

For: Havant Borough Council Review of Applicant Submitted Viability Position

**1-3 North Street Arcade
North Street
Havant
PO9 1PX**

**June 2019
(DSP194030)**

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1. Notes and Limitations

- 1.1.1 The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing Havant Borough Council (HBC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case.
- 1.1.2 This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.
- 1.1.3 We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation, we have considered the site context from the information supplied by the Council and using available web-based material.
- 1.1.4 It has not been specified whether the information supplied to DSP to inform and support this review process has been supplied by the prospective / current planning applicant on a confidential basis. In looking at 'Accountability' the July 2018 published revised national Planning Practice Guidance (PPG) on viability says on this; 'Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.' Therefore, we suggest that the Council and prospective / current or subsequent planning applicant may wish to consider this aspect together. DSP confirms that we are content for our review information, as contained within this report, to be used as may be considered appropriate by the Council (we assume with the applicant's agreement if necessary).

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Havant Borough Council (HBC) to carry out an independent review of the viability information supplied to the Council on behalf of the applicant, in this case by S106 Affordable Housing (S106AH). This is in relation to a proposed development at 1-3 North Street Arcade, North Street, Havant, PO9 1PX. The proposals are for the Construction of 21 No. one and two bed apartments in a 2 storey extension fronting onto Prince George Street, together with the provision of infill flexible use (Classes A1/A2/A3) commercial floorspace to North Street frontage, following the demolition of existing 1 and 2 storey retail development to rear. We understand that the existing residential properties at 1st and 2nd floor level fronting North Street do not form part of the proposals.

2.1.2 The application is in full and the Council's planning reference is APP/18/00530.

2.1.3 The Council's adopted affordable housing policy (Policy CS9) of their Core Strategy requires affordable housing in accordance with the following:

'Planning permission will be granted for housing proposals that will:

- Deliver on average 30-40% affordable housing on sites of 15 dwellings (gross) or more and secure a suitable contribution, or on-site provision, equivalent to on average 30-40% on smaller housing developments between 5 and 14 dwellings (gross), unless a lesser requirement has been transparently justified on viability grounds.

2.1.4 In this instance, between 6.3 and 8.4 units would be required.

2.1.5 HBC adopted a Community Infrastructure Levy (CIL) charging schedule which came into effect on 1st August 2013. The application proposes the erection of new dwellings thus the development is liable to pay CIL. The submitted development appraisal calculates the CIL liability at £89,621 for both the policy compliant scheme and the 100% market scheme. In reality this figure would vary due to the fact that CIL would not be payable on the affordable housing element of the scheme. The figures will need to be confirmed by HBC.

- 2.1.6 The viability information provided for review consists of the above-mentioned Affordable Housing Viability Report (AHVR) by S106AH (setting out the assumptions used). The information also includes associated appendices comprising copies of the viability appraisal output, BCSI cost data, market research and an existing use valuation. DSP has also had sight of the Council's online planning file.
- 2.1.7 We have considered the assumptions individually listed within the FVA and provided our commentary based on those. This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted residential viability assumptions and therefore the outcomes (scope to generate land value) associated with that aspect of the overall proposals.
- 2.1.8 For background, development viability is a measure that may be defined as '*a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return... In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.*'¹. Under normal circumstances where a viability appraisal is provided, if the residual land value (RLV) created by a scheme proposal exceeds the existing use value or (in the absence of a clear existing use, potentially an alternative use value) then we usually have a positive viability scenario – i.e. the scheme is much more likely to proceed (on the basis that a reasonable developer profit margin is also reached).
- 2.1.9 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site (stated to be £720,000 in this case) and assesses the level of additional residual potentially available in excess of that after allowing for a fixed developer's profit. Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable financial contribution for affordable housing.

¹ MHCLG: <https://www.gov.uk/guidance/viability> - Paragraph: 010 Reference ID: 10-010-20180724 Revision date: 24 07 2018

- 2.1.10 The report concludes that: *'In summary, the viability appraisal with no affordable housing shows a negative viability position and therefore no surplus is generated to support any affordable housing provision on the site'*.
- 2.1.11 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted viability assumptions and outcomes in order to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.
- 2.1.12 Havant Borough Council requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views.
- 2.1.13 We have based our review primarily on the submitted scheme appraisals to see if the viability assumptions are valid in our opinion and whether the base position put forward by the applicant is reasonable. We then discuss any variation in terms of any surplus (or deficit) created from that base position by altering appraisal assumptions (where there is disagreement) utilising the applicant's appraisals as a base.
- 2.1.14 This assessment has been carried out by Rob Searle, Director of Dixon Searle Partnership with a considerable track record of assessing the viability of schemes and assessing the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 16 years or so.
- 2.1.15 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of the Council - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.
- 2.1.16 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g. sales value estimates) or any key cost estimates (e.g. build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3. Review of Submitted Viability Assumptions

- 3.1.1 The following commentary reviews the applicant's submitted viability appraisal assumptions as set out in their VA issued to DSP by the Council.
- 3.1.2 DSP was also supplied with a functioning electronic version of the appraisal used by the applicant. It is usually best practice in our experience to provide the working version of an appraisal, especially one using proprietary software, to ensure that both parties are reviewing a single appraisal, reducing the risk of transposition errors. In carrying out this review, DSP have, where necessary, made changes to the submitted appraisals where our opinion on assumptions differ from that of the applicant; sensitivity testing has also been carried out as required. This has enabled us to review the viability outcome with those adjusted assumptions and to test those against the applicant's version to see whether the viability outcome would be improved to the point that an affordable housing contribution (either on-site or via a financial contribution) could be made.
- 3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether or not the indicated profit and land value positions are approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.
- 3.1.4 Should there be changes to the scheme proposals this would obviously impact on the appraisal outputs.

Benchmark Land Value

- 3.1.5 In all appraisals of this type, the base value (value of the site or premises – e.g. in existing use) is one of the key ingredients of scheme viability. A view needs to be taken on land value so that it is sufficient to secure the release of the site for the scheme (sale by the landowner) but is not assumed at such a level that restricts the financial capacity of the scheme to deliver suitable profits (for risk reward), cover all development costs (including any abnormals) and provide for planning obligations as a part of creating sustainable development. This can be a difficult balance to reach, both in terms of developers' dealings with landowners, and Councils' assessments of what a scheme has the capacity to bear.
- 3.1.6 The RICS Guidance 'Financial Viability in Planning'² states that:

² RICS Professional Guidance – Financial Viability in Planning (August 2012)

'A viability appraisal is taken at a point in time, taking account of costs and values at that date. A site may be purchased some time before a viability assessment takes place and circumstances might change.'

This is part of the developer's risk. Land values can go up or down between the date of purchase and a viability assessment taking place; in a rising market developers benefit, in a falling market they may lose out.

A developer may make unreasonable/overoptimistic assumptions regarding the type and density of development or the extent of planning obligations, which means that it has overpaid for the site'.

3.1.7 The revisions to the Viability PPG³ and the new NPPF (updated 19th February 2019 and further updated to May 2019 in other respects) now very clearly advise that land value should be based on the value of the existing use plus an appropriate level of premium or uplift to incentivise release of the land for development from its existing use. In regard to how land value should be defined for the purpose of viability assessment it states: *'To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner.'*

3.1.8 The guidance defines existing use value as: *'the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. 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. 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.'*

³ Most recently updated on May 2019

3.1.9 It states that a Benchmark Land Value should:

3.1.10 The guidance further states that: *'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.'* It goes on to state: *'Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement.)*

- *'be based upon existing use value*
- *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 and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. 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.'*

3.1.11 In regard to assuming an alternative use value to determine BLV the guidance states *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. 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 have an existing implementable permission for that use. Where there is no existing implementable permission, 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 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.'

3.1.12 It is therefore clear that the only acceptable approach to defining a benchmark land value for the purposes of a viability assessment, is the EUV+; or, exceptionally, AUV.

3.1.13 In this case the benchmark land value is based on the existing use value of the site, currently arranged as 9no. retail units with ancillary space. The AHVR states the following:

'This was valued by Vail Williams in November 2017 at £600,000 on a market value with vacant possession basis which we have taken as an existing use value. This valuation is based on an estimated rental income of £82,750pa which equates to £9.95/ft² and a gross yield of 13.79% which is in our opinion a low level of yield. A copy of the valuation report is attached to this report. The valuation was undertaken in 2017 but we have compared the valuation level with current commercial comparable data and there has been little movement in the market we have therefore adopted the same value...The RICS Financial Viability in Planning guidance and the Planning Practice guidance 2014 states the landowner should receive a competitive return to incentivise them to sell the site. There are no fixed percentages it should just be at a level that sufficiently incentivises the landowner to release the land but the usual range is 15-30%. We have adopted 20% resulting in a benchmark land value of £720,000. This equates to 18% of the gross development value of the proposed scheme so within the normal range'.

3.1.14 We have reviewed the Vail Williams valuation and although the valuation is stated to be the Market Value (with special assumption), in our view the valuation could be considered the existing use value of the site for the purposes of viability assessment. There is some level of discrepancy between the Vail Williams valuation (it refers to thirteen units) and both the planning application planning statement and the AHVR which both reference nine units. This may be because some of the units are combined into single entities. This should be clarified by the Council but subject to this clarification we are of the opinion that the valuation provided by Vail Williams is probably not unreasonable.

3.1.15 In addition to the existing use value, the AHVR includes a premium (the plus in 'EUV plus') of 20%. The level of premium to add is not fixed and depends on a number of factors, not

least the attractiveness, in a financial sense, of the property in its existing use. Typically for existing commercial properties of the type discussed here we would allow a premium of no more than 10% - 15%. For the purposes of this review we have assumed 10% leading to a BLV of £660,000.

Acquisition Costs

- 3.1.16 The VA includes a 1% allowance for agents' fees and 0.5% for legal fees. These costs do not seem unreasonable. Stamp duty has also been included at a rate of £25,500, which we have verified is the applicable amount payable on an acquisition price of £720,000. However, a lower BLV would result in a lower SDLT assumption of £22,500.

Gross Development Value – Private Residential

- 3.1.17 The AHVA states that *'To assess the sales values we have looked at comparable properties within half a mile of the site looking at properties on the market, recently sale agreed and completed sales within the last six months. We have focussed on newbuild comparable information to reflect the newbuild premium these units should command'*.
- 3.1.18 The development appraisal supplied indicates sales values averaging £3,144/m², with the 38m² 1-bedroom apartments at £125,000 with the larger one bedroom apartments (44-56m²) at £145,000-165,000. The two bedroom apartments have been valued at £175,000-£195,000. The overall GDV is £2,175,000 which equates to £3,144/m².
- 3.1.19 In order to ascertain whether these are reasonable value assumptions, we have carried out our own desktop research of property values using property search engines RightMove, Zoopla and similar sources considering current / recent asking prices and where available sold prices in the locality.
- 3.1.20 In our view, the values assumptions set out are probably not unreasonable.
- 3.1.21 Ground rents have been included at an average of £200 per unit per annum, capitalised using a yield assumption of 5.5%. In our view a ground rent assumption of £200 per annum for the 1-bed units and £300 per annum for the 2-bed units, capitalised assuming a 5% yield would be more appropriate.
- 3.1.22 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability. Whilst the opposite could also occur (the sales values could fall

relative to the assumptions made), that is the developer's (applicant's) risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

Affordable Housing

3.1.23 Two development appraisals have been provided, one includes a policy compliant level of affordable housing (in this case assumed to be 35% affordable housing) and the second appraisal includes 100% market housing.

3.1.24 For the appraisal that includes affordable housing, the affordable housing revenue has been based on the following assumptions:

'The affordable rent has been modelled on rents at 80% of market rent subject to being no more than the relevant Local Housing Allowance. In this case the resultant rents are above the Local Housing Allowance so we have adopted the LHA rent level resulting in a rent of £116.53pw for the one bedroom apartment and £144.36pw for a two bedroom apartment

The shared ownership has been modelled on initial equity sales at 50% with a rent on the unsold equity at the Homes England maximum rent level of 2.75%.

The net rent has been capitalised at a sector average of 4.75% and all other revenue costs are at sector averages'.

3.1.25 The 'sector averages' include management costs of 6% for the shared ownership properties, 8% for the affordable rent properties, 3% voids and 10% repairs and maintenance allowance; all netted off the gross rent.

3.1.26 Our view and experience of the additional costs suggests management cost of 8% for affordable rent / 3% for shared ownership but otherwise we would be in broad agreement. For the purposes of this review we have updated our version of the applicant's development appraisal with our assumptions.

Gross Development Value - Commercial

3.1.27 There is very little detail provided in relation to the new commercial space but the AHVR states *'The new retail units have been valued on the basis of a rental income at £10/ft² with a yield of 7.5%'.*

- 3.1.28 The existing premises are stated, within the Vail Williams valuation, to have a market rental value of £10.32/sq.ft. on average.
- 3.1.29 In order to verify, or otherwise, the commercial values assumptions, we have therefore undertaken research using Co-Star property intelligence software reviewing the potential achievable rents and yields within the vicinity of the subject site. The data indicates that a rental rate of around £10/sq.ft. is appropriate locally. We would also not disagree with the yield assumption in this case.

Development Timings & Development Finance

- 3.1.30 Finance costs have been assumed based on debt finance rate 7% per annum assuming 100% debt funding over the whole development period including all entry, exit and monitoring fees.
- 3.1.31 The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT) *'The rate applied will depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible and will generate significantly erroneous results in a long-term scheme.'*
- 3.1.32 RICS also points out that it is often the case that schemes are modelled at current costs & values i.e. ignoring inflation (as is the case here). In this case RICS Financial Viability in planning paper states in appendix D 4.5 *'... current values and costs should be used together with a **net** of inflation finance rate. Such a net of inflation rate would be much lower than a bank rate (which naturally includes inflation expectations).'*
- 3.1.33 The interest rate is high in our experience (typically, in the recent period we would expect to see finance rates of 6% - 6.5% inclusive of all fees). We have therefore adjusted the finance rate to 6.5% for the purposes of this exercise and on the basis that this would include all ancillary fees.

3.1.34 The appraisal indicates a 5-month lead in period, 18-month construction period. The overall construction period is probably not unreasonable and any changes would have a minimal impact on the scheme viability.

3.1.35 It is assumed that no sales will be achieved until practical completion followed by a 7 month sales period (i.e. no off-plan sales). We would normally assume some level of off-plan sales (i.e. sales receipt in the first month of the cashflow following practical completion). However, any changes we make to the sales timings has a minimal impact on the overall scheme viability.

Cost Assumptions - Build Costs, Professional Fees & Contingencies

3.1.36 The VA uses the RICS Building Cost Information Service (BCIS) database to inform the cost assumptions for this project. Construction costs of £1,489/m² for the residential and £1,200/m² for the retail space (assuming shell and core only) have been used, based on the median figure rebased to the Havant area.

3.1.37 The overall base build costs are in line with our review of BCIS data and as such we would not query those further in this case.

3.1.38 A further allowance equivalent to 7.5% of base build costs has been included for external works (costs that are not within the BCIS base cost) and these appear reasonable in our view.

3.1.39 The appraisal as presented appears to indicate a net: gross ratio of approximately 82%. Within the development appraisal this has the effect of increasing the overall development cost as the BCIS rate is applied to the gross internal area of the development (including non-saleable space), not the net. The Council would need to confirm dimensions from the planning drawings.

3.1.40 In addition to base build costs an allowance of 7% has been included for professional fees and 5% of build costs as a contingency allowance. The design fees and contingencies are considered within the normal range in our experience.

Cost Assumptions – Agent's, Marketing & Legal Fees

3.1.41 The applicant has assumed a total of 2.75% (of the gross development value) to cover sales and marketing costs with a further £750/unit for legal costs. We would expect a

lower assumption with regard to the residential sales and marketing costs of no more than 2% and as such have adopted that rate within our development appraisal.

Cost Assumptions – Community Infrastructure Levy/ Section 106 Payments / Planning Obligations

- 3.1.42 The VA includes a CIL payment of £89,621 but includes no other s106 costs (including for any Solent Recreation Mitigation Strategy contributions, the costs of which will need to be borne regardless of viability).
- 3.1.43 It should be noted that any change in the chargeable sum would have an impact on the overall viability of the scheme as viewed through the appraisal - a reduction in the CIL cost assumption would improve the viability outcome and an increase would pull it downwards (looking at the effect of this assumption only). In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

Developer's risk reward – profit

- 3.1.44 In this case, the level of profit has been included as a fixed input at 18% of gross development value (GDV) on the residential and commercial space; 6% of GDV for the affordable housing (where applicable). The level of profit assumed viable continues to be a matter of debate. There are no "rules" about what can be considered acceptable, and appeal case examples as well as our own significant experience suggest alternative views. In our experience through both numerous site-specific cases and strategic viability review, a profit of between 15% on cost and 20% on GDV for market housing, 6% for affordable housing and 15% on cost for non-residential space serves as the typical range considered acceptable to applicants; lower profit levels outside this range are also encountered.
- 3.1.45 The RICS Guidance⁴ states that: *"When a developer's return is adopted as the benchmark variable, a scheme should be considered viable, as long as the cost implications of planning obligations are not set at a level at which the developer's return (after allowing for all development costs including site value) falls below that which is acceptable in the market for the risk in undertaking the development scheme. If the cost implications of the obligations erode a developer's return below an acceptable market level for the scheme being assessed, the extent of those obligations will be deemed to make a development unviable as the developer would not proceed on that basis".*

⁴ RICS - Financial Viability in Planning (GN/94/2012)

- 3.1.46 It goes on to state: *“The benchmark return, which is reflected in a developer’s profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. A development project will only be considered economically viable if a market risk adjusted return is met or exceeds a benchmark risk-adjusted market return”.*
- 3.1.47 Planning Practice Guidance on Viability states: *‘Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan’.* It goes on to state: *‘For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types⁵’.*
- 3.1.48 The PPG, as above, although silent in terms of decision making, does set out a range of between 15% and 20% on GDV for market housing; lower for affordable housing in relation to plan making. Given that the NPPF and PPG expect planning applications to be consistent with the plan making stage, it is therefore also appropriate to assume that the range 15% - 20% on GDV (lower for affordable housing) may be considered applicable at the decision taking stage.

⁵ <https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment> - Paragraph: 018 Reference ID: 10-018-20190509

3.1.49 We have therefore assumed a profit of 17.5% on GDV for the market housing, 6% for the affordable housing (where applicable) and 15% on GDV for the commercial space

4. Summary & Overview of Findings

- 4.1.1 We have reviewed the submitted viability assessment based on the scheme as presented. For the most part, standard assumptions have been used and we have agreed with a majority of those. Where a difference of opinion exists we have made changes to our version of the submitted development appraisals.
- 4.1.2 The nature of the adjustments are relatively minor so that the 100% market appraisal indicates a reduced deficit of -£686,089 compared to the applicant position of -£797,364. The appraisal that includes affordable housing also shows a reduced deficit of -£781,249 compared to the applicant's stated position of -£869,185. In both cases the level of deficit is such that the scheme actually returns a loss (i.e. negative profit) in real terms.
- 4.1.3 Overall, it is our opinion that the scheme does not achieve what we consider to be a reasonable level of profit, even without any contribution to affordable housing. This is mainly due to the sales values, which in this specific area are low in relation to the costs involved in developing the scheme.
- 4.1.4 In our view, there would need to be a combination of a downward view on the land assembly cost, reduction in build costs and a significant increase in sales revenue in order to lead to a scheme capable of providing any contribution (whether on site or as a commuted sum) to affordable housing.
- 4.1.5 We need to be clear that this is based on current day costs and values assumptions as described within our review based on the current scheme as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.
- 4.1.6 No viability appraisal or review can accurately reflect costs and values until a scheme is built and sold - this is the nature of the viability review process.
- 4.1.7 DSP will be happy to advise further as required.

Review report ends

June 2019

Carried out by: Rob Searle BSc (Hons) MSc CIHM

QA: Richard Dixon BSc (Hons) MRICS

Appendix I – DSP Version of Applicant Submitted Development Appraisals

-£781,249

DETAIL

£0

Car Parking Build Costs £0

Ground rent

	Capitalised annual ground rent
Social Rented	£0
Shared Ownership	£0
Affordable Rent	£0
Open market (all phases)	£57,680
Capitalised Annual Ground Rents	£57,680

TOTAL CAPITAL VALUE OF RESIDENTIAL SCHEME	£3,031,162
TOTAL BUILD COST OF RESIDENTIAL SCHEME	£2,131,385
TOTAL CONTRIBUTION OF RESIDENTIAL SCHEME	£899,777

Non-Residential

	Cost	Values
Office	£0	£0
Retail	£684,782	£683,874
Industrial	£0	£0
Leisure	£0	£0
Community Use	£0	£0
Community Infrastructure Levy	£0	
CAPITAL VALUE OF NON-RESIDENTIAL SCHEME		£683,874
COSTS OF NON-RESIDENTIAL SCHEME	£684,782	
CONTRIBUTION TO SCHEME COSTS FROM NON-RESIDENTIAL		-£907
GROSS DEVELOPMENT VALUE OF SCHEME		£3,715,037
TOTAL BUILD COSTS	£2,816,167	
TOTAL CONTRIBUTION TO SCHEME COSTS		£898,869

External Works & Infrastructure Costs (£)

	Cost	Per unit	% of GDV	per Hectare
Site Preparation/Demolition	£0			
Roads and Sewers	£0			
Services (Power, Water, Gas, Telco and IT)	£0			
Strategic Landscaping	£0			
Off Site Works	£0			
Public Open Space	£0			
Site Specific Sustainability Initiatives	£0			
Plot specific external works	£0			
Other 1	£0			
Other 2	£0			
	£0			

Other site costs

Fees and certification	7.0%	£142,092	6,766	3.8%
Other Acquisition Costs (£)		£0		

Site Abnormals (£)

De-canting tenants	£0
Decontamination	£0
Other	£0
Other 2	£0
Other 3	£0
Other 4	£0
Other 5	£0
	£0

Total Site Costs inc Fees	£142,092	6,766
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Statutory 106 Costs (£)

Education	£0	
Sport & Recreation	£0	
Social Infrastructure	£0	
Public Realm	£0	
Affordable Housing	£0	
Transport	£0	
Highway	£0	
Health	£0	
Public Art	£0	
Flood work	£0	
Community Infrastructure Levy	£0	
Other Tariff	£0	
Other 1	£89,621	4,268
Other 2	£0	
Other 3	£0	
Other 4	£0	
Statutory 106 costs	£89,621	4,268

Marketing (Open Market Housing ONLY)

		per OM unit
Sales/letting Fees	2.8%	£59,813 4,272
Legal Fees (per Open Market unit):	£750	£10,500 750

Marketing (Affordable Housing)

	per affordable unit
Developer cost of sale to RP (£)	£0
RP purchase costs (£)	£0
Intermediate Housing Sales and Marketing (£)	£0

Total Marketing Costs	£70,313
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Total Direct Costs	£3,118,193
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Finance and acquisition costs

Land Payment	£660,000	47,143 per OM home	#DIV/0!	#DIV/0!
Arrangement Fee	£0	0.0% of interest		
Misc Fees (Surveyors etc)	£0	0.00% of scheme value		
Agents Fees	£6,600			
Legal Fees	£3,300			
Stamp Duty	£22,500			
Total Interest Paid	£283,820			

Total Finance and Acquisition Costs **£976,220**

Developer's return for risk and profit

Residential

Market Housing Return (inc OH) on Valu	17.5%	£380,625	27,188 per OM unit
Affordable Housing Return on Cost	6.0%	£40,347	5,764 per affordable unit
Return on sale of Private Rent	0.0%	£0	#DIV/0! per PR unit

Non-residential

Office	£0
Retail	£119,678
Industrial	£0
Leisure	£0
Community-use	£0
	£119,678

Total Operating Profit **£540,650**
(i.e. profit after deducting sales and site specific finance costs but before deducting developer overheads and taxation)

TOTAL COST **£4,635,062**

Surplus/(Deficit) at completion 1/9/2021 **(£920,026)**

Present Value of Surplus (Deficit) at 3/4/2019 **(£781,249)**

Scheme Investment MIRR **-0.2%** (before Developer's returns and interest to avoid double counting returns)

Site Value as a Percentage of Total Scheme Value 17.8% Peak Cash Requirement -£3,042,045

Site Value (PV) per hectare No area input per hectare No area input per acre

Surplus (Deficit) from Input land valuation at 3/4/2019**-£686,089****HCA DEVELOPMENT APPRAISAL TOOL****SUMMARY****DETAIL****SCHEME**

Site Address North St Havant
 Site Reference
 File Source 21 Units Plus retail all open market
 Scheme Description

Date of appraisal 03/04/2019
 Net Residential Site Area
 Author & Organisation Simon Corp S106 Affordable Housing Ltd
 Registered Provider (where)

Housing Mix (Affordable + Open Market)

Total Number of Units	21	units
Total Number of Open Market Units	21	units
Total Number of Affordable Units	0	units
Total Net Internal Area (sq m)	1,035	sq m
% Affordable by Unit	0.0%	
% Affordable by Area	0.0%	
Density	No Area input	units/ hectare
Total Number of A/H Persons	0	Persons
Total Number of Open Market Persons	0	Persons
Total Number of Persons	0	Persons
Gross site Area	0.00	hectares
Net Site Area	0.00	hectares
Net Internal Housing Area / Hectare	-	sq m / hectare

Average value (£ per unit)	Open Market Phase 1:	Open Market Phase 2:	Open Market Phase 3:	Open Market Phase 4:	Open Market Phase 5:	Total
1 Bed Flat Low rise	£144,063	£0	£0	£0	£0	
2 Bed Flat Low rise	£193,100	£0	£0	£0	£0	
3 Bed Flat Low rise	£0	£0	£0	£0	£0	
4 Bed + Flat Low rise	£0	£0	£0	£0	£0	
1 Bed Flat High rise	£0	£0	£0	£0	£0	
2 Bed Flat High rise	£0	£0	£0	£0	£0	
3 Bed Flat High rise	£0	£0	£0	£0	£0	
4 Bed + Flat High rise	£0	£0	£0	£0	£0	
2 Bed House	£0	£0	£0	£0	£0	
3 Bed House	£0	£0	£0	£0	£0	
4 Bed + House	£0	£0	£0	£0	£0	
Total Revenue £	£3,270,500	£0	£0	£0	£0	£3,270,500
Net Area (sq m)	1,035	-	-	-	-	1,035
Revenue (£ / sq m)	£3,161	-	-	-	-	

CAPITAL VALUE OF OPEN MARKET SALES**£3,270,500****Capital Value of Private Rental**

Phase 1	£0
Phase 2	£0
Phase 3	£0
Phase 4	£0
Phase 5	£0
Total PR	£0

CAPITAL VALUE OF OPEN MARKET HOUSING**£3,270,500****BUILD COST OF OPEN MARKET HOUSING inc Contingency****£2,131,385 £ 1,689 psqm****CONTRIBUTION TO SCHEME COSTS FROM OPEN MARKET HOUSING****£1,139,115****AH Residential Values****AH & RENTAL VALUES BASED ON NET RENTS**

Type of Unit	Social Rented	Shared Ownership (all phases)	Affordable Rent (all phases)	Total
1 Bed Flat Low rise				
2 Bed Flat Low rise				
3 Bed Flat Low rise				
4 Bed + Flat Low rise				
1 Bed Flat High rise				
2 Bed Flat High rise				
3 Bed Flat High rise				
4 Bed + Flat High rise				
2 Bed House				
3 Bed House				
4 Bed + House				
	£0	£0	£0	£0

£ psqm of CV (phase 1)

CAPITAL VALUE OF ALL AFFORDABLE HOUSING (EXCLUDING OTHER FUNDING)**£0**

RP Cross Subsidy (use of own assets)

£0

LA s106 commuted in lieu

£0

RP Re-cycled SHG

£0

Use of AR rent conversion income

£0

Other source of AH funding

£0**OTHER SOURCES OF AFFORDABLE HOUSING FUNDING****£0****CAPITAL VALUE OF ALL AFFORDABLE HOUSING (INCLUDING OTHER FUNDING)****£0****BUILD COST OF AFFORDABLE HOUSING inc Contingency****£0****#DIV/0!****CONTRIBUTION TO SCHEME COSTS FROM AFFORDABLE HOUSING****£0****Car Parking**

No. of Spaces	Price per Space (£)	Value
-	-	£0

Value of Residential Car Parking

£0

Car Parking Build Costs £0

Ground rent

	Capitalised annual ground rent
Social Rented	£0
Shared Ownership	£0
Affordable Rent	£0
Open market (all phases)	£94,080
Capitalised Annual Ground Rents	£94,080

TOTAL CAPITAL VALUE OF RESIDENTIAL SCHEME	£3,364,580
TOTAL BUILD COST OF RESIDENTIAL SCHEME	£2,131,385
TOTAL CONTRIBUTION OF RESIDENTIAL SCHEME	£1,233,195

Non-Residential

	Cost	Values
Office	£0	£0
Retail	£684,782	£683,874
Industrial	£0	£0
Leisure	£0	£0
Community Use	£0	£0
Community Infrastructure Levy	£0	
CAPITAL VALUE OF NON-RESIDENTIAL SCHEME		£683,874
COSTS OF NON-RESIDENTIAL SCHEME	£684,782	
CONTRIBUTION TO SCHEME COSTS FROM NON-RESIDENTIAL		-£907
GROSS DEVELOPMENT VALUE OF SCHEME		£4,048,454
TOTAL BUILD COSTS	£2,816,167	
TOTAL CONTRIBUTION TO SCHEME COSTS		£1,232,287

External Works & Infrastructure Costs (£)

	Cost	Per unit	% of GDV	per Hectare
Site Preparation/Demolition	£0			
Roads and Sewers	£0			
Services (Power, Water, Gas, Telco and IT)	£0			
Strategic Landscaping	£0			
Off Site Works	£0			
Public Open Space	£0			
Site Specific Sustainability Initiatives	£0			
Plot specific external works	£0			
Other 1	£0			
Other 2	£0			
	£0			

Other site costs

Fees and certification	7.0%	£142,092	6,766	3.5%
Other Acquisition Costs (£)		£0		

Site Abnormals (£)

De-canting tenants	£0
Decontamination	£0
Other	£0
Other 2	£0
Other 3	£0
Other 4	£0
Other 5	£0
	£0

Total Site Costs inc Fees	£142,092	6,766
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Statutory 106 Costs (£)

Education	£0	
Sport & Recreation	£0	
Social Infrastructure	£0	
Public Realm	£0	
Affordable Housing	£0	
Transport	£0	
Highway	£0	
Health	£0	
Public Art	£0	
Flood work	£0	
Community Infrastructure Levy	£0	
Other Tariff	£0	
Other 1	£89,621	4,268
Other 2	£0	
Other 3	£0	
Other 4	£0	
Statutory 106 costs	£89,621	4,268

Marketing (Open Market Housing ONLY)

		per OM unit
Sales/letting Fees	2.8%	£89,939 4,283
Legal Fees (per Open Market unit):	£750	£15,750 750

Marketing (Affordable Housing)

	per affordable unit
Developer cost of sale to RP (£)	£0
RP purchase costs (£)	£0
Intermediate Housing Sales and Marketing (£)	£0

Total Marketing Costs	£105,689
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Total Direct Costs	£3,153,569
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Finance and acquisition costs

Land Payment	£660,000	31,429 per OM home	#DIV/0!	#DIV/0!
Arrangement Fee	£0	0.0% of interest		
Misc Fees (Surveyors etc)	£0	0.00% of scheme value		
Agents Fees	£6,600			
Legal Fees	£3,300			
Stamp Duty	£22,500			
Total Interest Paid	£335,529			

Total Finance and Acquisition Costs **£1,027,929**

Developer's return for risk and profit

Residential

Market Housing Return (inc OH) on Valu	17.5%	£572,338	27,254 per OM unit
Affordable Housing Return on Cost	0.0%	£0	per affordable unit
Return on sale of Private Rent	0.0%	£0	#DIV/0! per PR unit

Non-residential

Office	£0	
Retail	£102,581	
Industrial	£0	
Leisure	£0	
Community-use	£0	£102,581

Total Operating Profit **£674,919**

(i.e. profit after deducting sales and site specific finance costs but before deducting developer overheads and taxation)

TOTAL COST **£4,856,418**

Surplus/(Deficit) at completion 1/9/2021 **(£807,963)**

Present Value of Surplus (Deficit) at 3/4/2019 **(£686,089)**

Scheme Investment MIRR **4.5%** (before Developer's returns and interest to avoid double counting returns)

Site Value as a Percentage of Total Scheme Value	16.3%	Peak Cash Requirement	-£3,840,466
Site Value (PV) per hectare	No area input per hectare	No area input per acre	