

For: Havant Borough Council Review of Applicant Submitted Viability Position

**MIPA Paints
Fulflood Road
Leigh Park
Havant
PO9 5AX**

**July 2021
(DSP21403T)**

Contents

Notes and Limitations	1
Introduction	3
Review of Submitted Viability Assumptions	7
Summary and Recommendations	24



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. Some of the information supplied to DSP to inform and support this review process has been supplied by the prospective / current planning applicant on a private and confidential basis. Potentially, some of the information provided may be regarded as commercially sensitive. The applicant has provided various documents in response to DSP's requests for information pertaining to this case – these are likely to be commercially sensitive we have not appended all of these documents to this report, however will provide them to the Council under separate cover. Some of the figures from these documents are quoted in our report and in the report by ERM consultants included as Appendix 1 to our report. In looking at 'Accountability', since July 2018 (para. 021 revised in May 2019), the 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).

- 1.1.5. Dixon Searle Partnership conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have been and are involved in the review of other planning stage proposals within the HBC area, in addition to strategic level (development plan/planning policy) projects.
- 1.1.6. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. This is kept under review. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

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 application made via a letter dated 25 January 2021 (submitted as part of application APP/21/00078) to remove condition no.14 to application reference APP/18/00478. This is in relation to the proposed redevelopment of land adjacent to Fulflood Road, Havant, PO9 5AX. APP/18/00478 is an application for a variation to the original application APP/15/01233 for the *'Erection of approx 1,920sqm of Warehouse, 890sqm of office space and a 220sqm training school facility with associated enclosed loading areas, car parking and refuse storage'* (approved on 24 January 2016).
- 2.1.2 Condition 14 of APP/18/00478 relates to the requirement for the development to achieve a minimum standard of 'very good' BREEAM rating. The application to remove this condition has been made by Stephen Potter of Architectural & Building Services Ltd, and notes that policy CS14 of the Council's Core Strategy 2011 requires a 'very good' BREEAM rating unless it can be demonstrated that this rating is not attainable due to the financial or technical viability of the scheme.
- 2.1.3 The application is being made on grounds of financial viability, and is unusual in that that building has already been constructed.
- 2.1.4 In presenting their viability position, the applicant has supplied to the Council the aforementioned letter dated 25 January 2021, and following discussion between the applicant and DSP, the following documents:
- BREEAM Pre-assessment Strategy Report prepared by Kingfisher Ecology Ltd in association with Energy Report Ltd, dated November 2018
 - A report and commercial property valuation of the proposed property prepared by Vail Williams (carried out part-way through construction) dated 20 September 2020
 - Spreadsheet titled 'Mipa Development Costs' setting out the actual costs of development of the property, including a lump sum construction cost, and itemised costs for associated professional fees, surveys and land/acquisition costs.

- Spreadsheet titled 'Mipa Paints_BREEAM VG Budget assessment' setting out estimated costs of achieving a BREEAM 'very good' rating at tender stage.
- MIPA Paints Building Tender Report provided by Welling Partnership and dated 18 December 2018, which is referred to in the letter dated 25 January 2021.

2.1.5 The letter from the applicant to the Council dated 25 January 2021 states that:

'The original design exceeded the expected estimate of costs and made the scheme financially unviable. Added to this the quote for implementing BREEAM was not included in the tenders and would increase the lowest tender price by £210,000.

The only way this project could happen was to cut costs substantially.

A new design team was brought in and the project was redesigned with savings made on foundations and facing materials to bring the project back within budget. The revised design concentrated on a better sealed structure which would in turn reduce fuel costs to run the building.

The design alterations were approved in application 19/00875.

However, in early 2020 the applicant's insurers insisted that a sprinkler system and uprated electrical fire detection and alarm systems be installed at an extra cost of £245,000.

The sprinkler system was approved in application 20/00634.

This addition has put a severe financial strain on the applicants and there is no room for additional expenditure for BREEAM especially with the added risk to jobs and the business with the ongoing pandemic and resultant financial crash.'

2.1.6 DSP has also had sight of the documents contained within the Council's online planning application files.

2.1.7 For general background, a viable development could be regarded as the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e. existing use value) for the landowner and a market risk adjusted return to the developer in delivering that project. The Government's

Planning Practice Guidance on Viability sets out the main principles for carrying out a viability assessment. It states:

‘Viability assessment is 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...Any viability assessment should follow the government’s recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making...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’.

- 2.1.8 Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing use value plus a premium (referred to as a benchmark land value (BLV) in this case) 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 applicant has not submitted a development appraisal in this case, therefore we will consider the viability of the scheme on the above basis, using the provided information on actual costs and making assumptions based on typical/average costs in the case of any gaps in information. We will review the proposed values against comparable evidence.
- 2.1.10 In order to verify the costs specific to BREEAM, DSP has commissioned ERM Cost Consultants on behalf of the Council, to carry out a ‘review of the reasonableness of the stated costs to achieve a BREEAM ‘Very Good’ rating’.
- 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. Our report 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 on the information provided and described in 2.1.4, above, and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. In order to do so we have carried out a financial viability appraisal using Argus Developer software (a tool commonly used in the development industry). We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any) using our appraisal.
- 2.1.14 This assessment has been carried out by Dixon Searle Partnership, a consultancy who have over 40 years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have 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 18 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. In this case as well as the overall viability of the scheme it is also necessary to consider the effect of the specific requirement to achieve a BREEAM ‘very good’ rating.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

3.1.1 The following commentary reviews the submitted information.

3.1.2 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures provided, as below, and made our own assumption where necessary.

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 result is approximately as expected – i.e. informed by a reasonable set of assumptions and approach.

3.1.4 Should there be changes to the scheme proposals this would obviously impact on the appraisal outputs.

3.2 Benchmark Land Value

3.2.1 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.

3.2.2 The RICS Guidance 'Financial viability in planning'¹ states that:

'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.'

¹ RICS Professional Guidance – Financial viability in planning (August 2012)

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'.

- 3.2.3 The RICS (Royal Institution of Chartered Surveyors) has recently issued a new guidance note: 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (1st Edition, March 2021). This is effective from 1st July 2021 and replaces the RICS 2012 guidance note. On review its emphasis reflects the Planning Practice Guidance (PPG) on Viability as noted below, and the PPG will remain the primary source of guidance in this field – viability in planning. At this stage the content is such that we do not expect to change our review process and do not expect any material impact on these review outcomes. We will, however, be monitoring this further in the coming period as the new guidance settles in and may become referred to; the key being an approach consistent with the PPG. All other references to RICS guidance, as an additional source to the PPG, are made with this in mind.
- 3.2.4 The revisions to the Viability PPG² 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. With 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.'*
- 3.2.5 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*

² Most recently updated on May 2019 in respect of land value considerations; last PPG updates on 'Viability' 1st September 2019

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.'

3.2.6 It states that a Benchmark Land Value should:

- *'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.'*

3.2.7 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).'*

- 3.2.8 With 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.'*
- 3.2.9 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.
- 3.2.10 In this case, the applicant has stated that the land was purchased for £600,000.
- 3.2.11 The site is approximately 0.57 hectares in size³ and was formerly a warehouse/industrial site belonging to Procter and Gamble, with a similar use to the proposed (B8, Storage or distribution). The former buildings have been demolished and the site was acquired as a cleared site. The applicant has stated that there was some minor contamination. It is allocated in the Local Plan (Allocations) as Mixed use allocation LP3 (BD65): Land South of Fulflood Road for 1,300 sqm of manufacturing or warehousing employment uses and a skills centre.
- 3.2.12 The submitted land value/purchase price equates to £1.05 million per hectare.

³ As per measurements provided in site remediation report on the Planning system

3.2.13 The MHCLG Land value estimates for policy appraisal 2019 documents indicates a value of £1.2m/ha for industrial land in Havant, £865,000/ha for office – edge of CBD land for Portsmouth (the nearest town with data) and out of town centre office land at £1.5m/ha. In our experience, of reviewing both site specifics and from our involvement in strategic projects, a value of £1-£1.5m/ha is likely to be suitable for this site. The submitted land value/purchase price falls within this range and is therefore considered a suitable BLV.

3.2.14 As a further benchmark, we note that the CoStar Commercial database lists the site (before construction of the warehouse) as being 1.2 acres of '3 Star Commercial Land' described as 'fairly level, open storage land'. The access to the site for HGVs is noted in Savills' valuation to be limited, and the site is within a predominantly residential area. However we consider that an assumption of £1.50/ft² for open storage would be suitable in this case, which if capitalised at a typical yield of 12% would indicate a value of £653,400.

3.2.15 We have therefore tested the scheme against a BLV of £600,000 based on the submitted land cost (and included in our appraisal as a fixed cost), which we consider to be a reasonable view for a PDL site such as the one here.

3.3 Acquisition Costs

3.3.1 Acquisition costs of £45,359 in total (7.5% of the stated BLV) have been applied including SDLT of £28,800. Overall these costs exceed typical parameters and we have adjusted these downwards to £34,500, although noting that the difference to the viability outcome is minimal.

3.3.2 Legal fees of £22,282 have been stated in relation to land purchase and easements. We have included these fees in our appraisal.

3.4 Gross Development Value

3.4.1 The proposed commercial property is 33,907 ft² (comprising 27,449 ft² of warehouse/office and 6,458 ft² of office/mezzanine) taking up approximately 58% of the net developable site area, and the Vail Williams (VW) valuation assumes a rental value of £253,750 per annum which equates to £7.48/ft² on the gross area. The proposal includes 38 car parking bays.

- 3.4.2 A yield assumption of 6.5% has been applied to the above rent, resulting in a capital value of £3,903,846 (rounded to £3,900,000); equating to £115/ft².
- 3.4.3 VW's report includes rental and sales comparables (as at 01/10/2020). We have reviewed these and also conducted our own updated research using the CoStar commercial database.
- 3.4.4 The reinstatement cost for insurance purposes is estimated by VW to be £2.75 million.
- 3.4.5 We have undertaken our own research into rental values for warehousing/light industrial using the CoStar commercial database. There are various similar warehouses in the immediate area, with an average market rent of £9.47/ft² and average sale price of £102/ft².
- 3.4.6 Focusing on warehouses of a similar floor area to the proposed, average rents of between £6.64/ft² and £7.95/ft² are indicated.
- 3.4.7 Overall we consider the submitted valuation to be reasonably placed. We have also carried out sensitivity testing on rental and yield assumptions to indicate the improvement in value which would have to be achieved to move the scheme to viability.

3.5 Development Timings

- 3.5.1 Details of the construction timings have not been provided. For the purposes of our appraisal we have assumed a construction period of 9 months, based on timings indicated by the BCIS duration calculator and our experience of similar schemes.
- 3.5.2 The building has been constructed to meet the long-term operational needs of MIPA paints, however for the purposes of our appraisal, we have assumed that the property is sold to an investor on completion.

3.6 Cost Assumptions - Build Costs

- 3.6.1 Submitted build costs for the warehouse are £3,903,843, stated to be actual costs now that the property has been built.
- 3.6.2 The build cost equates to £115.13/ft² (£1,239/m²). We have benchmarked this against the rates indicated by BCIS, shown below which indicates that the build cost (construction

only, excluding fees, fit out and other costs) exceeds the BCIS upper quartile rate. The costs are therefore higher than might have been expected – however are based on submitted tenders.




£/m2 study

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

Last updated: 17-Jul-2021 00:39

> Rebased to Havant (108; sample 22)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
284. Warehouses/stores							
Generally (15)	1,017	401	615	818	1,133	4,662	47
Up to 500m2 GFA (15)	1,856	675	1,021	1,291	2,211	4,662	8
500 to 2000m2 GFA (15)	932	476	686	837	1,068	1,626	17
Over 2000m2 GFA (15)	778	401	597	696	884	1,604	22
284.1 Advance warehouses/stores (15)	838	462	614	887	1,002	1,309	11
284.2 Purpose built warehouses/stores							
Generally (15)	1,077	401	650	817	1,201	4,662	34
Up to 500m2 GFA (15)	2,140	675	1,245	1,671	2,712	4,662	6
500 to 2000m2 GFA (15)	894	476	653	817	1,020	1,626	14
Over 2000m2 GFA (15)	804	401	601	702	937	1,604	14
284.5 Cold stores/refrigerated stores (25)	1,405	952	1,039	1,228	1,900	1,907	5

3.6.3 The chosen contractor (Brymor Construction) submitted a tender which did not make provision for the BREEAM costs as the BREEAM report was not available at the time, however as per the submitted Welling Partnership tender report, Brymor later reviewed the BREEAM Pre Assessment report and made due allowance in their tender, resulting in a stated upward adjustment to the tender price of £221,000 *'of which £181,000 remains provisional'*.

3.6.4 We have applied the base build cost of £3,903,843 in our appraisal.

3.7 Cost Assumptions – Professional fees and contingency

3.7.1 Professional fees related to the construction of both the residential and commercial are shown in the table below (DSP table, figures taken from submitted 'Mipa Development Costs' spreadsheet) and are stated to be £307,440 which equates to c. 8% of build cost, which is within typical parameters. We have included these costs in our appraisal.

Submitted Professional Fees and Surveys	
Employer's Agent	£56,657.69
Structural Engineer	£21,585.00
M&E	£66,389.00
Architect	£42,257.00
Health and Safety (Risk Assessments etc)	£600.00
BREEAM Assessment for new build	£3,090.00
Greenwood PM	£12,676.41
JPP Consulting	£9,896.00
Kenn Scaddan Associates Ltd	£3,375.00
Paul Basham	£3,350.00
Peter Haddon	£7,500.00
Selway Joyce	£15,395.00
Planning Fees (Planning Application Cost	£1,484.00
Valuation on Build	£2,995.00
Site Investigations (sub soil)	£21,169.75
Further Site Investigations	£15,913.00
Solent Surveys	£774.85
Additional Design Costs	£2,500.00
Ground Investigation	£8,349.10
Hellier Langston	£3,130.50
Freebourne Tree Surgeons	£7,128.00
CBA Trees	£1,225.00
TOTAL	£307,440.30
As percentage of submitted build cost	8%

3.7.2 A contingency allowance of 7.5% (on build costs) has been stated in the breakdown of costs. This assumption exceeds the typical range. In any event, since this assessment is based on actual build costs and the scheme is complete, we see no need to include a contingency allowance in our appraisal.

3.8 Cost Assumptions – Fit out Costs

- 3.8.1 The applicant has submitted fit out costs of £264,761 in total, specific to MIPA paints. For the purposes of our appraisal we are assuming that the warehouse is valued as an investment and the fitout would be undertaken by the purchaser/future lessee therefore these costs are reflected in the valuation. Therefore we have not included these costs at this stage.

3.9 Cost Assumptions – BREEAM costs

- 3.9.1 ERMIC cost consultants were commissioned to review the stated BREEAM costs. ERMIC's report is attached as Appendix 1 to this report.
- 3.9.2 ERMIC identified some discrepancies between the figures discussed. However their overall conclusion supports the stated position that the actual tendered costs were much higher than originally expected – with some of the items indicated in the pre-assessment report to be achievable at no cost, being considered by the tenderer to have a cost. ERMIC agree with the tenderer on this, and their report concludes that the extra cost of £210,000 to achieve a BREEAM 'very good' rating is a reasonable estimate.
- 3.9.3 It has not been possible for us to reconcile the figures within the 'Mipa Development Costs' spreadsheet with the tender report/subsequent clarifications and the stated BREEAM costs. This is likely to be because the actual reported build costs vary from the originally tendered amount. As noted by ERMIC in their report, various different figures have been put forward for the BREEAM costs (at different points in time). We assume that the costs relating to BREEAM are not included in the sums provided and would be an extra cost in addition to those identified in the 'Mipa Development Costs' spreadsheet.

3.10 Cost Assumptions – Other Costs

- 3.10.1 The following sums have also been submitted in connection with the project. We have not included these for the time being, as they are 'holding costs' which would not normally be included for viability assessment. Inclusion of such costs would effectively mean that the longer a site remains empty the worse the viability outcome becomes, with planning contributions affected accordingly.

Other Costs (as submitted)	
Void Costs	£126,875.00
Security	£4,240.00
Rent to current landlords agreement to Dec 2021	£82,800.00

3.10.2 Clearly if these costs were to be included, it would worsen the viability position.

3.11 Cost Assumptions - CIL / Planning Obligations

3.11.1 HBC's CIL charging schedule indicates a nil CIL charge for industrial/office development. No other S106 contributions have been stated by the applicant.

3.11.2 We recommend that HBC confirms the position on contributions or provides alternatives that can be reflected in the appraisal.

3.11.3 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 the addition of any S106 contributions 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.

3.12 Cost Assumptions - Development Finance

3.12.1 Finance costs are stated to be £20,565 in total. This is below the allowances typically made in viability appraisal – since these are stated to be actual costs we have included a similar allowance in our appraisal, spread across the development period..

3.13 Cost Assumptions – sales/marketing/purchaser's costs

3.13.1 The appraisal does not include any costs relating to marketing of the unit, since the applicant has built the property for their own use. We are viewing the development as an investment, therefore we have allowed 1% GDV for marketing of the investment, and a standard 5.75% for purchaser's costs. We have also included an allowance of 0.35% GDV for legal fees relating to sale of the investment.

3.14 Developer's Risk Reward – Profit

3.14.1 We have run our appraisal on a residual profit basis.

3.14.2 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*

⁴ RICS - Financial viability in planning (GN/94/2012)

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'.

3.14.3 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'.*

3.14.4 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'.*

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

- 3.14.5 In this case, the development is built therefore the profit, if any, has been realised. For the purposes of our assessment we need to consider whether a suitable level of profit has been reached, and/or would be reached with or without the BREEAM requirement.
- 3.14.6 In our experience commercial developments such as this are typically assessed against a profit target of 15 to 20% on cost or 10 to 15% GDV. Therefore we will consider whether the residual profit generated by our appraisal falls within this range.

4. Recommendations / Summary

- 4.1.1 This is an unusual viability review in that the scheme has already been built. We have reviewed the submitted (actual) build costs and the valuation of the building.
- 4.1.2 We note that the actual build costs submitted far exceed the average build costs indicated by the BCIS.
- 4.1.3 ERM cost consultants have reviewed the cost of the measures identified in the BREEAM pre-assessment and agree that the additional cost of achieving a 'very good' rating, of £210,000, is a reasonable assumption.
- 4.1.4 The stated position is that the BREEAM 'very good' rating is not attainable due to the financial viability of the scheme.
- 4.1.5 In order to test this, we have run a development appraisal, viewed on the basis of construction of the building as an investment, with a suitable assumption on value, and applying those of the submitted costs which we consider relevant and suitable for this purpose. As per the PPG on viability we have taken a view of the scheme as developed by a typical developer in the market, and similarly we have valued the building as per any tenant in the market renting it (or purchasing as an investment).
- 4.1.6 We have also made our own assumptions where the applicant has not provided information relevant to the scenario we are considering (for example we have assumed costs relating to sale of the property as an investment, whereas the applicant has built the property for operational purposes so has not considered these costs).
- 4.1.7 Our appraisal indicates that the costs involved in developing the building outweigh the potential investment income such that the scheme generates a loss. With the build costs being fixed (the building having already been constructed), we have sensitivity tested variations in the investment value, based on adjusting rental income and yield.
- 4.1.8 Our sensitivity testing indicates that in order for the scheme to meet what would typically be considered a reasonable level of profit the assumed rental income would have to increase by close to 40%, alongside a more positive yield assumption of 5.5%; both of

which we do not consider to be achievable in this location in the current market.

Table of	Profit on GDV%	and	Profit on Cost%	Show:	Calculated Amounts
Rent: Rate /ft²					
	-40.000%	-20.000%	0.000%	+20.000%	+40.000%
	4.49 /ft²	5.98 /ft²	7.48 /ft²	8.98 /ft²	10.47 /ft²
-1.0000%	-82.985%	-39.014%	-12.631%	4.957%	17.521%
5.5000%	-46.822%	-29.276%	-11.818%	5.552%	22.834%
-0.5000%	-98.975%	-51.006%	-22.225%	-3.037%	10.668%
6.0000%	-51.223%	-35.115%	-19.081%	-3.122%	12.763%
0.0000%	-114.965%	-62.998%	-31.819%	-11.032%	3.815%
6.5000%	-54.951%	-40.063%	-25.239%	-10.479%	4.219%
+0.5000%	-130.954%	-74.991%	-41.412%	-19.027%	-3.037%
7.0000%	-58.149%	-44.310%	-30.526%	-16.797%	-3.122%
+1.0000%	-146.944%	-86.983%	-51.006%	-27.022%	-9.890%
7.5000%	-60.924%	-47.995%	-35.115%	-22.282%	-9.497%
Rent: Yield					

4.1.9 To further illustrate the viability position, we have re-run our appraisal assuming a fixed profit of 15% GDV on the commercial unit. This indicates a deficit/loss of c. -£1.2 million.

4.1.10 The above results are before the inclusion of any additional cost for achieving a BREEAM 'very good' rating.

4.1.11 Our appraisal shows a significant deficit against our profit target. Implementing the BREEAM measures would increase this deficit.

4.1.12 It is worth noting that the BREEAM costs are not the cause of the scheme being unviable – the project has been undertaken for operational/long term business reasons. Viewed as a standalone development project the scheme is not viable by normal standards, and the additional BREEAM costs are simply worsening that position (the overall deficit being c. -£1.2 million and the additional BREEAM cost increasing this to c. -£1.4 million).

4.1.13 The applicant's view is that the scheme is already making a loss, and that any further loss due to implementing the BREEAM measures would be unacceptable. Our review has indicated that the scheme is making a loss on a present day basis; the Council will need to consider whether this meets the policy requirement for the BREEAM rating not being attainable due to financial viability, and therefore whether to use its discretion to remove condition 14 of the planning permission.

4.1.14 DSP will be happy to advise further as required.

Review report ends

July 2021

Appendix 1 – BREEAM cost assessment report, ERM cost consultants

Appendix 2 – DSP appraisal summary DSPv001