Valuation Office Agency

DVS Property Specialists for the Public Sector

Viability Review Report
Land at Former Gasworks
Britannia Road
Southampton
SO14 5RG

Report for:
[redacted]
Southampton Council

Prepared by:
[redacted] MRICS
Principal Surveyor
RICS Registered Valuer
DVS

[redacted]@voa.gov.uk

Case Number: 1799886

Client Reference: 22/00695/FUL

Original Report Date: 30 August 2022
Report Update for Policy Date: 1 November 2022

DVS Property Specialists for the Public Sector

Contents

Appendices:

1.0 Executive Summary

1.1 Proposed Development Details.

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

Proposed Development	Redevelopment of the site. “Construction of 4 buildings (Blocks A, B, C, D) ranging between 2 and 21 storeys comprising 403 residential units including ancillary residential facilities, with Block C comprising commercial floorspace (Class E), the link building comprising class E and class F2(b) uses, together with associated access from Britannia Road, internal roads and footways, car and cycle parking (including drop off facilities), servicing, hard and soft landscaping, amenity space, Sustainable Drainage systems, engineering and infrastructure works”.
Subject of Assessment:	Land at Former Gasworks , Britannia Road, Southampton, SO14 5RG
Planning Application Ref:	22/00695/FUL
Applicant / Developer:	Hawkstone Properties (Southampton) Ltd
Applicant's Viability Advisor:	ULL Property

1.2 Instruction

In connection with the above application Southampton 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.

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.

1.3 Viability Conclusion

As agreed, the viability has been appraised with regards to CIL and financial contributions towards policy only (no on site affordable housing). Further to the independent assessment undertaken, it is my considered conclusion that the proposed is able to support the required CIL payment of £3,947,030; required financial contributions towards policy and section 106 items of £585,941 plus £155,000 towards other policy provision, such as, towards a payment in lieu of on-site affordable housing.

1.4 Non-Technical Summary of Viability Assessment Inputs

	ULL	DVS Viability Review	Agreed (Y/N)
Assessment Date	March 2022	August 2022 (App2)	N
Scheme	403 build for rent apartments over four blocks from 9 to 21 storey; ground floor commercial to two blocks 176 car parking spaces.		Y
Net Internal Area **Gross Internal Area,** **Site Area**	NIA 280,419 sq. m ; GIA 379,892 sq. m Site 1.55 Hectares		Y
Development Period	50 months	44 months	N
Development Value Comprising:	£107,303,092	£112,531,425	Y
Private Rent Dev Value	£100,901,250	£105,604,425	N
Commercial Dev Value	£2,177,842	£2,175,000	Y
Parking Dev Value	£4,224,000	£4,750,200	N
CIL	£3,622,806	£3,947,030	N
Construction Cost Inc. Externals and Abnormals	£77,117,112	£77,117,112 (provisionally accepted)	Y
Contingency %	5% £3,855,866	5% £3,855,866	Y
Professional Fees %	8% £6,169,417	8% £6,169,417	Y
SDLT on individual units	£4,135,311	£0	N
Disposal and monitoring fees	Various rates £544,804	Various rates £1,271,204	N
Finance Interest and Sum	100% debt funded 6.5% debit £4,688,112 (exc. finance on Land)	100% debt funded 6.5% debit (provisional) £6,525,795 (inc. finance on land)	Y N
Land Acquiring Costs	Not stated as negative residual figure	SDLT +1.5% £152,053	n/k
Profit Target % and Sum	Blended 12.55% GDV 15% GDV Commercial 12.5% GDV BTR £13,466,538	10% Profit on Cost £10.23 million.	N
Benchmark Land Value	£3,064,000	£2,500,000 (with Special Assumption)	N
EUV	£3,064,000	£2,500,000 (with Special Assumption)	N
Premium	Nil	Nil	Y
Purchase Price	Not provided	Not Known	n/k
Alternative Use Value	EUV reflects industrial redevelopment £3,064,000	AUV reflects industrial redevelopment £2,500,000	N

Residual Land Value	Negative £6,317,947	Positive c.£2.601 million (see App.1)	N
Viability Conclusion Plan Policy Compliant	Not provided. It follows that a scheme with affordable housing would produce a larger deficit.	Not Assessed. DVS assess that the scheme can support CIL payment of £3,947,030 plus £585,941 towards other policy provision. This is considered viable. A surplus of £155,000 is identified	N
Viability of Proposed Scheme	Unviable. A development deficit in the order of £9.3 million is identified, suggesting an undeliverable development.	The scheme proposed can support further policy requirements than the £3.62 million of CIL appraised by ULL	N

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 Council.

2.2 The Subject of the Assessment is Land at Former Gasworks , Britannia Road, Southampton, SO14 5RG.

2.3 The date of viability assessment is 30 August 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 Instructions were received on 10 June 2022. It is understood that Southampton Council require an independent opinion on the viability information provided by U.L.L Property, 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 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 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 provided on a desk top basis.

2.7 DVS/ VOA Terms of Engagement were issued on 11 July 2022 a copy will be attached in my subsequent, redacted report provided for publication.

2.8 DVS originally provided a viability review report on 30 August 2022. The August report was based on incomplete policy information, the report concluded: *As agreed in the terms of engagement the viability has been appraised with regards to CIL only (no affordable housing and no other financial contributions). Further to the independent assessment undertaken, it is my considered conclusion that the proposed is able to support the required CIL payment of £3,947,030 plus £775,000 towards other policy provision, such as, towards a payment in lieu of on-site affordable housing.*

2.9 Policy Information was provided to DVS the w/c 24 October 2022. On 31st October 2022, it was confirmed that DVS were required to update the appraisal for the new information regarding financial policy provision and timings, and that the assessment date has not changed therefore no other inputs require reconsideration for the passage of time.

2.10 I am pleased to report on this basis.

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 (see Note 1) 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).

(Note 1) 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 RICS Professional Statement 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] MRICS 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) The DVS viability review assessment has been carried out with due diligence and in accordance with section 4 of this professional statement

g) The signatory and all other contributors to this report, as referred to herein, has complied with RICS requirements.

3.4 Most Effective and Efficient Development

It is a mandatory requirement of the **RICS 'Financial viability in planning: 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 – ULL - has assessed the viability based on forward funded, built to privately rent apartment development, arranged in four blocks, two of the blocks also have ground floor commercial space. The ULL appraisal assumes the land will be bought up front in its entirety, yet divides the revenue into four tranches, assuming A&B are developed together, and C&D are developed together, the commercial revenue being realised in two instalments, six months after the corresponding residential is realised.

The DVS valuer passes no comment on whether this is the most effective and most efficient development. DVS has assessed the viability based upon the same scheme assumptions, with the exception of revenue timing which is explained in the body of the report. The impact on viability of different scheme e.g., build to sell has not been appraised, however should this be pursued another viability assessment may be necessary.

3.5 Signatory

a) It is confirmed that the viability assessment has been carried out by [redacted] BSc (Hons) 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.

As part of the DVS Quality Control procedure, this report and the appraisal has been formally reviewed by [redacted] MRICS, Registered Valuer, who also has the appropriate knowledge, skills and understanding necessary to complete this task.

3.6 Bases of Value

The bases of value referred to herein are defined in the TOE at **Appendix IV** 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 the proposed development is complete on the date of assessment in the market conditions prevailing on the date of assessment.
- That your Council's Local Plan policies, or emerging policies, including for affordable housing are up to date.
- That the applicant's abnormal costs, where adequately supported, are to be relied upon to determine the viability of the scheme, unless otherwise stated in our report and/ or otherwise instructed by your Council and that are no abnormal development costs in addition to those which the applicant has identified.

4.2 General Assumptions

There is an additional assumption arriving from the applicant's report, which, as agreed by the council has been carried forward by DVS, specifically: it is assumed that the gas holders and ancillary accommodation have been removed from the site that the site is clear, remediated, free from contamination and ripe for redevelopment.

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) The site has not been inspected at this stage.

b) Tenure - A report on Title has not been provided. The review assessment assumes that the site is held Freehold.

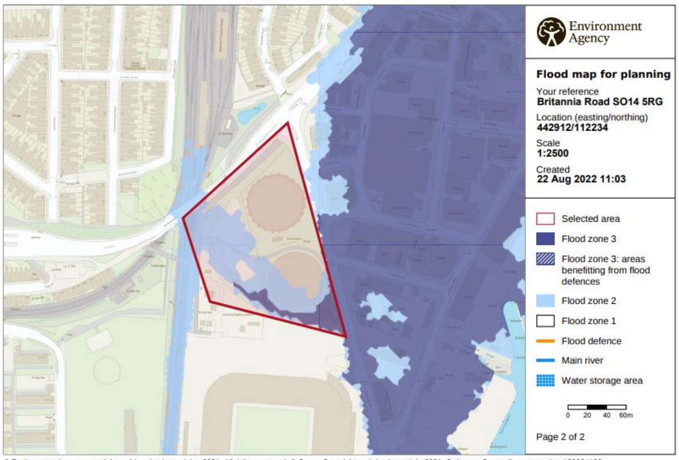
c) Easements / Title restrictions - A report on Title has not been provided. The advice is provided on the basis the title is available on an unencumbered freehold or long leasehold basis with the benefit of vacant possession. It is assumed the title is unencumbered and will not occasion any extraordinary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

d) 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.

e) 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.

f) Mineral Stability - This assessment has been made in accordance with the terms of the agreement in which you have instructed the Agency to assume 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. I refer you to the DVS Terms of Engagement at **Appendix (iii)** for additional commentary around ground stability assumptions.

g) Flood Risk. DVS have referred to the Environment Agency's Flooding 'flood risk assessment' mapping tool which indicates the site includes areas in Flood Zone 3 and Flood Zone 2 and subject to a high probability of flood risk as indicated by the illustrative plan below.



Source: Environment Agency.

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. It is noted that any asbestos removal is expected to b be covered under SGN's scope of works.

5.0 Proposed Development

5.1 Site Plan and Area

It is understood from the ULL report that the Site area is 1.55 hectares. VOA digital mapping software measures the site as 1.5 hectares.


Plan title: Britannia Gas works - check measurement 1.5 hectares

5.2 Location / Situation

I have not inspected the site at this stage.

The site is located to the east of Southampton city centre, approximately 20 minutes' walk from the city centre and 25-minutes' walk from Southampton Central railway station. It is located immediately north of Southampton Football Club stadium, St Mary's, in a mixed use location, dominated by industry. It is understood from the ULL report that :

The Site is situated in the St Mary's district, immediately to the north of the St Mary's Stadium, home to Southampton FC. The area immediately to the East of the Site is occupied by a large industrial estate, beyond which is the River Itchen. To the North is the A3024 main road (at this section a dual carriageway) linking Southampton City centre to the wider South East via the M27; beyond this main road is residential, a mix of flats and houses.

5.3 Description

The site is a former gas works, understood to be owned by SGN (Scotia Gas Networks Limited). It is stated in the ULL report that *SGN will be responsible for bearing the cost of demolition of the existing gasholders and associated plant and ancillary buildings; remediation of the site; cut and fill works to form the site levels*;

For the purpose of the viability assessment the site is regarded to be a **cleared brownfield un occupied site, with no abnormal development costs.**

5.4 Schedule of Accommodation/ Scheme Floor Areas

DVS make no comment about the density, design, efficiency, merit or otherwise, of the suggested scheme, the site area and accommodation details have been taken from the ULL report and planning documents and are summarised below.

The development will contain four blocks known as A, B, C and D.

- Building A will extend to 21 storeys with ground floor commercial and 138 residential apartments arranged over nineteen floors and communal facilities (dining etc) on the top floor.
- Building B will be 10 storeys with 85 apartments up to the ninth floor
- Building C will extend to 8 storeys with ground floor commercial and 65 residential apartments
- Building D will extend to 11 storeys with 115 apartments.

There are 4 apartment types as follows:

	1 bed	2 bed small	2 bed large	2 bed duplex	Total
Building A	86	51	1	0	138
Building B	28	16	35	5	85
Building C	22	14	29	0	65
Building D	30	18	61	6	115
Total	166	99	127	11	403

Individual areas of the individual apartments have not been provided, neither has average sizes. The areas have been provided as follows:

	Residential NIA Sq. ft.	Commercial NIA Sq. ft.	Total GIA Sq. ft	Net % of GIA
Building A	84512	3724	113789	77.54
Building B	60258	0	81851	73.62
Building C	44342	4392	63800	76.38
Building D	83191	0	111873	74.36
Total	280419		379892	74.38
Cost plan			379880	

In addition there are 176 car parking spaces in the development.

Please note I have not verified the gross internal areas from the applicant's advisor's report with scaled plans or drawings, their areas are adopted in good faith.

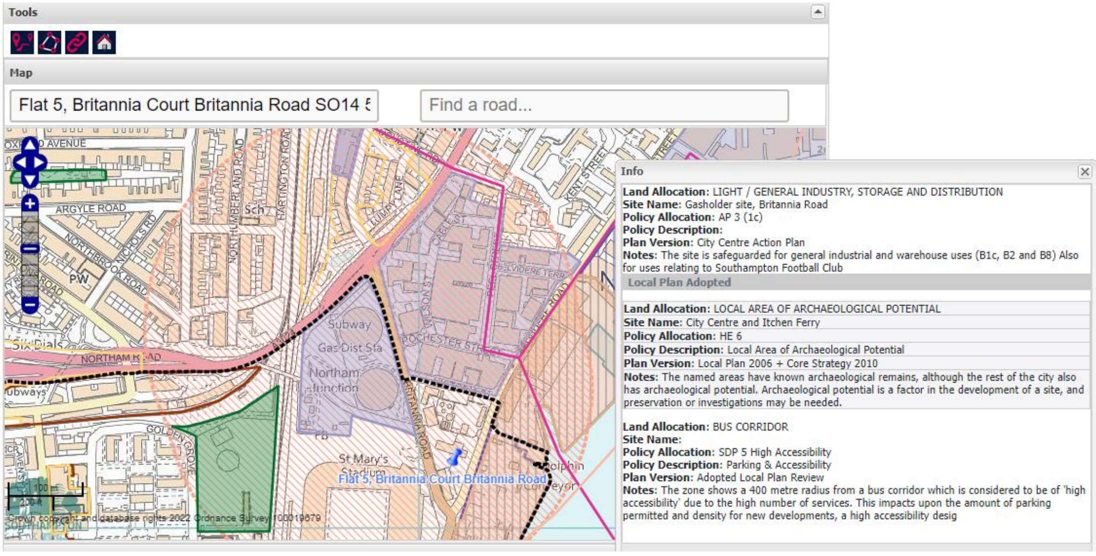
Measurements stated are in understood to be in accordance with the RICS Professional Statement **'RICS Property Measurement' (2nd Edition)** and, where relevant, **the RICS Code of Measuring Practice (6th Edition).**

As agreed in the terms, any office and/or 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)'.

I understand that you requested this variation because 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

a) The Local Plan's interactive map indicates the site is allocated as light/ general Industry, storage and distribution land and is to be safeguarded for such uses and also, uses relating to Southampton Football Club. It is also in an area of archaeological potential and a key bus route runs alongside. Extract below:



Source: Interactive Map (southampton.gov.uk)

b) DVS have not been made aware of why this scheme has been accepted for site specific viability assessment.

5.6 (a) Policy Requirements for the Scheme

Further to Southampton Council's confirmation I understand the Local Plan Policy requirements to be :

- CIL payment of £3,947,030.
- 35% on site Affordable Housing (Policy CS15) comprising tenures: 65% Socially Rented and 35% Intermediate.
- Highway/ Transport works: £328,000
- Solent Disturbance Mitigation £180,922
- Employment and Skills Plan £30,519
- Carbon Management Plan £46,500

Notes:
The CIL sum is higher than CIL figure adopted by ULL.
The other policy sums total £585,941.
On site affordable housing has not been appraised, as agreed, due to deficits identified and for ease of modelling and comparison with ULL appraisal.

5.6 (b) Policy Payment Schedule

Further to correspondence with Southampton planners, DVS have adopted the following timings:

- CIL - two instalments (1) 50% upon commencement of construction; 50% in month 20 upon commencement of the second phase.

- Highways ,Solent disturbance and employment plan totalling £539,441, in full upon commencement of construction.
- Carbon plan- totalling £46,500 -in full before first occupation.

Planning policy requirements and timings should be factual and agreed between the LPA and the applicant. If the review assessment adopts incorrect timing an incorrect figure and/ or a (significantly) different figure is later agreed the viability conclusion should be referred back to DVS.

5.7 Planning Status

I have made enquiries of the Planning Authority's website as to the planning status and history (search 11 July-2022) and I understand that there are no extant or elapsed permissions that would give way to an AUV. Screenshot below:

010034868963 | Gas Holder Britannia Road Southampton

Back to search results

Print

Address | Property History (12) | Constraints (11)

Planning Applications (12)

- Continued storage of gas.
  Ref. No: 01/00927/HAZ | Status: PER
- 25m high lattice tower with associated antennae and ground based equipment cabin within secure compound and associated access road
  Ref. No: 02/01335/FUL | Status: Conditionally Approved
- Erection of a temporary building for use as offices and for storage of electronic equipment (for a period of 3 years)
  Ref. No: 870272/M | Status: Conditionally Approved
- BRITISH GAS PLC MARINE PARADE BARGATE WARD NORTHAM SOUTHAMPTON INSTALLATION OF A MICROWAVE DISH
  Ref. No: 890430/E | Status: Conditionally Approved
- CHANGE OF USE TO VEHICLE STORAGE (CLASS B8)
  Ref. No: 920800/E | Status: Conditionally Approved
- CONTINUED USE AS VEHICLE STORAGE (CLASS B8)
  Ref. No: 950595/E | Status: Conditionally Approved
- TEMPORARY CHANGE OF USE TO VEHICLE STORAGE (CLASS B8)
  Ref. No: 980887/E | Status: Conditionally Approved
- Two single-storey detached buildings for use as storage of gas processing unit.
  Ref. No: 10/00452/FUL | Status: Conditionally Approved
- Application for prior approval for the proposed demolition of 2 gas holders and associated buildings
  Ref. No: 14/00696/DPA | Status: Application Refused
- Application for prior approval for the proposed demolition of 2 gasholders and ancillary structures with associated works
  Ref. No: 21/01576/DPA | Status: No Objection
- Application for approval of details reserved by condition 1(Archaeological Structure-Recording) of permission ref 21/01576/DPA for demolition of 2 gasholders.
  Ref. No: 22/00063/DIS | Status: No Objection
- Redevelopment of the site. Construction of 4 buildings (Blocks A, B, C, D) ranging between 2 and 21 storeys comprising 403 residential units including ancillary residential facilities, with Block C comprising commercial floorspace (Class E), the link building comprising class E and class F2(b) uses, together with associated access from Britannia Road, internal roads and footways, car and cycle parking (including drop off facilities), servicing, hard and soft landscaping, amenity space, Sustainable Drainage systems, engineering and infrastructure works.
  Ref. No: 22/00695/FUL | Status: Pending Consideration

6.0 Summary of Applicant's Viability Assessment

6.1 Report Reference

DVS refer to the Economic Viability Appraisal Report prepared by [redacted] director at ULL Property dated March 2022 and the appraisal therein.

It is not clear whether the surveyor and firm are member or member firm of the RICS, however the report states that they have carried out this work in accordance with the Professional Statement Financial Viability in Planning Conduct and Reporting.

6.2 Summary of Applicant's Appraisal

In summary ULL's appraisal has been produced using Argus Developer software and follows established residual methodology. This is where the Gross Development Value less the Total Development Costs Less Profit, equals the Residual Land Value, and the Residual Land Value is then compared to the Benchmark Land Value as defined in the Planning Practice Guidance, to establish viability.

ULL outline in their report the following:

- The proposed scheme appraised with regards to estimated CIL of £3,622,806, yet without any Affordable Housing provision, and without any land payment, produces a **negative** Residual Land Value of **(-) £6,317,947**;
- Therefore the applicant seeks to demonstrate that Affordable Housing and other financial planning contributions cannot be viably supported.
- The ULL opinion of Benchmark Land Value is **£3.064 mn** based upon an industrial land redevelopment alternative value (post remediation works) no premium is considered appropriate and thus none has been applied.
- Notwithstanding the significant shortfalls identified, of circa £9.38 million, it is understood the applicant intends to deliver this scheme.

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

7.0 Development Period/ Programme

7.1 The development period adopted by the applicant's advisor is 50 months comprising:

- 1 month for site purchase (in full)
- 3 months pre-construction/ site preparation (no outgoings)
- Construction 24 months for Block A & B (commencing month 5, S-curve)
- Construction 24 months for Block C & D (commencing month 20, S-curve)
- Construction for Podium and Externals 24 months (commencing month 5, S-curve)
- Sales – revenue is programmed in five instalments:
    - Residential A & B month 28 (upon practical completion of block)
    - Commercial A – month 35 (6 months after completion)
    - Carparking – all spaces – month 35 (6 months after completion)
    - Residential C&D month 43 (upon practical completion of block)
    - Commercial C – month 50 (6 months after completion)

7.2 This programme is largely considered reasonable with the exception of the five stage payment which is not agreed. It is usual to assume a scheme such as this would be forward funded by one investor and so the sale of the whole development would occur upon practical completion, or for phased schemes, upon completion of the phase. In phased schemes, I would expect a whole block to sell as one i.e. commercial at the same time as the residential units.

- 1 month for site purchase (in full)
- 3 months pre-construction/ site preparation (Cost plan identifies pre construction works,)
- Construction 24 months for Block A & B (commencing month 5, S-curve)
- Construction 24 months for Block C & D (commencing month 20, S-curve)
- Construction for Podium and Externals 24 months (commencing month 5, S-curve)
- Sales
    - Blocks A & B month 28 (upon practical completion of block)
    - Carparking – all spaces – 50% month 28 & 50% month 43
    - Blocks C & D month 43 (upon practical completion of block).

*it is noted that these external and podium costs are currently compressed early in the scheme yet may be incurred over a longer period. I may revisit this as part of any future discussions.

8.0 Gross Development Value (GDV)

8.1 Applicant's GDV

ULL have adopted a Gross Development Value (GDV) of £107,303,092 this comprises:

Private Rented Housing GDV	£100,901,250
Commercial GDV	£2,177,842
Parking GDV	£4,224,000

The revenue comprises seven sums, and is cash flowed as four payments as follows:

	ULL Development Value £	**ULL cashflow**
Phase 1 - Revenue		
Commercial - Building A	999,296	Month 35
Build to Rent - Building A	31,387,500	Month 28
Car Parking	4,224,000	Month 35
Phase 2 - Revenue		
Build to Rent - Building B	22,128,750	Month 28
Phase 3 - Revenue		
Commercial - Building C	1,178,546	Month 50
Build to Rent - Building C	16,683,750	Month 43
Phase 4 - Revenue		
Build to Rent - Building D	30,701,250	Month 43
Total GDV	**£107,303,092**	

I have reviewed 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’**

I have considered the reasonableness of each property type in turn and my conclusions are set out below.

8.2 Market Value of Private Rented Dwellings

8.2.1 ULL Private Market Value - £100,901,250.

ULL have applied an opinion of gross market rent depending on the apartment type as follows:

1 bed apartments – £925 pcm / £11,100 pa
2-bed 3 person apartments –£1,150 pcm £13,800 pa
2-bed 4 person apartments - £1,300 pcm £15,600 pa
2-bed 4 person duplexes - £1,450 pcm £17,400 pa

The average size of the apartment type is not provided. The ULL opinion of rental income is £5,381,400 gross.

ULL apply a 25% deduction for management costs and then capitalise the net rent of £4,036,050 at a yield of 4% to give way to a value of £100,901,250. The equivalent aggregate break-up value is £250,375 per unit.

This equates to the following build to net rent rates and rental income per annum at sale:
Building A - £14.86 per sq. ft. per annum (sq. ft. / pa.) and net rent of £1,225,500
Building B - £14.69/ sq. ft. / pa. and net rent at sale of £885,150
Building C £15.05 / sq. ft. / pa. and net rent at sale of £667,350
Building D £ 14.76/ sq. ft. / pa. and net rent at sale of £1,228,050
These figures can be seen in the ULL appraisal.

8.2.2 DVS Review of Private Market Rent

ULL explain that their values assume all apartments have balconies or winter gardens, and that parking is separately assessed. It is understood, flooring, window blinds, white goods, built in wardrobes are included, and that loose furniture, beds, sofas, tables, etc. are excluded.

In the ULL appraisal –

- Building A has a blended gross rental value rate of £18.58/ sq. ft. per annum
- Building B has a blended gross rental value rate of £18.36/ sq. ft. pa

- Building C has a blended gross rental value rate of £18.81/ sq. ft. pa
- Building D has a blended gross rental value rate of £18.45/ sq. ft. pa

The price per square foot per annum rate figures are provided by DVS to enable transparent analysis and comparison to ULL and DVS comps, which are all gross figures.

ULL provide Asking Rents from three schemes as comparable evidence in support of their Private Rented values, which for ease of reference is summarise as:

- **Ocean Village** - noted by ULL to be, *not procured as build to rent* and in a *significantly better location than the subject site*. Around 18 comps are stated, ranging from £850 pcm to £1650 pcm, however only 5 of these include information on the size, floor level, and number of bedrooms, and so are able to analyse.

  These range from a first floor 2 bed 2 bath apartment in **Alexandra Wharf** with parking and a marina view at £1450 per month (721 sq. ft./ **£24.13/ sq. ft. pa**) to a ninth floor 2 bed 2 bath apartment in **Hawkins Tower** with parking and access to a communal gym at £1650 per month (990 sq. ft / **£20/ sq. ft. pa**).

  Whilst the marina side location is superior, it is noted none of the comps are classified as new build and none have the amenities of PRS. I consider these to be of limited use, and the amenities of subject would hold a premium over these. Ocean village is around a mile south of the subject

- **Grenada House** –11 storey current development 0.5 miles north of the subject site, with views over the River Itchen. Asking rent data on three units is provided; £925 pcm for a 553 sq. ft 6th floor one bed (**£20 / sq. ft. pa**); £1250 pcm for a 710 sq. ft 5th floor two bed with parking **(£21.13/ sq. ft. pa**); £1325 pcm for an 818 sq. ft 5th floor two bed **(£19.43 / sq. ft. pa)**.

  ULL do not specify whether this is a comparable build to rent development, but I understand it is not. The location is considered comparable, again I would expect the subject to attract a premium over these rates due to the amenities, but it is a suitable lower parameter comp.

- **Bow Square** - noted by ULL to be *bespoke Build to Rent development*, and a *similar development to the subject* proposal with *full BTR amenities*, albeit in the city centre. ULL state asking rents which devalue **at £24.37/ sq/ft pa** for a one bed and **£18.95/sq. ft. pa** for a 2 bed. Parking is excluded. This is considered a good comp, although this is an older scheme, it has better transport connections.

8.2.3 DVS Private Market Rent comps –August 2022:

From web based searches I consider there to be enough purpose build built for private rented apartments in Southampton to enable an assessment of Market Rent. Three ‘for private rent’ schemes are located within a short drive from the subject:

- **Vantage Tower** at Centenary Plaza, Southampton, SO19 9UE (1.5 miles south east of subject). Situated on the Woolston (east) side of the river Itchen, with quayside waterfront views. The current 2022 built development includes resident's lounge and terrace, gym / yoga studio, and co-working space. Parking is separately available to rent. The tenant is responsible for paying utility bills and council tax, and the unfurnished prices are advertised as:

  A1- 1 bed 1 bath 516 sq. ft £1375 pcm / **£16,500 pa / £31.98/ sq. ft/ pa**
  B1 -1 bed 1 bath 526 sq. ft £1365 pcm **/ £16,380 pa** / **£31.14/ sq. ft /pa**
  G - 2 bed 2 bath 701 sq ft £1590 pcm / **£19,080 pa / £27.21 / sq. ft/ pa**
  G - 2 bed 2 bath 701 sq. ft £1600 pcm **/ £19,200 pa / £27.39/ sq. ft/ pa**

  Source Rightmove.com

  For an additional cost, furniture packages can be rented at £100 per calendar month (pcm) for a 1 bed, £150pcm for a 2 bed apartment and £200pcm for a 3 bedroom apartment. The furniture consisting of bed(s), sofa, dining room table and chairs.

  I consider the amenities on offer and the modernity of the subject to be most similar to this comp, yet the location of the subject is inferior and so a downward adjustment is necessary.

- **Gatehouse** located on East Street, in Southampton city centre a mile south west of the subject. Gatehouse is a 14-storey building of 132 one and two bedroom apartments which boasts a range of resident amenity spaces including roof terraces, a gym, communal lounge area, and co-working space, and commercial space at ground floor level. The use of these amenities and superfast broadband/ Wi-Fi is included in the rent. Charging for utilities is not clear. Gatehouse is understood to be Southampton’s second Build to Rent scheme. It is published that Grainger plc forward-funded and acquire the Private Rented Sector (PRS) in 2018, in a deal reported to be £27 million (uncorroborated , but equivalent aggregate break-up value of £204,545 / apartment).

  The minimum rent of the limited properties currently available in Gatehouse are:

£1019 pcm for a 50.5 sqm (543.6 sq. ft.) one bed apartment **(£12,228 pa / £22.50/ sq. ft. /pa)**

£1265 pcm for a 70 sq. m. (753.5 sq. ft.) two bed apartment **(£15,180 pa/ £20.14/ sq. ft. / pa)**

These asking rents are understood to be unfurnished and exclude parking. Source gatehouse-apartments.co.uk.

I consider the amenities on offer and the to be similar to this comp and that a small adjustment is necessary to reflect the modernity of the subject.

- The final comparable scheme is also cited by ULL. **Bow Square** located on the site of the former market on Bernard Street, in the city centre one mile south west of the subject, and close to Gateway. This development comprises 280 one and two-bed apartments for private rent and was completed in 2018. There are three apartments currently available at Bow Square advertised at:

£925 pcm for a 503 sq. ft one bed apartment **(£11,100 pa £22.06/ sq. ft /pa)**
£995 pcm for 494 sq. ft one bed apartment **(£11,940 pa £24.17/ sq. ft/ pa)**
£1115 pcm for a 734 sq. ft two bed apartment **(£13,380 pa/ £18.22/ sq. ft / pa)**

These asking rents are understood to be furnished and exclude parking. Source www.mynewplace.com/apartment/bow-square-southampton.

I consider the amenities on offer and the modernity of the subject to be superior to this comp, and that an upward adjustment is necessary.

8.2.3 Private Market Rents adopted by DVS on other schemes:

Western Esplanade Feb 2022 – overall blended rate across all types (fully private scheme) £22.87 per sq. ft per annum.

- 1 Bed - £975 pcm (average size 490 sq. ft (1 block); 496 sq. ft (2 blocks)
- 2 Bed - £1,300 pcm (average size per block 691, 698, 737 per sq. ft)
- 3 Bed - £1,600 pcm (869 sq. ft.)

8.2.4 DVS Opinion of Private Market Rent

Limited information has been provided about the size of the apartments in each block and so only a high level average valuation by type can be provided at this stage. From the overall areas and split of accommodation, it is implied that the apartments will be larger than the comparable units. Based on the above, it is my opinion as an RICS Registered Valuer that the rentals proposed for three types are too low.

The blended gross rent rate proposed by ULL at c. £18.50 per sq. ft pa, is also considered unreasonable considering the above comps, and regarding rental growth this year.

My opinions of Market Rents at the August 2022 assessment date are as:

1 bed apartments – £1000 pcm / £12,000 pa
2-bed (small) apartments –£1,150 pcm £13,800 pa
2-bed (average) apartments - £1,300 pcm £15,600 pa
2-bed (large duplex) apartments - £1,500 pcm £18,000 pa

I am unaware of the size of the individual apartments, in particular there is a lack of detail around the duplex properties. Consequently, it should be noted these are high level opinions of Market Rent based on restricted information and may be subject to change.

It is clear from comparable evidence above that the size of the apartment and outlook, influences the rental value, perhaps more so than the number of bedrooms, and so as a 'sense check' I have also considered the resulting devalued rate. I consider a gross rate of in the order of £20/ sq/ft/pa for a typical two bed; and up to £25/ sq. ft / pa for a one bed to be appropriate. Therefore, would expect the blended figure to lie within these two rates, albeit closer to £20/ sq. ft. as there are proportionately more two bed apartments in the development (59% are two bed).

Applying my opinion of Market Rents the equivalent devalued rate is shown below:

Units	**1 bed**	**2 bed small**	**2 bed large**	**2 bed duplex**	**Total Units**	**Residential GIA sq. ft**
Building A	86	51	1	0	138	84512
Building B	28	16	35	5	85	60258
Building C	22	14	29	0	65	44342
Building D	30	18	61	6	115	83191
Total	166	99	127	11	403	
Market rent £ pa	**£12000**	**£13800**	**£15600**	**£18000**	**rent**	**blended £/ sq. Ft pa**
Building A	£1,032,000	£703,800	£15,600	-	£1,751,400	£20.72
Building B	£336,000	£220,800	£546,000	£90,000	£1,192,800	£19.79
Building C	£264,000	£193,200	£452,400		£909,600	£20.51
Building D	£360,000	£248,400	£951,600	£108,000	£1,668,000	£20.05
Gross rental Income					*£5,521,800*	*£20.28/ sq. ft /pa*

As part of any future discussion. DVS would welcome further information on the accommodation details, specifically apartment size and outlook.

The disagreement over rental figures bears significant impact on viability, the combined rental is £140,400 pa more, this difference of opinion is significant when capitalised.

8.12.5 **Operational Expenditure (opex costs)**

For a PRS Scheme it is necessary to make an adjustment for the operational costs which are the Landlord’s responsibility. Such costs include; letting fees, allowance for voids, site staff, building operations, tenancy operational expenditure and utilities costs for communal facilities (heating lighting insurance etc.).

The applicant’s surveyor’ has allowed 25% of gross revenue for operational costs, equivalent to £1,345,350 per annum or £3,338/ unit per annum.

The ULL viability report did not include any commentary justifying the allowance adopted nor the make-up of the figure, however the DVS valuer recognises 25% is a 'default opex adjustment' frequently adopted for high level appraisals.

In 2022, a deduction of 25% for operational costs is considered ‘full’. Typically I would expect 23.5%, although I have agreed 25% on multi-building schemes. I note DVS accepted the 25% opex deduction on the proposed multi building PRS developments, Leisure world in 2018 PRS scheme, and on the Western Esplanade in 2022.

It is a widely held view that operating costs bear less relation to rental value and greater correlation to accommodation features such as size and facilities, and a that a price per sq. ft. or price per unit more fairly reflects these costs, and the economies of scale that can be achieved through management of larger buildings.

2019 Operational Cost Research by CBRE points at a rate £3,000 per unit, reducing for larger schemes (understood to be over 300 units) but also recognises that a universal approach is not applicable as operational costs will vary, depending on the scale and age, management and specification of the apartment building. It is reasonable to expect that improving building standards will reduce running costs.

Given the deficits identified by the applicant’s surveyor I consider the operator would mitigate their risk and work towards maximizing efficiency, I consider it reasonable to assess the viability with an Opex allowance of 23.5%.

The input bears significant impact on viability, it effectively increases development value by £2.75 million (DVS revenues).

8.2.5 **Yield**

ULL apply a net initial yield of 4%, quoting market reports in support of the rate. I am satisfied that this is suitable for assessing the viability of this scheme. My benchmarking places reliance on market commentary and other viability reviews and agreements.

As recognised by ULL, *Evidence of specific deals indicates a net initial yield of 4% is a reasonable assumption*, notwithstanding the Grainger development mentioned above, was agreed in 2018.

8.2.6 **DVS Private Rented Development Value**

My opinion of development value for the Private Rented residential accommodation is £105,604,425. As detailed above I may revisit this as part of any future discussion.

<u>8.2 Market Value of Affordable Housing Dwellings</u>

As agreed in the terms the viability assessment review has been appraised excluding on site affordable housing at this stage. Any surplus available for housing will be reported as a monetary sum. This is due to the deficits identified and the understanding that CIL and highways payments sit higher in the hierarchy.

<u>This assessment assumption does not prejudice your authority's privilege to request on site affordable provision.</u>

<u>8.3 Market Value of Ground Rents</u>

The Leasehold Reform (Ground Rent) Act 2022, which received Royal Assent in 2022 will mean dwellings in this development are likely to be sold freehold (or as part of a commonhold) title, or long leasehold and not subject to any ground rent above a peppercorn. This effectively restricts the ground rent of the lease to zero financial value. The legislation also bans freeholders from charging administration fees for collecting a peppercorn rent. Consequently, DVS have not allowed for Ground Rent Investment Value in the viability assessment review.

<u>8.4 Market Value of Commercial Units</u>

Two of the four buildings contain ground floor commercial accommodation:

Building A – 346 sq m (3,724 sq ft) and Building C – 408 sq m (4,392 sq ft).

ULL have applied a rental rate of £18/ sq. ft (overall) and capitalised this at a 6.5% gross yield, allowing for 6 months' rent free.

The combined development value is £2,177,842. (£999,296 for the commercial space in Building A and £1,178,546 for the commercial space in Building B)

To support the valuation, two rental comparables are provided (both from 2019) and market commentary is provided to support the yield, albeit the rate adopted is a judgement in between the two agency reports.

I have reviewed the evidence available, and agreements / assessments on other schemes, including the Meridian Studios redevelopment and evidence submitted and verified on the Western esplanade scheme in Feb 2022.

I am also aware that the commercial unit in Bow Street was available for some time, and the asking rent was reduced to £15 per sq. ft for almost 6,000 sq. ft. in 2021.

Further to this I consider the rental and yield figures proposed to be acceptable for the assessment of viability, I consider the rent free period to also be reasonable.

Note: Despite ULL stating at para 1.5 in the report that commercial rental income during the construction phase is included, the appraisal does not appear to account for rental income during the period from completion to investment sale, this discrepancy is of little impact to viability as detailed above I have cash flowed the investment value of the commercial units at the same time as the main block.

I have rounded the combined development value is £2,175,000 (£1,000,000 for the commercial space in Building A and £1,175,0000 for the commercial space in Building B)

8.5 Market Value of Car Parking

ULL have assessed car parking revenue at £100 per month (£1,200 pa), capitalised at 5% yield. £24,000 per space.

The ULL report states at 5.16 that a 4% yield has been applied. However, the appraisal adopts 5%. This discrepancy results in car park revenue being £1.05 million less than described.

It is in my experience, unusual to apply a different yield to the residential car parking as the residential accommodation. I view that secure parking for residents will be sought after, as there are only 176 spaces for 403 units (around 640 bedrooms). I consider there would be ample demand for parking, and that the same yield of 4% is appropriate

Whilst I note there are higher rents being sought in the city centre schemes, I consider the rental value proposed to be reasonable. I appreciate there may be some management costs associated with the parking, it is my opinion that these would not be anything like the same as the residential allowance of 25% (the difference between a 4 and 5% yield in the ULL appraisal). I have allowed a 10% adjustment to the rent for management/ operational costs relating to parking.

My opinion of GDV for the parking is: £4,752,000 (£27,000 per space)

8.6 Other Revenue

There is no other revenue in the assessment however I draw your attention to:

The residential amenity facilities (gym, lounges etc). It is understood these will be for the exclusive use of the tenants and will not be let or revenue generating. If this were to be chargeable such income and value would be expected to improve the viability of the scheme.

Tax Relief. There is no allowance for tax reliefs in the applicant's assessment. Tax relief may be applicable on this site and, if so, may improve the viability of the scheme. You may wish to seek additional guidance on this, from a tax expert.

8.7 Total Development Value

My total development value is £112,531,425 which is around £5.23 million higher than ULL's assessment.

9.0 Total Development Costs

9.1 Summary of Costs

Excluding profit, and excluding demolition and remediation works which are nil, there are over £100,150,000 of costs in the ULL appraisal, I have grouped together as follows:

Item – ULL appraisal	**£ Sub Total**
Construction Costs - Buildings	£70,219,834
Construction Costs – Amenities	£6,897,878
Contingency	£3,855,886
Professional Fees	£6,169,417
Marketing Fees (commercial)	£20,452
Disposal Fees	£544,804
SDLT on the residential	£4,135,311
CIL	£3,622,806
Finance	£4,688,112
Total	**£100,154,500**

9.2 Total Construction Cost

Para 12 of the NPPG explains that the assessment of costs should be based on evidence which is reflective of local market conditions. The RICS viability guidance indicates *that site specific costs should be used to assess viability of a scheme where available.*

A site specific cost plan detailing the anticipated development costs for the outline scheme, has been prepared by Rund, and is supplied at appendix 2 of the ULL appraisal.

9.2.1 The Rund Cost Plan

The Rund cost plan includes: *Piled foundations and ground slabs; concrete podium deck to create podium parking and amenity deck at level 1; two-storey (internal double height) glazed and brickwork semi-circular gym space, located between Blocks A and D; construction of 4 no. residential apartment blocks (A - 138 units, 21 storeys; B - 85 units, 10 storeys; C - 65 units, 8 storeys, and D - 115 units, 11 storeys), including back of house, communal amenity and commercial areas (commercial areas priced as shell and core, ready for tenant fit out); landscaping and associated public realm works including construction of external staircases for accessing the level 1 podium deck, surface works to create car parking, and hard and soft landscaping to create resident's amenity.*

In summary, construction, abnormal and external works costs are provided for the development and total £77,117,712. This sum is made up as follows:

Group Element	Overall total	Podium/ Café /Gym/ Bar	Block A	Block B	Block C	Block D
Buildings (inc. substructure)	£60,636,642	£2,547,276	£18,317,214	£12,514,609	£9,556,564	£17,700,979
Externals	£3,746,153 (6.25%)	£3,211,513	£105,595	£145,855	£107,355	£175,855
Prelims	£8,369,763	£748,643	£2,394,965	£1,645,860	£1,256,307	£2,323,988
Contractor	£4,365,154	£390,446	£1,249,066	£858,379	£655,212	£1,212,049
Total const. Costs	**£77,117,712**	£6,897,878	£22,066,840	£15,164,703	£11,575,438	£21,412,871
Units	403	403	138	85	65	115
£/ Unit	£191,359.09	£17,116.32	£159,904.64	£178,408.27	£178,083.66	£186,198.88
Total GIA sq. ft.	379,880	(8579)	113,789	81,851	63,800	111,873
£/ sq. ft.	£203.01	(804.04)	£193.93	£185.27	£181.43	£191.40
Storeys			21	10	8	11

Sourced from the overall summary table at page 3 of Rund Cost plan at appendix 2 of the ULL report. Additional analysis by DVS. The total cost and unit rate for the podium, shown in brackets (8579 & £804.04 / sq. ft.) are from the ULL appraisal.

The Rund cost plan has not been independently reviewed at this stage. Southampton Council has instructed DVS to review the costs on a high level basis, provide commentary about any concerns, and to comment on the reasonableness of the figure with regard to BCIS and other VOA held information.

DVS are also instructed to adopt the applicant's abnormal costs where sufficiently supported.

Whilst I feel that I have sufficient evidence on construction rates to form a reasoned opinion on total construction costs for the purpose of this initial review, it cannot be ignored that I am a chartered valuation surveyor, not a quantity surveyor (QS), and so I emphasise the importance of getting this cost plan separately checked by an independent QS, as these costs significantly contribute towards the viability conclusion. Please note that, notwithstanding the initial opinion, in the event of an appeal or protracted negotiations, a separate expert in costs will be required.

My high level comments are :

The Rund cost plan is sufficiently detailed and auditable.

Premium finish It is a PRS scheme and costs includes costs the fitting out of the apartments. There are also premium features in regard to the external finish. I recommend that Southampton Council check through the items and confirm that they are satisfied that any unusual, expensive and/or extra over cost items are necessary or justified in terms of planning, and not, for example, an expensive design feature included at the sake of policy delivery.

Cost Inflation. Rund state at para 1.7 that whilst the cost plan was prepared in the 1st Quarter of 2022 *an inflation allowance has been applied to the total costs using the BCIS All-in TPI assuming that a tender price is agreed with a contractor in Q3 2023.*

For viability purposes one must be consistent in the appraisal assumptions it should either be that the inputs for both costs and values account for growth/inflation or, more typically, neither, as we are concerned with viability at the assessment date.

The pre indexation figures are not supplied, neither is the adjustment factor adopted. From the Overall Summary table supplied at 3.0, however, the final shaded row states that the *total construction cost* (of £77,200,000) *excludes Inflation allowances.* As this is the same total as the build costs adopted in the viability appraisal (albeit rounded in the table, the subtotals do total £77,117,712) I am, reasonably satisfied inflation is excluded from the Rund cost plan, and that para 1.7 contains incorrect wording. Further to this understanding no adjustment has been made.

Your authority should seek assurances on this point before determining the application as the potential impact of inflating the costs is significant.

9.2.2 **Costs on Comparable Schemes and BCIS**

Notwithstanding the fact each development is specific, the base build cost has been considered against evidence gained by DVS in our reviewing capacity.

BCIS benchmarking information, is, usually, not suitable for such high rise apartment developments, as the BCIS database does not contain comparable schemes. For information the BCIS median cost for new build 6 storey apartments or above id £1844 / sq. m (£171.31 / sq. ft) (parameters; date: 13 August 2022; location: Southampton; Results: 5 years)

Build costs before abnormals - adopted on high rise PRS scheme reviewed by DVS include:

- Western Esplanade (Feb 2022) - The multi-use development including retail, offices and commercial and 603 private rented apartments, between 7 and 25 storeys, Here residential build costs were independently reviewed by a QS to be £1,859 per sq. m. £172.70/ sq. ft.) including prelims and overheads plus externals at £139.43 / sq. m £12.95/ sq. ft. Indicating an all-in figure of circa £185.65/ sq. ft.

- Leisure World on West Quay Road (March 2021). The development included a 310 privately rented apartments arranged in up to ten storey* blocks (*TBC, DVS summary report is silent on no. storeys, I have counted from illustration.). Here build costs were independently reviewed by a QS to be £1,749 per sq. m. £162.49/ sq. m.) including prelims and overheads yet externals were excluded (which were not separately costed in the appraisal but grouped with abnormals and highway costs at (combined) £16.29/ sq. m / all in (£15/sq. ft.) Indicating an all-in figure of circa £178.78/ sq. ft.

In addition; I can provide high level commentary compared to schemes I have knowledge of in Salford and Leeds, which have been reviewed by Quantity Surveyors. Further to this:

(a) Circa £194/ sq. ft. for 21 storeys is considered reasonable, based upon July 2022 independent QS review of a 24 storeys PRS scheme Leeds, has been costed at £198 sq. ft. inc. externals, foundations, excluding inflation.

(b) That £181.43 / sq. ft for an 8 storey scheme is considered top side, the most recent (two towers of 7 and 8 storeys, Salford, September 2021) has been agreed at £173.22 sq. ft. inc. externals excluding inflation. It is understood foundations were separately costed.

9.2.3 **Construction costs relating to the Podium / amenities**

These cost total £6,897,878. In the ULL appraisal they stand out as extraordinary when applied to the gross area to which they relate 8579 sq. ft. and £804 per sq. ft. However, around half of these costs (£3.2million plus overheads and prelims, totalling £3,846,750) are associated with external works of the whole development (fencing, landscaping, parking, and roads etc). The remainder £2.547 million plus overheads and prelims is associated with ancillary PRS facilities (totalling £3,051,127).

I have split these out to consider the reasonableness of the figures.

External works devalue at approximately 5.35% of total build cost (buildings A to D) this is considered reasonable when compared to other PRS and apartment schemes. The entire sum is cash flowed within the first 24 month construction period, it may be more appropriate to spread this over a longer period, or to apportion this over the two phases, however this has not been modelled at this stage.

I am concerned regarding the £3,051,127 costs associated with the Podium, Café Bar, Gym and Yoga suite. As a price per square foot, (£355.65 / sq. ft) the cost is viewed as extraordinarily high. As stated in the revenue section, whilst there is revenue included for carparking, there is no revenue included for these other amenities. These amenities are understood to be exclusive for the benefit of the tenants, and not for public use, yet may be chargeable and thus would be revenue generating. The associated cost is significant to the overall viability. Thus you may wish to consider whether these costs are justified at the sake of policy delivery.

9.2.4 **DVS Construction Cost for initial review**

Having regard to the value assumptions, which reflect a premium finish, and costs submitted on comparable schemes, and in light of the pressure on construction costs in recent time, I consider that the build costs of the residential elements proposed which are understood to be inclusive of substructure, externals and abnormal costs to be within reasonable levels and that the Rund cost plan can be relied upon at this stage to determine the viability of this specific development as at the assessment date. Notwithstanding my concerns regarding the costs of the communal facilities, my review assessment adopts the same total construction costs with the caveat that DVS reserves right to review these costs in the event of an appeal or if further information becomes available. Particularly if the total construction costs are later independently reviewed and a different conclusion reached by the Council's professionally qualified advisor. In such an event I will update my report and appraisal accordingly.

The above acceptance is specific to this case and does not prejudice any future viability reviews on this site, or similar developments in your authority which will have regard to the information at that time.

Please note:

- With the exception of the summary table which has been checked, the make-up of the sub-totals and caried forward figures have not been checked by DVS.
- A change in assessment date may lead to a change in costs (and values).
- That any future change to costs may also lead to a reconsideration of other appraisal inputs such as the land value, professional fees, contingencies and profit.

I emphasise that the provisional viability conclusion is reliant on the professional integrity of the applicant and their advisors that such costs will be evident in the completed premises, you may wish to seek greater assurances or impose conditions to satisfy this.

Build costs have been subject to much pressure and volatility in recent times, the impact on viability of higher and lower costs are reflected upon as part of the sensitivity tests at the end of this report.

9.3 Agreed Cost Inputs

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

Accepted Cost	Agent	Comments
Professional Fees	8%	8% considered reasonable for schemes such as the proposed.

9.4 Tentatively Accepted Costs

I have carried forward the following ULL appraisal inputs to my viability assessment, however they are tentatively accepted in good faith, and, in the event of further details, negotiations or an appeal this initial acceptance may later be withdrawn.

Tentatively accepted cost	Agent	Comments
Contingency	5%	This is full for a remediated site with itemised cost plan. There appears to be no contractors price risk allowance in the cost plan. 2.5/3% more typical.
Commercial marketing and agency (rental) fees	Various	Applied to Market Rent. 1% for marketing; 10% for agents fee and 3% for legal fees. Depending on the operational responsibilities might be double counted within the operational expenditure allowance. (insignificant sums)
Commercial Disposal Fees (agent & legal)	Various	6.8% for commercial I opine this should be SDLT +1.75%), total is insignificant
Disposal Fees Residential	Combined 0.35% GDV	0.35% GDV is reasonable on a scheme of this size, however, in view of my conclusion regarding the SDLT for the residential (unagreed see below) I have tentatively allowed a full percent of GDV for monitoring/ professional costs associated with the investment purchase. My 1% of GDV is the combined allowance adopted for the investors costs (agency, monitoring and legals combined).
Finance	6.5% debit 0% credit A 100% debt funded scheme	6.5% debit rate regarded to be high/ outside of unusual expectations, and out of step with yield. 5% debit is more typical and was agreed on Western Esplanade. It is noted that a credit rate of 2% was also applied in that review. A 100% debt funded scheme is typical for viability yet noted to be atypical for this product. DVS have a larger finance sum as the ULL finance figure takes no account of finance incurred on the land payment. I may re consider this as part of future discussion.
Land purchase	Land purchased in entirety at day one	Phased land purchase may be appropriate to reflect four stages of revenue assumption. I have assumed one land payment and the revenue is paid in two tranches.

9.5 Unagreed Costs

Unagreed Cost	Agent	DVS Comments
CIL	£3,622,806	Southampton Council have provided a figure of £3,947,030 (for a fully private scheme) I have appraised using this higher figure, and cash flowed this as 2 equal payments.
SDLT on the 403 residential properties.	£4,135,311	Not agreed as explained below

SDLT Residential Units. Limited text is provided by ULL to explain this sum, from the ULL appraisal we can see it comprises the combined SDLT of the residential elements for the four blocks. This is a peculiar input, it is our experience that a development such as this, would be forward funded, or similar, and the investor would be not pay the stamp duty payment on both the land purchase and the investment purchase. Furthermore, the application is for a purposed built PRS scheme it is understood that there would be some covenant or condition of planning that prohibits the individual sale of the properties.

Consequently, this £4.135 million cost is not accepted, instead, in line with our PRS assessments and agreements over the country, with several surveying firms, acting on behalf of several applicants (developer and investors), SDLT has been assessed on the Land Value only (see omitted items below). Residential disposal and (investment) monitoring fees are included by DVS, at the same as accepted within the Western Esplanade review, albeit I regard this to full for a development of this nature and value. The ULL figure of 0.35% is more typical of my experience.

I am able to disclose details of firms this principal has been agreed with in a private forum. Please note that in the event of an appeal or protracted negotiations on this point a tax expert will most likely be required.

9.6 Omitted Costs

Omitted Cost	Agent	Comments
Land acquisition Agent and legal fees	Omitted	1.5% of (DVS opinion) of the land value,
Stamp Duty Land Tax	Omitted	At the prevailing (commercial) rate of (DVS opinion) of the land value.
Section 106 and other financial contributions towards policy provision	Omitted	Southampton Council have informed DVs that the scheme would be required to pay £585,941 towards various plan policies as set out in para 5.6.

It is recognised that these may be purposeful omissions, as where the residual land value is a negative figure the appraisal software will not calculate / include SDLT or land acquisition fees . It is also recognised that in order to illustrate a more realistic viability picture) SDLT can be manually input as an 'additional cost', as ULL appear to have done perhaps to emphasise the development deficit (albeit the figure is not agreed).

9.7 Summary of DVS Costs

Item	**DVS (App 1)**	**£ ULL**
Construction Costs - Buildings	£70,219,834	£70,219,834
Construction Costs – Amenities/ Externals	£6,897,878	£6,897,878
Contingency	£3,855,886	£3,855,886
Professional Fees	£6,169,417	£6,169,417
Marketing Fees (commercial)	£20,452	£20,452
Disposal & Monitoring Fees	£1,271,204	£544,804
SDLT on the residential	Nil	£4,135,311
CIL	£3,947,030	£3,622,806
Finance	£6,540,838	£4,688,112
Stamp Duty Land Tax & Land acquisition fees (calculated on residual for land sum)	£160,595	Nil
Financial contribution towards policy	£585,941	Nil
Total	**£99,669,075**	**£100,154,500**

As illustrated above, DVS total development costs are around £485,425 less than ULL.

10.0 Developer's Profit

10.1 The applicant's advisor has included blended profit at 12.55% of GDV or 14.4% of total costs (£13.466 million) which is understood to be a blend based upon 12.5% of value for the residential and 15% of value for the commercial.

10.2 I consider a scheme such as this would be forward funded or similar by an investor and so will not be subject the same market risk as a development of flats built to sell to individuals. Risk associated with lettings, void and management are already accounted for within the operational expenditure allowance of around £1.3 million per year.

10.3 Text within the PPG explains that for the purpose of plan making '*15-20% of gross development value (GDV) may be considered a suitable return to* *developers in order to establish the viability of plan policies'* and that '*Alternative figures may also be appropriate for different development types'.* It is a widely held view that PRS is a development type which warrants a different, lower rate.

10.4 I consider 12.55% of GDV as a profit level to be too high for this scheme.

10.5 In other PRS reviews I have undertaken, profit is more typically assessed as a percentage of cost, and ranges from 6% to 12.5%. I have adopted 8% of value on mixed used schemes. In the south east region, I note DVS have accepted profit levels from 8% of cost to 12.5% of value. All of these rates have been agreed with chartered surveyors and qualified professional advising large developers.

10.6 There is no clear picture when viewing profit in isolation. Having regard to the other appraisal inputs adopted in the assessment and the assumption regarding sales and the mixed use nature of this scheme and noting that there is already contractor profit allowed within the cost plan, for this viability review assessment where full policy provision is being challenged, I am satisfied to adopt a profit target of 10% of total development costs. This is my professional opinion. This is equivalent to £10.23 million.

10.7 I am aware of profit levels previously adopted within this authority support 12.5% of GDV (blended) and so, for your information, I have also reported the impact on the viability conclusion with this higher profit level. I have also reported the impact adopting the ULL profit of £13.466 million.

10.6 To accord with the RICS Guidance Note **'Assessing viability in planning under the National Planning Policy Framework 2019',** I can report that the profit level I have adopted of 10% of Total Development Costs is equivalent to 9.09% GDV and an Internal Rate of Return of 15.72%, please note this IRR is relative to the development period and finance rate adopted.

11.0 Benchmark Land Value (BLV)

11.1 Applicant's BLV

The applicant's surveyor has adopted a Benchmark Land Value of £3,064,000, this comprises their opinion of EUV is £3,064,000 plus nil premium.

The EUV is based upon industrial land value of £800,000 per acre. ULL state that new industrial development at Britannia Road would attract local trades at lower rents than the better connected more modern and larger space available in the Western Docks. They include three comparables of prime industrial sites in Hampshire and Crawley, one at £2mn/acre and two at £2.75mn/ acre which appear to have been verbally provided by Savills. A 2021 market overview report by Carter Jones is also provided together with what is understood to be verbal advice of a site on the Western Dock of £1.05mn/ acre.

ULL apply a valuer judgement to reflect the inferior location of the subject, and adopt £800,000 per acre, resulting in an EUV of £3.064 million.

In forming my opinion of BLV I have followed the five-step process, which is detailed in RICS GN '**Assessing viability in planning under the National Planning Policy Framework 2019 for England'** (effective 1 July 2021).

11.2 Existing Use Value (EUV)

Step one is to undertake a valuation to determine EUV.

Whilst the viability assessment assumes a cleared, remediated development site for industrial redevelopment. It cannot be ignored that the existing use is a redundant gas works, which, due to being obsolete and the remediation costs required, would, I feel, have a nominal or nil existing use value.

As stated in the assumptions and the site description earlier, prior to acquisition and development the site will be to be presented to the applicant as a cleared and remediated site, thus, for the purpose of the viability assessment the site is regarded to be <u>a cleared brownfield site, with no abnormals.</u>

ULL consider that the *correct measure for the existing use value is as industrial development land*. Further to the allocation in the local plan this is considered reasonable, although it is understood permission would be needed to develop it in this way, and where redevelopment is assumed, this is effectively an alternative use, to which no premium is appropriate.

11.3 Alternative Use Value (AUV)

Step two is the assessment, where appropriate, of the AUV. The PPG explains that AUV may be informative in informing the BLV.

The EUV above effectively assumes the site will be redeveloped as industrial and so, as per the guidance, is regarded to be an Alternative Use Value. It is noted however that there has been no explanation as to why this alternative use has not been pursued. You may wish to seek assurances on this point.

I am satisfied that there is market demand for industrial development in Southampton.

There are no direct industrial land comps in this part of Southampton, I am aware of a sale of industrial land (and ancillary buildings) on Marine Parade at Britannia Wharf in March 2022 for £1.67 mn per acre. This is a superior location than the subject and includes buildings.

I note the applicant's advisor's 'per acre' approach, I am reluctant to apply a universal price per acre to the subject site, each site is unique in its development potential, and regard must be had to this.

The applicant's EUV has been sense checked by a high level residual valuation, assuming speculative industrial redevelopment. Please note this is a high level 'check' valuation, produced to check the reasonableness of the £3.064 million proposed.

Comparables have been sourced from available properties on Co Star and build costs from BCIS. A summary is provided in appendix *(iii) Other appraisal inputs including density are based on comparables and market knowledge.

My AUV appraisal assumptions are summarised below:

Scheme: Site area 3.7 acres (c. 160,000 sq. ft.); buildings coverage 35%; say 55,000 sq. ft. built industrial
Development period. 6months plus 12 months' rent free, sale upon completion of rent free
Market Rent £11.50 /sq. ft.
Yield 6.5%
Build costs (BCIS August 2022, median £59.27/ sq. ft.)
Externals at 10%
Foundations: £100,000
Contingency 5%
Other Abnormals – Nil (remediated site)
CIL/ Policy: Nil
Professional fees 6%
Letting fees: agency 10% MR; legal 3% MR;
Disposal fees SDLT plus 1.75%
Profit 15% of GDV
Finance 6% debit.

The resulting residual land value is £2,396,160 million.

Sensitivity tests :

- Varying the density by 10% (49,500 sq. ft. to 60,500/ sq. ft.) results in a Residual Land Value range from £2,027,294 to £2,765,026).
- Varying the rent by £1 (£10.50/ sq. ft. to £12.50 / sq. ft) results in a Residual Land Value range from £1,858,958 to £2,933,363
- Varying the yield by 0.25% to 6.25% would result in a Residual Land Value of £2,661,403
- Varying the construction cost by 5% (£56.31/ sq. ft. to £62.23/ sq. ft.) results in a Residual Land Value range from £2,211,727 to £2,580,593.

In order to produce a RLV over £3 million, construction costs would have to reduce by 10% coupled with a 5% increase in rent to £12.07 / sq. ft. this combination is considered remote.

Further to the above sense check residual exercise and analysis, I consider the BLV opinion proposed of £3.064 million to be overstated and an AUV in the order of £2,500,000 to be appropriate, on the understanding there would be no financial contribution towards policy provision for industrial redevelopment.

Please note there may be other alternative uses associated with the football club that have not been considered at this stage, the most obvious being parking.

11.4 Cross Sector Collaboration Evidence of BLV and Premium

The RICS GN explains that Step three is to assess a premium above EUV based on the evidence set out in PPG paragraph 016, which is ‘*the best available evidence informed by cross sector collaboration.* which can *include benchmark land values from other viability assessments’ comparisons with existing premiums above EUV’.*

As the EUV assumes redevelopment, no premium is appropriate.

11.5 Residual Land Value of the Scheme with regard to Plan Policy

Step four is to determine the residual value of the site or typology, assuming actual or emerging policy requirements.

This appraisal has not be necessary, due to the enormous deficits identified by the applicant’s surveyor for a scheme devoid of affordable housing, and the understanding that affordable housing would not be required to be delivered on site, it was agreed to assess the viability of the scheme including CIL sum only.

Adopting the inputs described herein this report, the residual land value of the proposed scheme with partial plan policy requirements (excluding affordable housing) is £2,632,223.

11.6 Adjusted Land Transaction Evidence

Step five is to cross-check the EUV+ approach to the determination of the BLV of the site by reference to (adjusted) land transaction evidence and can also include other BLV of compliant schemes (or adjusted if not compliant).

Market Transaction Evidence, needs careful adjustment and analysis, due to the opaque knowledge of the facts it is difficult to place weight on the evidence and the analysis provided.

Benchmark Land Value tone for viability purposes adopted by DVS and applicants on similar sites include:

Western Esplanade, Feb 2022: 4.6 acres: BLV £4,000,000 (based on EUV of 2 retail units and a 290 space car park, assumes refurbishment, no premium)

11.7 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.

The applicant has not disclosed the price secured for the site. You may wish to make enquiries. If it is less than the BLV adopted, adopting the price paid may lead to greater policy provision.

11.8 Benchmark Land Value Conclusion

The reasonableness of the applicant's £3.064 million Benchmark Land Value has been considered against:

- The EUV of £nominal (as it stands) or £2,500,000 with the special assumption the site is remediated and ripe for industrial development.
- Alternative use value £2,500,000 9assing industrial redevelopment and no policy contributions)
- Evidence of appropriate premium above the EUV - not applicable
- The Residual Land Value of the partially compliant scheme £2,632,223.
- Benchmark Land Values (BLV) adopted in the local plan study for this typology, not applicable)

It is my balanced and professional opinion having considered all of the above approaches that an appropriate BLV would be £2,500,000 this can be reported as:

EUV (with special assumption) of £2,500,000 and a premium £nil.

12.0 DVS Viability Assessment

12.1 DVS Viability Appraisal 1 Partial Plan Policy Compliant Scheme

My viability review assessment has been produced using Argus Developer software.

Appraisal 1 can be found at **Appendix (i)** reflects the partial plan policy requirements of £3,947,030 of CIL, other policy requirements of £635,941, on site affordable provision is not appraised at this stage.

Based on the inputs I have outlined above and fixing the profit at 10% of development costs the residual output presented as the amount available for land which is then compared to the valuer's opinion of the BLV to determine the viability of the scheme. The appraisal calculates a residual land value of over £2,601,320 which is above my opinion of BLV of £2,500,000.

This indicates the scheme can support a moderate financial contribution towards affordable housing.

12.2 DVS Appraisal 2 – Maximum Financial Contribution

As a surplus has been identified, I have considered the maximum financial contribution towards affordable housing that the scheme could viably support, by programming a financial contribution into the cashflow. I have established that the maximum additional financial contribution that can be supported by the scheme is £120,000. This sum has been cash-flowed as one payment, one month after construction of block C&D begins, in month 21 .

Appraisal 2 - which can be found at appendix (ii) reflects a scheme with partial plan policy requirements of £3,947,030 of CIL, S106 and other policy costs of £585,941 and affordable housing contribution of £155,000. The appraisal generates a residual value for land of £2,500,808 which is approximately equal to my BLV opinion of £2.5mn.

It is my independent conclusion the scheme can support the required CIL payment of £3,947,030 plus £740,941 towards other policy provision.

13.0 Sensitivity Analysis

13.1 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.

13.2 **Sensitivity Test 1 – Appraisal 2 – Adjusting Construction Costs**

13.3 I have fixed the land value at £2.5 million. I have adjusted base construction costs in upward and downward steps of 1%, and the output is the residual profit, shown as a both a percentage of cost and as a monetary sum, which can be compared to the Target Developers Profit of 10% and £10.23million.

13.4 Table of Profit on Cost (%) and Profit Amount

Construction: Rate /ft²				
-2.000%	-1.000%	0.000%	1.000%	2.000%
£ 12,072,788	£ 11,151,997	£ 10,231,207	£ 9,310,417	£ 8,389,626
12.02%	11.00%	10.00%	9.02%	8.06%

13.5 This sensitivity shows that the surplus is very sensitive to costs, a 1% rise in cost would not support the surplus identified in appraisal 2.

13.6 **Sensitivity Test 2 – Appraisal 2 – Adjusting Residential Rental Values**

13.7 I have adjusted the blended private residential rental value in upward and downward steps of £0.50 per square metre per annum, and the output is the residual profit, shown as a both a percentage of cost and as a monetary sum, which can be compared to the Target Developers Profit of 10% cost or £10.23 million.

13.8 Table of Profit on Cost (%) and Profit Amount

Rent: Rate /ft²				
-1.00 /ft²	-0.50 /ft²	0.00 /ft²	0.50 /ft²	1.00 /ft²
17.00 /ft²	17.50 /ft²	18.00 /ft²	18.50 /ft²	19.00 /ft²
£ 4,846,432	£ 7,538,820	£ 10,231,207	£ 12,923,594	£ 15,615,982
4.73%	7.36%	10.00%	12.64%	15.29%

13.9 This sensitivity shows that the surplus is very sensitive to the rental rate adopted, a £0.50 rise would support a surplus of over £2.5million, far in excess of that identified. The sensitivity tests show, that the ULL target profit of £13.46 million, can be met, with an increase in rental value of between £0.50/sq. ft. p.a. and £1 per sq. ft. per annum.

13.10 If your council requires any additional or specific testing for future reports, please let me know.

14.0 Conclusion and Recommendations

14.1 Viability Conclusion

Following the above testing work, whilst it is recognised that viability on this scheme is very sensitive it is my considered conclusion that the proposed is able to support the required CIL payment of £3,947,030 plus £585,941 of policy requirements plus a surplus of £155,000 towards other policy provision, such as a payment in lieu of on-site affordable housing.

14.2 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.

The council may consider it appropriate to make it a pre commencement condition that viability is reviewed if construction does not start within a prescribed period of time.

14.3 Other Recommendations

The construction costs, particularly those relating to the 'podium' costs are a significant contributing factor to the viability of the scheme, a reduction would enable the scheme to contribute more to local authority's plan policy requirements, therefore Southampton Council may wish to have the independently reviewed by your relevant expert, before determining the application.

14.4 Market Commentary

Analysis published by the British Property Federation (BPF) in 2022 shows the Build to Rent sector continues to grow at pace, with the number of completed homes increasing by a fifth (19%) in the past twelve months. In addition to this rental values have bounced back to the pre-pandemic level offering investors security in the returns of their long-term investment.

15.0 Engagement

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

15.2 Should the applicant disagree with the conclusions of our initial assessment; we would recommend that they provide further information 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 schemes viability. Please note that there will be an additional diary charge where fee is expended.

15.3 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.

15.4 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.

16.0 Disclosure / Publication

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

16.3 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.

16.3 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.

16.4 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.

16.5 (England) 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 assume that all parties will restrict this report's circulation as appropriate, given the confidential and personal data provided herein.

If the interested 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] Principal Surveyor
RICS Registered Valuer
DVS
Date: 26 August 2022
Updated for policy amounts/ timings: 1st November 2022.

Reviewed by:
[redacted] Principal Surveyor
RICS Registered Valuer
DVS
Date: 30th August 2022

Appendices

(i) Appraisal 1
(ii) Appraisal 2
(iii) Information to support inputs e.g. abnormals review /BCIS extract/ GDV comps
(iv) Redacted TOE

(i) Appraisal 1 – 100% PRS, CIL and full £S106, No AH

APPRAISAL SUMMARY **VALUATION OFFICE AGENCY**

Britannia Road, Southampton
Appraisal 1 - CIL & £s106. NO AH
BLV £2.5 million

Summary Appraisal for Merged Phases 1 2 3 4

Currency in £

REVENUE

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**
Commercial - Building A	1	3,724	18.00	67,032	67,032
Build to Rent - Building A	138	84,512	20.72	12,691	1,339,821
Car Parking	88			1,200	95,040
Build to Rent - Building B	85	60,258	19.79	14,033	912,492
Commercial - Building C	1	4,392	18.00	79,056	79,056
Build to Rent - Building C	65	44,342	20.51	13,994	695,844
Build to Rent - Building D	115	83,191	20.05	14,504	1,276,020
Parking	88			1,200	95,040
Totals	**581**	**280,419**			**4,560,345**

Investment Valuation					
Commercial - Building A					
Manual Value					1,000,000
Build to Rent - Building A					
Current Rent	1,339,821	YP @	4.0000%	25.0000	33,495,525
Car Parking					
Current Rent	95,040	YP @	4.0000%	25.0000	2,376,000
Build to Rent - Building B					
Current Rent	912,492	YP @	4.0000%	25.0000	22,812,300
Commercial - Building C					
Manual Value					1,175,000
Build to Rent - Building C					
Current Rent	695,844	YP @	4.0000%	25.0000	17,396,100
Build to Rent - Building D					
Current Rent	1,276,020	YP @	4.0000%	25.0000	31,900,500
Parking					
Current Rent	95,040	YP @	4.0000%	25.0000	2,376,000
					112,531,425

NET REALISATION				**112,531,425**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			2,632,223	
				2,632,223
Stamp Duty			121,111	
Agent Fee & Legal Costs		1.00%	26,322	
Legal Fee		0.50%	13,161	
				160,595
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Construction - Building A	113,789	193.93	22,066,841	
Construction - Ancillary PRS	8,579	355.65	3,051,127	
Construction - Building B	81,851	185.27	15,164,703	
Construction - Building C	63,800	181.43	11,575,418	

Britannia Road, Southampton
Appraisal 1 - CIL & £s106. NO AH
BLV £2.5 million

Construction - Building D	111,873	191.40	21,412,872	
Totals	**379,892**		**73,270,961**	**73,270,961**
Externals/ Parking			3,846,750	
Contingency		5.00%	3,855,886	
Borough CIL			3,947,030	
S.106 Highways			328,000	
S.106 Solent Disturbance Mitigation			180,922	
S.106 Employment and Skills Plan			30,519	
S106 Carbon Plan			46,500	
				12,235,607
PROFESSIONAL FEES				
Professional Fees		8.00%	6,169,417	
				6,169,417
MARKETING & LETTING				
Marketing - Commercial letting		1.00%	1,461	
Letting Agent Fee - Commercial		10.00%	14,609	
Letting Legal Fee - Commercial		3.00%	4,383	
				20,452
DISPOSAL FEES				
Purchaser's Costs			147,900	
Effective Purchaser's Costs Rate		0.13%		
Sales Agent/ Legals Fee - Resi		1.00%	1,079,804	
Sales Agent Fee - Commercial		1.00%	21,750	
Sales Legal Fee - Commercial		1.00%	21,750	
				1,271,204
FINANCE				
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				6,540,838
TOTAL COSTS				**102,301,297**
PROFIT				
				10,230,128
Performance Measures				
Profit on Cost%		10.00%		
Profit on GDV%		9.09%		

(ii) Appraisal 2 – Max Policy

APPRAISAL SUMMARY **VALUATION OFFICE AGENCY**

Britannia Road, Southampton
Appraisal 2 - MAX POLICY CIL & £s106. NO AH
BLV £2.5 million

Summary Appraisal for Merged Phases 1 2 3 4

Currency in £

REVENUE

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**
Commercial - Building A	1	3,724	18.00	67,032	67,032
Build to Rent - Building A	138	84,512	20.72	12,691	1,339,821
Car Parking	88			1,200	95,040
Build to Rent - Building B	85	60,258	19.79	14,033	912,492
Commercial - Building C	1	4,392	18.00	79,056	79,056
Build to Rent - Building C	65	44,342	20.51	13,994	695,844
Build to Rent - Building D	115	83,191	20.05	14,504	1,276,020
Parking	88			1,200	95,040
Totals	**581**	**280,419**			**4,560,345**

Investment Valuation					
Commercial - Building A					
Manual Value					1,000,000
Build to Rent - Building A					
Current Rent	1,339,821	YP @	4.0000%	25.0000	33,495,525
Car Parking					
Current Rent	95,040	YP @	4.0000%	25.0000	2,376,000
Build to Rent - Building B					
Current Rent	912,492	YP @	4.0000%	25.0000	22,812,300
Commercial - Building C					
Manual Value					1,175,000
Build to Rent - Building C					
Current Rent	695,844	YP @	4.0000%	25.0000	17,396,100
Build to Rent - Building D					
Current Rent	1,276,020	YP @	4.0000%	25.0000	31,900,500
Parking					
Current Rent	95,040	YP @	4.0000%	25.0000	2,376,000
					112,531,425

NET REALISATION				**112,531,425**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			2,500,808	
				2,500,808
Stamp Duty			114,540	
Agent Fee & Legal Costs		1.00%	25,008	
Legal Fee		0.50%	12,504	
				152,053

CONSTRUCTION COSTS

Construction	**ft²**	**Build Rate ft²**	**Cost**
Construction - Building A	113,789	193.93	22,066,841
Construction - Ancillary PRS	8,579	355.65	3,051,127
Construction - Building B	81,851	185.27	15,164,703
Construction - Building C	63,800	181.43	11,575,418

APPRAISAL SUMMARY				VALUATION OFFICE AGENCY
Britannia Road, Southampton				
Appraisal 2 - MAX POLICY CIL & £s106. NO AH				
BLV £2.5 million				
Construction - Building D	111,873	191.40	21,412,872	
Totals	**379,892**		**73,270,961**	**73,270,961**
Externals/ Parking			3,846,750	
Contingency		5.00%	3,855,886	
Borough CIL			3,947,030	
S.106 Highways			328,000	
S.106 Solent Disturbance Mitigation			180,922	
S.106 Employment and Skills Plan			30,519	
S106 Carbon Plan			46,500	
£ SURPLUS For AH			155,000	
				12,390,607
PROFESSIONAL FEES				
Professional Fees		8.00%	6,169,417	
				6,169,417
MARKETING & LETTING				
Marketing - Commercial letting		1.00%	1,461	
Letting Agent Fee - Commercial		10.00%	14,609	
Letting Legal Fee - Commercial		3.00%	4,383	
				20,452
DISPOSAL FEES				
Purchaser's Costs			147,900	
Effective Purchaser's Costs Rate		0.13%		
Sales Agent/ Legals Fee - Resi		1.00%	1,079,804	
Sales Agent Fee - Commercial		1.00%	21,750	
Sales Legal Fee - Commercial		1.00%	21,750	
				1,271,204
FINANCE				
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				6,525,795
TOTAL COSTS				**102,301,296**
PROFIT				
				10,230,129
Performance Measures				
Profit on Cost%		10.00%		
Profit on GDV%		9.09%		

(iii) AUV appraisal and Information to support AUV inputs

APPRAISAL SUMMARY **VALUATION OFFICE AGENCY**

AUV - Residual - Industrial redevelopment.

Summary Appraisal for Phase 1

Currency in £

REVENUE

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
units	1	55,000	11.50	632,500	632,500	632,500

Investment Valuation					
units					
Market Rent	632,500	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	9,136,873
NET REALISATION				**9,136,873**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			2,396,160		
				2,396,160	
Stamp Duty			109,308		
Land Acq Fees		1.50%	35,942		
				145,250	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
units	55,000	59.27	3,259,850	**3,259,850**	
Foundations			100,000		
Externals		10.00%	325,985		
Contingency		5.00%	184,292		
				610,277	
PROFESSIONAL FEES					
All professional Fees		6.00%	221,150		
				221,150	
MARKETING & LETTING					
Letting Agent Fee		10.00%	63,250		
Letting Legal Fee		3.00%	18,975		
				82,225	
DISPOSAL FEES					
Sales Fee		5.75%	525,370		
				525,370	
FINANCE					
Timescale	**Duration**	**Commences**			
Construction	6	Aug 2022			
Letting	12	Feb 2023			
Sale	1	Feb 2024			
Total Duration	19				
Debit Rate 6.000%, Credit Rate 0.000% (Nominal)					
Land			63,916		
Construction			48,254		
Letting Void			413,888		
Total Finance Cost				526,059	
TOTAL COSTS				**7,766,342**	
PROFIT					
				1,370,531	
Performance Measures					
Profit on Cost%		17.65%			
Profit on GDV%		15.00%			

(iv) Redacted TOE

Valuation Office Agency

DVS Property Specialists for the Public Sector

Valuation Office Agency (VOA)
Wycliffe House
Green Lane
Durham
DH1 3UW

Please note that this is our national postal centre, contact by digital channels preferred

[redacted]
Planning Agreements Officer
Planning and Economic Development
Southampton Council
Civic Centre
SO14 7LY

By Email : [redacted]
@southampton.gov.uk

Our Reference : 1799886
Your Reference : 22/00695/FUL

Please ask for : [redacted]

Tel : [redacted]

E Mail : [redacted]
@voa.gov.uk

Date : 11 July 2022

Dear [redacted]
,

Terms of Engagement
DVS Independent Review of Development Viability Assessment

Proposed Development	Redevelopment of the site. Construction of 4 buildings (Blocks A, B, C, D) ranging between 2 and 21 storeys comprising 403 residential units including ancillary residential facilities, with Block C comprising commercial floorspace (Class E), the link building comprising class E and class F2(b) uses, together with associated access from Britannia Road, internal roads and footways, car and cycle parking (including drop off facilities), servicing, hard and soft landscaping, amenity space, Sustainable Drainage systems, engineering and infrastructure works".
Subject of Assessment:	Land at Former Gasworks , Britannia Road, Southampton, SO14 5AX
Planning Application Ref:	22/00695/FUL
Applicant / Developer:	Hawkstone Properties (Southampton) Ltd
Applicant's Viability Advisor:	ULL Property

I refer to your instructions dated 10 June 2022 and am pleased to confirm my Terms of Engagement in undertaking this commission for you.

This document contains important information about the scope of the work you have commissioned and confirms the terms and conditions under which DVS, as part of the VOA proposes to undertake the instruction.

It is important that you read this document carefully and if you have any questions, please do not hesitate to ask the signatory whose details are supplied above. **Please contact them immediately if you consider the terms to be incorrect in any respect.**

Please note that this Terms of Engagement document is confidential between our client, Southampton Planning and Economic Development, and the VOA. As it contains commercially sensitive and data sensitive information, it should not be provided to the applicant or their advisor without the explicit consent of the VOA. A redacted copy of these terms will be included as an appendix to our final report.

1. Client

This instruction will be undertaken for Southampton Planning and Economic Development and the appointing planning officer is yourself, Mr [redacted]
.

2. Subject Property and Proposed Development

It is understood that you require a viability assessment review of planning application ref: 22/00695/FUL

The land or property (properties) subject to the review is the land at Britannia Road, Southampton, SO14 5AX. .

It is understood that the development has:

- the proposed schedule of accommodation is as follows:

Property type	Number	Sq. m	Total Sq. m
1 bed/ 2 person apartments	166	51.47	8,544.02
2 Bed / 3 person apartments	99	64.98	6,433.02
2 Bed / 4 person apartments	127	72.27	9,179.29
2 Bed/ 4 person apartments	11	103.80	1,141.8
Building A Commercial	Flexible		346
Building C Commercial	Flexible		408
Total	**403**		**26,051.13**

The applicant's advisor has appraised in imperial measurements;

An overall NIA of 280419 sq.ft and a GIA of 379,892 sq.ft.

I understand you wish DVS to report in metric.

The residential element of the development comprises:
166 x 1-bedroom apartments: average unit area is 51.47 sq m (554 sq ft).

99 x 2-bedroom 3 person apartments: average unit area is 64.98 sq m (699 sq ft).
127 x 2-bedroom 4 person apartments: average unit area is 72.27 sq m (778 sq ft).
11 x 2-bedroom 4 person duplexes: average unit area is 103.80 sq m (1,117 sq ft)
Commercial: Building A – 346 sq m (3,724 sq ft) & Building C – 408 sq m (4,392 sq ft **)**

3. Purpose and Scope

To complete this assessment DVS will:

a) Assess the Financial Viability Appraisal (FVA) submitted by / on behalf of the planning applicant / developer, taking in to account the planning proposals as supplied by you or available from your authorities planning website.

b) Advise you on those areas of the appraisal which are agreed and those which are considered unsupported or incorrect, including stating the basis for this opinion.

c) If DVS considers that the applicant's appraisal input and viability conclusion is incorrect, we 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. This will take the form of sensitivity tests.

3.1 My report to you will constitute my final report if my findings conclude that the planning applicant / developer cannot provide more affordable housing and s106 payments than have been proposed.

3.2 However, if having completed my assessment, I conclude that the planning applicant / developer may be able to provide more affordable housing and s106 payments than have been proposed, I understand that my findings report may only constitute Stage One of the process as the report will enable all parties to then consider any areas of disagreement and potential revisions to the proposal.

3.3 In such circumstances, I will, where instructed, by you be prepared to enter into discussions on potential revisions to the applicant's proposals, and / or consider any new supporting information. Upon concluding such discussions, I will submit a new report capturing my subsequent determination findings on the potentially revised application; for convenience and to distinguish it, this report on a second stage assessment may be referred to as my Stage Two report.

4. Date of Assessment

The date of the assessment is required to be the date on which the report is signed, which date will be specified in the report in due course.

5. Confirmation of Standards to be applied

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

Mandatory provisions

- 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 in the '**RICS Valuation – Global Standards'**.

Best Practice provisions

Regard will be had to applicable RICS Guidance Notes:

- RICS GN '**Assessing viability in planning under the National Planning Policy Framework 2019 for England'** (effective 1 July 2021)

- RICS GN '**Valuation of Development Property'**

- RICS GN '**Comparable Evidence in Real Estate Valuation'**

Measurements stated will be in accordance with the RICS Professional Statement **'RICS Property Measurement' (2nd Edition)** and, where relevant, the **RICS Code of Measuring Practice (6th Edition)**.

Valuation advice, where applicable, will be prepared in accordance with the professional standards, in particular VPS 1 to 5 of the **RICS Valuation – Global Standards'** and with the **'UK National Supplement'**, which taken together are commonly known as the RICS Red Book. Compliance with RICS Professional Standards and Valuation Practice Statements (VPS) gives assurance also of compliance with the International Valuations Standards (IVS).

6. Agreed Departures from the RICS Professional Standards

As agreed by you, any office and/or residential property present has been reported upon using a measurement standard other than IPMS, and specifically Net Internal Area /

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

I understand that you requested this variation because this measurement standard is how the applicant has presented their data, is common and accepted practice in the construction /planning industry, and it has been both necessary and expedient to analyse the comparable data on a like with like basis.

RICS Red Book Professional Standards PS1 and PS2 are applicable to our undertaking of your case instruction. As our assessment may be used by you as part of a negotiation, compliance with the technical and performance standards at VPS1 to VPS 5 is not mandatory (PS 1 para 5.4) but best practice and they will therefore be applied to the extent not precluded by your specific requirement.

7. Bases of Value

7.1 Benchmark Land Value (BLV) Paragraph 014 of the NPPG for Viability states that Benchmark Land Value should:

- *be based upon <u>existing use value</u>*
- *allow for a premium to landowners (including equity resulting from those building their own homes).*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees.*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

7.2 Existing Use Value (EUV): Paragraph 015 of the NPPG for viability states that:

Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.

7.3 Alternative Use Value (AUV): Paragraph 017 of the NPPG for viability states that:

For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.

Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up-to-date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.

7.4 Gross Development Value (GDV) is defined in the Glossary of the RICS GN '**Valuation of Development Property'** (February 2020) as:

The aggregate Market Value of the proposed development on the special assumption that the development is complete on the date of valuation in the market conditions prevailing on the date. Where an income capitalisation approach is used to estimate the GDV, normal assumptions should be made within the market sector concerning the treatment of purchaser's costs. The GDV should represent the expected contract price.

7.5 Market Value (MV) is defined by RICS VPS 4, paragraph 4 as:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

7.6 Market Rent (MR) is defined by RICS VPS 4, paragraph 5 as:

"The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

8. Special Assumptions

On occasion, it may be agreed that a basis of value requires to be modified and a Special Assumption added, for example where there is the possibility of Special Value attaching to a property from its physical, functional, legal or economic association with some other property.

Any Special Assumptions agreed with you have been captured below under the heading Special Assumptions, in accordance with VPS 4, para 9 of the professional standards of the Royal Institution of Chartered Surveyors: RICS Valuation – Global Standards and RICS UK National Supplement and will be restated in my report.

The following special assumptions have been agreed and will be applied:

- That the proposed development is complete on the date of assessment in the market conditions prevailing on the date of assessment.
- That your Council's Local Plan policies, or emerging policies, including for affordable housing are up to date.
- That the applicant's abnormal costs, where adequately supported, are to be relied upon to determine the viability of the scheme, unless otherwise stated in our report and/ or otherwise instructed by your Council and that are no abnormal development costs in addition to those which the applicant has identified.

9. Extent of Valuer's Investigations, Restrictions and Assumptions

An assumption in this context is a limitation on the extent of the investigations or enquiries that will be undertaken by the assessor.

The following agreed assumptions will apply to your instruction and be stated in my report, reflecting restrictions to the extent of our investigations.

- Such inspection of the property and investigations as the Valuer decides is professionally adequate and possible in the particular circumstance will be undertaken.

- No detailed site survey, building survey or inspection of covered, unexposed or inaccessible parts of the property will be undertaken. The Valuer will have regard to the apparent state of repair and condition and will assume that inspection of those parts that are not inspected would neither reveal defects nor cause material alteration to the valuation unless the valuer becomes aware of indication to the contrary. The building services will not be tested, and it will be assumed that they are in working order and free from defect. No responsibility can therefore be accepted for identification or notification of property or services' defects that would only be apparent following such a detailed survey, testing or inspection. If the Valuer decides further investigation to be necessary, separate instructions will be sought from you.

- It will be assumed that good title can be shown, and that the property is not subject to any unusual or onerous restrictions, encumbrances or outgoings.

- It will be assumed that the property and its value are unaffected by any statutory notice or proposal or by any matters that would be revealed by a local search and replies to the usual enquiries, and that neither the construction of the property nor its condition, use or intended use was, is or will be unlawful or in breach of any covenant.

- It will be assumed that all factual information provided by you or the applicant or their agent with regard to the purpose of this request and details of tenure, tenancies, planning consents and all other relevant information is correct. The advice will therefore be dependent on the accuracy of this information and should it prove to be incorrect or inadequate the basis or the accuracy of any assessment may be affected.

- Valuations will include that plant that is usually considered to be an integral part of the building or structure and essential for its effective use (for example building services installations) but will exclude all machinery and business assets that comprise process plant, machinery and equipment unless otherwise stated and required.

- No access audit will be undertaken to ascertain compliance with the Equality Act 2010 and it will be assumed that the premises are compliant unless otherwise stated by the applicant

- No allowances have been made for any rights obligations or liabilities arising from the Defective Premises Act 1972 unless identified as pertinent by the applicant.

10. Nature and Source of Information to be relied upon by Valuer.

10.1 From the client

Information that will be provided to the VOA by the client comprises the following material, which will be relied upon by the viability assessor without further verification.

a) The Planning application details. **Provided**

b) Confirmation of Local plan policy requirement such as CIL / S106 / S278 planning obligations. In particular whether the applicant's assumptions on these matters are correct, if they are incorrect then please provide the correct details.

I understand the plan policy requirements to be:

- **CIL estimate of £3,947,030. (Provided by S Mackie email dated 30 June 2022. Note this is higher than the applicant's advisor's CIL figure)**
- **35% on site Affordable Housing (Policy CS15) comprising tenures: 65% Socially Rented and 35% Intermediate.**
- **It is understood that no other financial contributions towards plan policy are required. If incorrect provide the relevant sums, and details of likely trigger payments**

c) Details of any extant or elapsed consents relating to permitted Alternative Use.

Planning website search 11July-2022 no extant or elapsed permissions that would give way to a AUV . Screenshot below:

010034868963 | Gas Holder Britannia Road Southampton

Back to search results

Print

Address | Property History (12) | Constraints (11)

Planning Applications (12)

- Continued storage of gas.
  Ref. No: 01/00927/HAZ | Status: PER
- 25m high lattice tower with associated antennae and ground based equipment cabin within secure compound and associated access road
  Ref. No: 02/01335/FUL | Status: Conditionally Approved
- Erection of a temporary building for use as offices and for storage of electronic equipment (for a period of 3 years)
  Ref. No: 870272/M | Status: Conditionally Approved
- BRITISH GAS PLC MARINE PARADE BARGATE WARD NORTHAM SOUTHAMPTON INSTALLATION OF A MICROWAVE DISH
  Ref. No: 890430/E | Status: Conditionally Approved
- CHANGE OF USE TO VEHICLE STORAGE (CLASS B8)
  Ref. No: 920800/E | Status: Conditionally Approved
- CONTINUED USE AS VEHICLE STORAGE (CLASS B8)
  Ref. No: 950595/E | Status: Conditionally Approved
- TEMPORARY CHANGE OF USE TO VEHICLE STORAGE (CLASS B8)
  Ref. No: 980887/E | Status: Conditionally Approved
- Two single-storey detached buildings for use as storage of gas processing unit.
  Ref. No: 10/00452/FUL | Status: Conditionally Approved
- Application for prior approval for the proposed demolition of 2 gas holders and associated buildings
  Ref. No: 14/00696/DPA | Status: Application Refused
- Application for prior approval for the proposed demolition of 2 gasholders and ancillary structures with associated works
  Ref. No: 21/01576/DPA | Status: No Objection
- Application for approval of details reserved by condition 1(Archaeological Structure-Recording) of permission ref 21/01576/DPA for demolition of 2 gasholders.
  Ref. No: 22/00063/DIS | Status: No Objection
- Redevelopment of the site. Construction of 4 buildings (Blocks A, B, C, D) ranging between 2 and 21 storeys comprising 403 residential units including ancillary residential facilities, with Block C comprising commercial floorspace (Class E), the link building comprising class E and class F2(b) uses, together with associated access from Britannia Road, internal roads and footways, car and cycle parking (including drop off facilities), servicing, hard and soft landscaping, amenity space, Sustainable Drainage systems, engineering and infrastructure works.
  Ref. No: 22/00695/FUL | Status: Pending Consideration

d) If the applicant has relied on an alternative use that is not permitted, a statement as to whether this alternative would be an acceptable development.

Not applicable

e) If the applicant has applied vacant building credit, a statement as to whether this is agreed by your Council, if not the appropriate figure.

Not applicable

f) A copy of the applicant's financial viability appraisal.

Provided, prepared by ULL dated March 2022.

ULL assess the viability of a scheme with CIL only (no affordable housing and no other financial contributions). Due to the significant deficit identified, it is my intention to follow this approach, rather than my usual approach to assess full plan policy first.

In the event I conclude the scheme can support some or full policy I will contact you at that time to request further information to complete my review, such as the hierarchy of policy requirements and/or whether a sum in lieu of on-site AH would be a suitable method of reporting any surplus.

10.2 Information from the applicant

<u>Site access</u>

If DVS deem an inspection is required. Please can the applicant confirm if the is accessible or can be sufficiently viewed from the roadside) and no appointment to inspect is required. In particular it is understood there are no extraordinary health and safety issues to be aware of. Alternatively if an accompanied inspection is appropriate, please provide contact details for access arrangements and information about any PPE requirements.

<u>Viability assessment</u>

The applicant should provide sufficient detail to enable DVS to assess their contention that the scheme would not be viable if the Policy requirements in the Local Plan were met.

The applicant's Viability Assessment is expected to meet the authoritative requirements of the NPPF and NPPG for Viability. Where completed by a member the RICS, it is also expected that the applicant's report will comply with RICS Professional Standards PS 1 and PS 2 and the **RICS Professional Statement 'Financial Viability in planning: conduct and reporting'**. In all cases the applicant's viability report is expected to include:

a) A schedule of accommodation which accords with the planning application.
b) A plan showing the respective boundaries and the site area
c) An appraisal compliant with the policy requirements of the Local Plan.
d) A report with text and evidence in support of the:
    (i) Gross Development Value adopted
    (ii) Benchmark Land Value, with reference to EUV and premium.
    (iii) Gross Development Costs including any Abnormal Costs
    (iv) Profit assumptions.
    (v) Finance assumptions.
    (vi) Cash flow assumptions.

Whilst the author of the viability assessment and their qualifications are not clearly identified, it appears that much of the expected information is provided. Save for; a site plan; which is available from the application documents, and the complaint appraisal. The compliant appraisal is understood not to have been provided due to their opinion a fully market scheme is not viable, it follows that an appraisal with lower revenue would be less viable. I consider this to be sufficient for my reviewing purposes.

I will contact ULL directly for an electronic copy of the non-compliant appraisal and cashflow.

10.3 DVS Information

DVS will make use of VOA held records and information. The sources of any other information used that is not taken from our records will be identified in the review report.

10.4 Information Outstanding

I confirm I have in my possession a copy of the applicant's viability report / appraisal and the information provided is sufficient for my review assessment.

DVS will contact the applicant's viability advisor directly for the appraisal.

Please could you confirm by email matters raised herein, such as the schedule of accommodation and the policy assumptions listed above are correct, and that these terms are agreed.

The report delivery date will be dependent upon timely receipt of this information/ conformation.

11. Identity of Responsible Valuer and their Status

It is confirmed that the valuation will be carried out by a RICS Registered Valuer, acting as an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the assessment competently.

The valuer responsible will be myself [redacted]
and my contact details are as stated above in the letterhead.

Any graduate involvement will be detailed in the report.

12. Disclosure of any Material Involvement or Conflict of Interest

In accordance with the requirements of the RICS standards, 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 am satisfied that no conflict of interest exists. Should any such difficulty subsequently be identified, you will be advised at once and your agreement sought as to how this should be managed.

It is confirmed that the valuer appointed has no personal conflict undertaking this instruction.

13. Resignation of Independent Expert

In the rare event of the independent expert becoming ill or otherwise incapable of conducting the determination, or where for any reason it would be improper to continue, then they may have no alternative but to resign. In these circumstances, DVS would seek agreement with the parties as to the best way forward, such as through the appointment of another suitably qualified DVS surveyor. It is agreed that permission for this would not be unreasonably withheld by the parties in such special circumstances.

14. Description of Report

A side headed written report as approved by you for this purpose will be supplied and any differences of opinion will be clearly set out with supporting justification, where inputs are agreed this will be stated also. The DVS report will be referred to as a *viability review assessment.*

Further to the requirements of the RICS a non-technical summary will be included in the review assessment, together with sensitivity tests to support the viability conclusion.

Further to the requirements of the PPG a redacted version of the DVS viability review assessment detailing the final or agreed position will be supplied for transparency purposes.

15. Report Date

It is my intention to submit my review assessment by 26th August 2022.

If unforeseen problems arise that may delay my report, you will be contacted before this date with an explanation and to discuss the position.

In order to meet the above reporting date, it is essential that the information requested with section 10 of these terms is supplied by 29 July 2022

16. Validity Period

The report will remain valid for 4 (Four) months unless circumstances change, or further material information becomes available. Reliance should not be placed on the viability conclusion beyond this period without reference back to the VOA for an updated valuation.

17. Restrictions on Disclosure and Publication

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

18. Limits or Exclusions of Liability

Our viability advice is provided for your benefit alone and solely for the purposes of the instruction to which it relates. Our advice may not, without our specific written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our valuation report.

If we do provide written consent to a third party relying on our valuation, any such third party is deemed to have accepted the terms of our engagement.

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

19. Fee Basis

19.1 You have asked for a fixed fee quote for the viability appraisal. Having considered the initial details of this application, we have agreed a fixed fee basis of **£**[redacted] in order to complete the work set out above.

The personnel involved in this assessment will be as follows:

Personnel:	Role	Task
[redacted]	Development Consultant	Viability review assessment report and appraisal.
Graduate Valuer	Residential and commercial Valuer	Residential and commercial research and Valuation

19.2 This fixed fee proposal is for the provision of a report stating my findings on the development viability appraisal as initially provided by the planning applicant / developer. It will include a meeting with you to deal with initial issues. It may require revision if the information supplied by you or the applicant is not quickly forthcoming at our request or if the initial task is varied by you and in both cases, we would revert to you for advice on the way forward. Abortive fees would be based on work already carried out.

19.3 If there is a subsequent need following the delivery of my report to discuss issues with the planning applicant / developer or you, including the consideration of potential revised proposals, or to attend meetings, this will constitute a second stage requiring a Stage 2 report and we would need to charge on a time spent basis as an additional cost at hourly rates as shown in the table above for this Stage 2 work. I am able to reduce the amount of time I need to spend upon your work by delegating some functions to colleagues who have a lower cost, and this will be reflected in the invoice for this work.

Role	Task	Hourly Fee Excluding VAT
[redacted] RICS Principal Valuer	Report, valuation and viability assessment, advice, discussions, appeal work, (inspection if applicable),	[redacted]
RICS Senior Valuer	Valuation and viability	[redacted]
RICS Graduate Surveyor	Research, valuation, inspection	[redacted]
Quantity Surveyor	Cost estimates, advice	[redacted]

RICS Principal Valuers	Formal case review / Quality Assurance	[redacted]
Administration	Typing/ Research	[redacted]

19.4 **Payer of fees**: With regard to the payment of fees, Homes and Communities Agency has issued a Good Practice Note: "Investment and Planning obligations - Responding to the downturn". In this GPN is a comment that it is common practice for developers to fund the cost of independent validation. The reasoning for this is that you have a planning policy which the applicant is seeking to vary. In order to assess the applicant appraisal, you need advice which it is reasonable for the applicant to bear in these circumstances. I understand that the planning applicant / developer has agreed to reimburse your reasonable costs incurred in this review.

Please note that you will be our named Client. As such, our contractual obligation is to you and not to the applicant and your authority will be responsible for payment of our fees. Any arrangement between your authority and the Applicant relating to payment of the fees would be a matter between yourselves.

20. Currency

All prices and values are stated in pounds sterling.

21. Fee Payment and Interim Billing

Our fees are payable by our client within 30 days from the receipt of our invoice whether or not the amount is disputed or is being passed on to a third party for reimbursement.

The VOA reserves the right, subject to prior notification of details of time spent, to invoice at suitable points during the financial year for work in progress undertaken but not yet formally reported. In order to ensure timely cash flows within the public sector, such interim bills may be issued at either monthly or two monthly intervals. You will be advised beforehand that any such bill is imminent.

Where a case is cancelled before completion, our fees will be calculated on a 'work done' basis with added reasonable disbursements unless alternative arrangements have been prior agreed.

***Please note** under HM Treasury Managing Public Money we are required to review our charging on a regular basis. The VOA reserves the right to undertake an annual review of our rates going forward.

22. Purchase Order Numbers

Thank you for PON 20060002 which will be quoted on correspondence and invoice.

23. Complaints

The VOA operates a rigorous QA/QC system. This includes the inspection by Team Leaders of a sample of work carried out during the life of the instruction together with an audit process carried out by experienced Chartered Surveyors upon completion of casework. It also includes a feedback cycle to ensure continuous improvement.

The VOA has a comprehensive complaint handling procedure if you are not getting the service you expect. If you have a query or complaint it may be best to speak first to the person you have been dealing with or their manager. If you remain dissatisfied, you should be offered a copy of our brochure "Our Code of Practice on Complaints". If it is not offered to you, please request a copy or access it on our website www.voa.gov.uk.

24. Freedom of Information

We take our duty of confidentiality very seriously and will keep any information gathered or produced during this instruction confidential unless you tell us otherwise.

Also, we will advise you of any Freedom of Information Act (FOIA) and / or Environmental Information Regulation (EIR) requests we receive in regard to information we 'hold' relating to this instruction.

The VOA, as part of HM Revenue and Customs, is subject to the Freedom of Information Act 2000. The VOA undertakes to make reasonable endeavours to discuss the appropriateness of disclosure, or the applicability of any exemptions allowed by the Act, with you prior to responding to any FOIA request. However, the VOA reserves the right to comply with its statutory obligations under the Act in such manner as it deems appropriate. If we receive a FOIA request that relates to you or a named member of your staff (legal or actual person) or they can be deduced from the disclosure of the information sought, we must have regard to section 18 (1) of the Commissioners for Revenue and Customs Act (CRCA) 2005 and apply the exemption at section 44 of the FOIA due to section 23 of the CRCA (as amended).

However, outside of FOIA we will seek your views about whether you wish to put the information sought in the public domain or authorise us to disclose it on your behalf.

In turn, the VOA requires you to make all reasonable endeavours to discuss with us the appropriateness of disclosure, or the applicability of any exemptions allowed by the Act, prior to your responding to any third-party requests which you receive for information provided to you by the VOA.

The VOA is subject to the Environmental Information Regulations (EIR) 2004. We will apply the same legal thought process as FOIA but will also need to seek your views on where the greater public interest lies and it may necessitate, upon request, the disclosure of information provided by you unless an exemption can be sustained.

25. Monitoring Compliance by RICS

It is possible that the RICS may at some stage ask to see the valuation for the purposes of their monitoring of professional standards under their conduct and disciplinary regulations.

26. Revisions to these Terms

Where, after investigation, there is in my judgement a need to propose a variation in these Terms of Engagement, you will be contacted without delay prior to the issue of the report.

For example, should it become apparent that the involvement of specialist colleagues would be beneficial, your consent will be sought before their involvement and we shall, if not included in the original fee estimate, provide an estimate of their costs.

The valuer will be grateful to receive at your earliest convenience brief written confirmation by email or letter that these terms and conditions are accepted and approved by you. If you have any queries,' please do not hesitate to contact the valuer listed above.

Yours Sincerely

[redacted]
BSc (Hons) MRICS
Principal Surveyor
RICS Registered Valuer
DVS
11 July 2022

END OF REPORT