

5 February 2018

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Care of; BrightSpace Architects Ltd, Freyern Court road, Fordingbridge, SP6 1QX.

Economic Viability Assessment

Dear Sirs

Ref; Proposed Development at Wellington Way, Waterloooville.

Background

I am instructed by CPI Wellington Way 2 Ltd to undertake an Economic Viability Assessment (EVA) of the above site to determine its ability to support any s106 contributions. The site is being delivered as a purpose built Private Residential Sector (PRS) development.

I attach (Appendix A) a summary of my residual valuation worksheet that I also have provided in an HCA EAT Model. This appraisal considers the viability of the site on standard valuation assumptions.

This review is undertaken in accordance with RICS Guidance Note 92, Financial Viability in Planning and in accordance with RICS Valuation Practice Standards.

The site currently provides for 18 number purpose built retail units. A number of these retail units have been combined over time to provide larger shops. An element of the site includes land owned by the Local Authority. This land forms access to the shops as pedestrian areas and some vehicular access.

The proposed project includes for a purpose built PRS scheme including for 264 studio flats with associated communal facilities including café, gymnasium and lounge.

A significant factor in the sites overall Economic Viability is the need to generate suitable incentive to the land owner to release the site for development in accordance with the National Planning Policy framework. I will draw your attention to the key issues.

CPI Wellington Way 2 Ltd
EVA – Waterloooville PRS
5 February 2018

Construction Costs

The proposed scheme considers a purpose built PRS scheme of 264 studios in a 9 storey building. The scheme has been designed in accordance with latest best practice and includes a range of accommodation including individual studios and disabled suites.

A minimum level of on-site communal and administrative facilities is required to support a 264 studio PRS and these functions are accommodated predominantly on the ground floor.

Unit Type	Number of Units	Total GIA m2
Individual Studio	254	6,828
Disabled Studio	10	300
Communals		2,542
Undercroft		217
Totals	264	10,031

Constructions cost evidence for PRS schemes are well represented in the RICS Build Cost Index. Considering the median rate indexed to Havant this currently stands at £1,966m2. Overall the proposed building provides for 9,670m2 of accommodation plus undercroft of 217m2. Applying the construction index rate plus a reduced rate of £550m2 for the undercroft the main works costs amount to a budget of £19,130,570.

I have reviewed a number of under construction projects similar to this scheme including the Portswood Road Halls development in Southampton and Oxford Road Halls development in Bournemouth and can confirm that the likely costs of construction for the Waterlooville PRS will amount to or exceed the BCIS published rate.

I have undertaken a measured survey of external works and infrastructure costs. These works are modest due to the relative size of the site and its well serviced location. However, there will be significant infrastructure fees for the full range of utilities required in the building and there will be demolition costs. Overall I consider an external works budget of a minimum of £529,635 to be appropriate.

Overall I estimate the construction cost budget to be £19,660,205. I would stress that there are a significant level of unknown cost issues with the proposed development including for service diversions, sustainable urban drainage and works to adjoining land and property.

Combined with the significant in the ground risk and structural nature of the building I consider a minimum 5% contract sum contingency to be appropriate on this site.

Fees

Taking into account the size and nature of the development I consider a professional fee budget of 7% of construction works contract sum to be reasonable. This is stated in the sum of £1,376,214.

Interest and bank charges have been calculated on a cash flow model with arrangement fees of 1% and interest rates of 4%. In regards timetable I have allowed 3 months for mobilisation, 17 months for build and immediate sale following practical completion. Overall finance charges amount to £1,302,795.

Sales and marketing costs are assumed at 1.5% of Gross Development Value being £462,001 and purchasers costs at 5.8% of GDV being £1,786,405 including for SDLT etc.

In order to secure vacant possession there are a number of statutory compensation costs and leaseholder legal fees to be covered. I have included a sum of £150,000 for this qualifying project cost.

Professional fees relating to land acquisition and valuation have been included in the sum of £59,200.

The proposed building amounts to 9,670m² in floor area. Existing buildings being demolished account for 2,613m². The net gain in floor area for Community Infrastructure Levy (CIL) charge is 7,057m². The current indexed CIL rate is £107.85m² producing a charge of £761,097.

The site is subject to s106 contributions for habitat mitigation and I have included £375 per studio flat totalling £99,000.

Existing Use Value (EUV) – Land Costs

The site was acquired by Westbrook Properties as part of a significant property portfolio, as such there is no specific historic purchase cost information to disclose.

The site has been earmarked for redevelopment and as such a number of retail units have been allowed to become vacant. However, two thirds of the existing premises are currently let on market terms.

The 18 number retail units amount to 22,642sqft of commercial space. The Estimated Rental Value (ERV) is £257,450 reflecting a rental value of £11.37sqft. I attach a schedule of accommodation at Appendix B including for details of existing leases and a location plan.

Considering the market, the strength of covenant and general position of the property I consider that the commercial premises would attract an Investment Yield of 10% (YP10). Taking into account the ERV the Existing Use Value is £2,574,500.

I draw your attention to the fact that there is need to ensure a competitive return to the land owner in releasing the site for redevelopment in accordance with National Planning Policy.

It would be reasonable to expect that a land owner would wish to secure a higher value for a viable Brownfield Site in this location. Accordingly I consider a minimum uplift to the EUV of 15% to be reasonable. This produces a Site Value for the purposes of viability assessment of £2,960,000. SDLT must be included at the prevailing rate of 4.65% within the valuation.

Profit and Overhead

In line with similar commercial property deals in the region I have included for a minimum profit and overhead at 15% of cost (12.75% on GDV) in my valuation. The project is specialist in nature and requires significant investment over a long time frame. A profit margin lower than 15% on cost would be considered unreasonable.

Revenue

I have undertaken a detailed review of recently completed PRS projects and similar student halls schemes in the region. Furthermore I have consulted leading Agents specialising in the market to determine the current market value for the proposed scheme.

It is envisaged that the proposed building, when delivered, will be sold at practical completion to an Institutional Investor. The market is currently dominated by institutional investors and pension funds who seek a long term investment in this sector.

I consider rental levels to be reflected in the sum of £170 per week inclusive. It would be reasonable to expect an average occupancy level of 50 weeks per annum. The gross rent is therefore £8,500 per studio flat.

The valuation of PRS considers the deduction of running cost at a rate of £1,500 per annum. This produces a net rental income of £7,000 per annum.

Evidence as to Investment Yields for PRS schemes are not readily available as deals are conducted with confidentiality clauses. However, published research by Knight Frank suggests Investment Yields for Secondary Regional Cities to be 5.25%. WaterlooVille is not a Secondary Regional City and as such I am of the opinion that an Investment Yield of 6% (YP16.66) is appropriate for this project taking into account the location of the site and lack of transport links.

Taking into account the likely rental income and Investment Yield I consider the buildings Gross Development Value to be reflected in the sum of £30,808,156.

Residual Value

Taking into account the reasonable assumptions considered in my report, the project produced a marginal Site Value in the sum of £94,725.

Considering the Existing Use Value inclusive of 15% vendor incentive the Land Value for the purposes of this review is £2,960,000. The projects development residual is therefore significantly under water at -£2,865,275.

The residual valuation presents significant challenges to the developer which can only be resolved through improvements in Investment Yield and reduction in delivery costs. Alternative strategies may include for increasing the number of studios included within the development.

Notwithstanding this the project clearly cannot support any additional s106 contributions in particular for affordable housing.

Conclusion

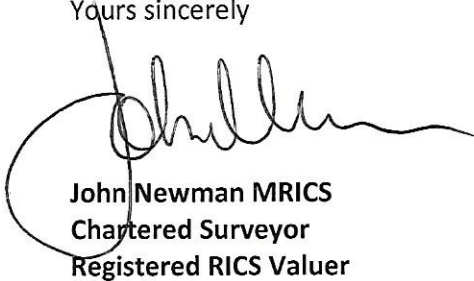
It is clear that the site has demonstrable existing use value; however it is the overall delivery costs of the proposed building and revenue that determine the main economic viability issues of this site. Only by undertaking the project on significantly reduced development profit can the project be delivered. The inclusion of any additional planning gain contributions will prevent the project coming forward.

PRS projects are typically delivered by way of Institution Funding and Acquisition. It is inconceivable that the sector would invest in this project if the LPA were to include a review mechanism within the s106 agreement as the level of risk would be too great for Investors to bear.

The inclusion of review mechanisms is contrary to RICS Valuation Guidance and has been found to be unreasonable in planning appeal decisions. Accordingly the LPA are advised that a review mechanism in the s106 will not be accepted by the applicant.

Please don't hesitate to contact me if you require any additional information.

Yours sincerely



John Newman MRICS
Chartered Surveyor
Registered RICS Valuer

Waterlooville PRS - Financial Viability Assessment.Private Development Assumptions

05-Feb-18

AStandard Construction Costs

Unit Type	Number of Units	Gross Int Floor Area m2	Total GIA m2	Construction Cost Rate £m2	Total Build Cost
Studio Flats	264	27	7,128.00	£1,966	£14,013,648
Communal Areas			2,542.00	£1,966	£4,997,572
Undercroft			217.00	£550	£119,350
Totals	264		9,887.00		£19,130,570

Over Extra Construction Costs

Podium Deck area- 348m2	£34,800	
Roof Terrace - 314m2	£31,400	
Demolition 2,613m2	£117,585	
Utility Infrastructure Charges	£237,600	
Incoming Services	£20,000	
Foul Drainage	£20,000	7,128.00
Surface Water Drainage	£20,000	Rate
Off Site Works -200m2	£24,000	£2,758.17
Euro Bins -33	£8,250	£256.23
Hard Surfaces -200m2	£16,000	
Renewable Energy	£0	
Service Diversions	£0	
Over Extra Foundations	£0	
Sub Total	£529,635	

Total	£19,660,205
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Contingency @ 5%	£983,010
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Grand Total	£20,643,215
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Administration and Development Allowance

Professional fees @7%	£1,376,214			
Build Interest (@5% inc)	£1,154,795	Re calc	Gross Area	9670
Land Interest (@5% 24 months)	£148,000			
CIL - 7,057m2	£761,097	34.82% Index	Demolition	2613
Selling Fees @1.5%	£462,001		Net Area	7057
Purchasers Costs @5.8%	£1,786,405			
S106 contributions	£99,000			
Statutory Compensation etc	£150,000			
Stamp Duty	£137,500	4.65%		
Land - Valuation, Legal & Agent	£59,200			
Total	£6,134,213			

Overhead & Development ProfitOverhead Profit @15% On Cost **£3,927,934****Total Profit** **£3,927,934****Gross Development Costs** **£30,705,363****Total Gross Development Value****Sales****£m2**

Studio Flat	264	£116,667	<u>£30,800,088</u>	£4,321
Totals Market GDV	264		<u>£30,800,088</u>	

Residual to Site Value **£94,725****Existing Use Value** **£2,574,000****Plus 15% Uplft** **£2,960,000****Difference between SV and EUV** **-£2,865,275****Build Interest payments**Contract period expenditure **£22,879,527**

24 month cycle to last sale loan paid

Intro Fee 1% **£228,795**

Borrowing rate 4%

Month 0	£500,000	£500,000	£1,667	Planning
month 1	£500,000	£1,000,000	£3,333	Mob
month 2	£750,000	£1,750,000	£5,833	
month 3	£400,000	£2,150,000	£7,167	
month 4	£400,000	£2,550,000	£8,500	SOS
month 5	£600,000	£3,150,000	£10,500	
month 6	£800,000	£3,950,000	£13,167	
month 7	£1,000,000	£4,950,000	£16,500	
month 8	£1,200,000	£6,150,000	£20,500	
month 9	£1,400,000	£7,550,000	£25,167	
month 10	£1,600,000	£9,150,000	£30,500	
month 11	£1,600,000	£10,750,000	£35,833	
month 12	£1,600,000	£12,350,000	£41,167	
month 13	£1,600,000	£13,950,000	£46,500	
month 14	£1,600,000	£15,550,000	£51,833	
month 15	£1,600,000	£17,150,000	£57,167	
month 16	£1,400,000	£18,550,000	£61,833	
month 17	£1,200,000	£19,750,000	£65,833	
month 18	£1,000,000	£20,750,000	£69,167	
month 19	£800,000	£21,550,000	£71,833	
month 20	£600,000	£22,150,000	£73,833	
month 21	£400,000	£22,550,000	£75,167	
month 22	£200,000	£22,750,000	£75,833	PC 18
month 23	£79,000	£17,150,000	£57,167	
month 24		£0	£0	

£22,829,000**£926,000****Total Finance Cost****£1,154,795**