton Walk	915	3 Bed Semi-Detached	£305,000	05/07/2018	£376,585	£412
8 Ashton Walk	1,195	4 Bed Detached	£350,000	12/07/2018	£429,491	£359
5 Ashton Walk	915	3 Bed Semi-Detached	£305,000	9/07/2018	£364,300	£397

This development is the last development completed nearby. Utilising indexation we note that values range from £376 per sq ft to £412 per sq ft.

We note that units 5, 6 and 8 have access to garage space. We would therefore expect these to achieve a premium over the proposed dwellings. Furthermore, number 8 is detached with a larger plot than any of the other dwellings.

The most recent sale at this development is of Number 5, where it sold for £310,000 – this is below the "index linked value" that was estimated in the table above suggesting that a new build premium is strong in this location. This is supported by conversations with local agents who suggest that new build properties are particularly rare in this area.

On the assumption that the index linked adjustments from Ashton Walk are a reasonably accurate reflection of the new build premium, this provides a range of around £350,000 to £365,000 in today's market. The proposed three bedroom dwellings at the subject site are generally larger than these units at Ashton Walk (at 1,025 sq ft) therefore we would expect a higher value to be achieved accordingly. However, we note that these units were sold during a significantly stronger market cycle with access to Help to Buy, cheap mortgages and low inflation. The market is less robust currently, thus any premium over these sales may be limited.

Locally, 112 Portsmouth Road, a three bedroom, 1930's era semi-detached house of some 1,044 sq ft sold in December 2022 for at £382,000. We note from the agent that the price, despite the very good condition, was suppressed, due to a tricky access because of the location of the road-junction, which is adjacent to this property.

The general consensus of the agent was that the subject site would likely achieve a premium over this property due to the proximity of the road junction. Furthermore, the ensuites, new build specification and warranties would further enhance the amount buyers would be willing to pay in comparison to 112 Portsmouth Road. We do note however that 112 Portsmouth Road benefits from a large, corner plot. Therefore, it is considered that the new-build specification may be offset by the larger plot and that similar values would be achieved by the proposed three bedroom dwellings.

We note that there is a slight disconnect between the indexed figures at Ashton Walk, and the sale achieved at 112 Portsmouth Road, which may point towards a slightly higher achievable value for the three bedroom dwellings than the Applicant has proposed. However, we are aware of various sales of larger four bedroom dwellings locally starting at £375,000 thus we would expect the ceiling for three bedroom dwellings to be around this level, despite the new build premium.

The Applicant has utilised £375,000 to £385,000 which is within a range that is considered reasonable based upon this evidence.

The two bedroom dwellings are slightly smaller at 851 sq ft. We would expect a lower value than the three bedroom dwellings to be achievable based upon the smaller area, but a higher rate per sq ft given quantum factors.

Unfortunately there are no new build two bedroom houses locally that have come to the market recently.

We note 189e Portsmouth Road sold in April 2023 for £260,000. This two bedroom, semi-detached house is relatively modern (1990's build) but is directly adjacent to the busy railway. On the basis that the proposed two bedroom dwellings will have a new build specification and warranty and they do not have the railway adjacent we would expect a significant premium to be achieved.

The Applicant has utilised a figure of £320,000 or £376 per sq ft which is the same £/ft2 as the larger dwellings. We would suggest that the two bedroom dwellings therefore would likely achieve a higher £/ft2 accordingly based upon quantum factors. The two bedroom dwellings include the same specification inclusive of an ensuite, which is unusual for a two bedroom property locally.

Basing our conclusion on both the quantum factors noted earlier and our discussions with local agents, we would expect achievable values to be between £325,000 and £335,000 say £330,000 or £388 per sq ft.

Overall, the Applicant's appraisal of Gross Development Value is considered to be mainly reasonable, however, we would expect a slight premium for the two bedroom dwellings in comparison to the Applicant's figures.

We have therefore adopted the following:

Units	Type	Applicant	BNPPRE
3	2B4P	£320,000	£330,000
6	3B5P	£375,000	£375,000
2	3B5P	£385,000	£385,000
Total		**£3,980,000**	**£4,010,000**

5.3 Construction costs

The cost plan provided by S106 equates to a total build cost of some £260 per sq ft. This has been provided by a third party cost consultant.

We have utilised BCIS to compare these costs. We understand that the proposed units will be built to a reasonable specification in line with their expected price bracket. With this in mind, we would expect BCIS Median costs to be relevant in this instance. This equates to a base build at £145 per sq ft.

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 07-Oct-2023 07:40

Rebased to Southampton (106; sample 51)

MAXIMUM AGE OF RESULTS: DEFAULT PERIOD

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
810.12 Estate housing semi detached							
Generally (15)	1,610	940	1,374	1,569	1,759	3,593	354
Single storey (15)	1,800	1,162	1,530	1,761	1,970	3,593	80
2-storey (15)	1,553	940	1,358	1,505	1,697	2,758	262
3-storey (15)	1,579	1,176	1,275	1,512	1,874	2,300	12

In addition we would expect some 10% of costs to be required for external works and a further 5% to cover contingencies.

We note a number of abnormal costs within the cost plan:

- Site clearance - £28,090
- Demolition - £25,000
- Service Connections - £107,250

We have adopted these costs as reasonable within our appraisal.

Overall, utilising the above figures provides a total build cost of £2,014,059 or £187 per sq ft.

Other Development costs

We are of the opinion that the finance rate and profit level suggested by the Applicant is reasonable. Sales and Marketing at 2.5% are considered to be towards the upper end of expectations but not unreasonable on the basis that the scheme would include at least one show home.

Legal fees at £1,000 per unit are not considered unreasonable.

We would suggest that the three month sales period suggested by the Applicant is optimistic at present but as the market hopefully improves in to 2024 it is not inconceivable.

5.4 Appraisal results

S106 appraisal results

S106 have structured their appraisal so that the Residual Land Value can be directly compared to the Benchmark Land Value.

S106 Summary

Appraisal variable	Value / Cost
Gross Development Value	£3,980,000
Construction Costs Incl. Abnormals / Externals	£2,798,433
Contingency	£139,922
Planning Obligations	£200,094
Professional Fees	£205,685
Sales/Marketing	£99,500
Legal	£11,000
Finance	8%
Developer Return	17.5%
Residual Land Value	£-285,545
BLV	£140,000
Deficit	-£425,545

BNPPRE Appraisal Results

There are three main areas that are important within a viability appraisal. Gross Development Value, Costs and Benchmark Land Value.

We do not believe S106 have been unreasonable regarding the GDV other than perhaps being slightly pessimistic for the achievable values for the two bedroom units.

The Benchmark Land Value, whilst the methodology utilised by the Borrower is uncertain, the overall figure of £140,000 is not considered unreasonable.

Our main area of concern lies with the construction costs. Whilst there are some basic abnormal costs, we do not note any element of the proposed build or general site (such as a slope or flood risk for instance) that should require £260 per sq ft overall.

We have therefore provided an appraisal based upon the following inputs:

Appraisal variable	Value / Cost
Gross Development Value	£4,010,000
Construction Costs Incl. Abnormals / Externals	£1,918,151
Contingency	£95,908
Planning Obligations (incl Affordable contribution)	£478,793
Professional Fees	£140,984
Sales/Marketing	£100,250
Legal	£11,000
Finance	8%
Developer Return	17.5%
Residual Land Value	£467,588
Say	**£470,000**
BLV	£140,000
Surplus	**£330,000**

This appraisal returns a Residual Land Value of some £470,000, which is in excess of the agreed Benchmark Land Value of £140,000.

5.5 Sensitivity analysis

The table below shows an analysis were base build costs and GDV to change by +/- 10%.

BCIS isn't always reflective of the true build cost of a site. Were the base build to increase to some £160 per sq ft, this would have the effect of reducing the Residual Land Value (RLV) down to some £300,000. This is still above the £140,000 BLV.

Were values to be lower by 10%, this would drop the RLV down to some £200,000. Again this is still above the BLV.

Table of Gross Development Value and Land Cost

	Construction: Rate pf²				
Sales: Rate pf²	-10.000%	-5.000%	0.000%	+5.000%	+10.000%
	131.18 pf²	138.47 pf²	145.76 pf²	153.05 pf²	160.34 pf²
-10.000%	£3,609,000	£3,609,000	£3,609,000	£3,609,000	£3,609,000
335.66 pf²	-£361,459	-£280,508	-£205,327	-£126,399	-£41,470
-5.000%	£3,809,500	£3,809,500	£3,809,500	£3,809,500	£3,809,500
354.31 pf²	-£495,475	-£414,523	-£333,572	-£252,621	-£176,633
0.000%	£4,010,000	£4,010,000	£4,010,000	£4,010,000	£4,010,000
372.95 pf²	-£629,490	-£548,539	-£467,588	-£386,636	-£305,685
+5.000%	£4,210,500	£4,210,500	£4,210,500	£4,210,500	£4,210,500
391.60 pf²	-£763,506	-£682,554	-£601,603	-£520,652	-£439,701
+10.000%	£4,411,000	£4,411,000	£4,411,000	£4,411,000	£4,411,000
410.25 pf²	-£897,521	-£816,570	-£735,619	-£654,667	-£573,716

6 Conclusions

The Applicant's appraisal is not considered to be fundamentally wrong in terms of Gross Development Value, Benchmark Land Value and the general methodology utilised. However, as detailed above, we suggest that the build costs provided appear excessive.

Based upon our initial appraisal, it is considered that the proposed development may be able to support a policy level of affordable housing contribution. However, we must stress that we are not build cost experts and therefore our conclusion is only based upon theoretical inputs.

For completeness we have provided a second appraisal with a Policy level of affordable housing (2 on site units) which we have appraised at 50% of Open Market Value (reflecting Social Rented tenure). This returns a Residual Land Value of some £472,000 which is in excess of the BLV at £140,000 and suggests that the proposed development could support either two onsite affordable dwellings or an offsite contribution.

We recommend that the Council include a review mechanism in to any planning agreement. There is considerable uncertainty surrounding the exact Gross Development Value that may be achievable. A review triggered by 75% of units being sold would ensure that the true market value of the individual units is provided.