

**For: Havant Borough Council
Review of Applicant Submitted
Viability Position**

**Land at Bartons Road
Havant
PO9 5JB**

May 2021
(DSP21403S)

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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. 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. 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 'Economic Viability Report' (EVR) dated 29th July 2020 and supplied to the Council on behalf of the applicant by Sturt and Company. This is in relation to the proposed redevelopment of Land at Bartons Road, Havant, PO9 5JB.
- 2.1.2 The EVR has been submitted in support of a full planning application (ref. APP/20/00658) which seeks permission for a *'mixed-use development comprising 175 apartments and two drive-through restaurants, together with associated access, parking and landscaping'*.
- 2.1.3 The application originally sought permission for 191 apartments (and has subsequently been revised).
- 2.1.4 The application was validated on 1 October 2020.
- 2.1.5 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'.*
- 2.1.6 In this instance, therefore, between 53 and 70 affordable units would be required.
- 2.1.7 In presenting their viability position, the applicant has supplied to the Council the aforementioned EVR, relating to the 191-unit scheme, together with appendices which include a site and layout plan, photographs and schedule of accommodation. In addition, printed and electronic copies of the submitted development appraisals carried out using Argus Developer have been submitted.
- 2.1.8 We are advised that HBC requested an updated viability assessment based on a more mixed residential scheme. In response, Sturt & Company have submitted a letter dated 18th January 2021 on behalf of the applicant (the updated letter), which considers the following three scenarios:

- A revised mix of residential units including two- and three- bedroom houses.
- Replacing McDonalds and Costa with an alternative commercial use.
- Amending the accommodation mix to provide 111 no. 1-bedroom and 64no. 2-bedroom units (the 175-unit scheme) as opposed to 168no. 1-bedroom and 23no. 2-bedroom units.

2.1.9 We have not been provided with updated appraisals for the above-mentioned scenarios. We have therefore used the 191-unit scheme appraisals as a basis, making adjustments to sensitivity test assumptions as required. This is not ideal; the basis of our review should be the submitted application or, if revised, an appropriate viability assessment and appraisal of the revised scheme.

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

2.1.11 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'.

- 2.1.12 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).
- 2.1.13 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site and assesses the level of additional residual value 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.
- 2.1.14 The EVR considers two scheme iterations for the 191-unit scheme, a policy compliant scheme (including 57no. affordable housing units) and a 100% private scheme and sets out a table of outcomes, which we have included below.

Scheme	Residual Land Output	Target BLV	Shortfall
Scheme 1 – 191 Flats with 57 Affordable. (50 x 1 bed and 7 x 2 bed)	£160,000	£2,670,000	-£2,510,000
Scheme 2 – All private units	£1,045,000	£2,670,000	-£1,625,000

- 2.1.15 The EVR states that: *“The commercial viability assessment indicates that a policy compliant affordable housing provision is not viable as the residual land value is below the Benchmark Land Value as demonstrated by the appraisals.”*
- 2.1.16 The update letter also concludes that: *“In summary, I am of the view that the only way to achieve a viable scheme is to develop the scheme for 175 residential flats, supported by the high value drive-thru McDonalds and Costa unit.”*
- 2.1.17 It is clear from the scheme outputs as set out in the EVR that significant adjustments would need to be made to the assumptions in order of the 100% market scheme to be a viable prospect.

- 2.1.18 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.
- 2.1.19 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.
- 2.1.20 We have based our review on the submitted EVR and update letter and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. 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 the submitted appraisal.
- 2.1.21 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.
- 2.1.22 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.
- 2.1.23 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 Overview of Approach

- 3.1.1 The following commentary reviews the applicant's submitted viability assumptions as explained within the EVR and the update letter.
- 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 reviewed the impact of trial changes to particular submitted assumptions.
- 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 appraisal 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:

¹ RICS Professional Guidance Note – 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'.

- 3.2.3 At the time of this review, the RICS (Royal Institution of Chartered Surveyors) has just issued a new guidance note 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (1st Edition, March 2021). This replaces the RICS 2012 guidance note. The new guidance note is stated to be effective from 1st July 2021. On initial 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. Our early viewing 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 considering this further in the coming months. 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. 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.'*
- 3.2.5 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*

² Most recently updated 1 September 2019

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.'

3.2.6 It states that a Benchmark Land Value (BLV) 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 application site comprises a brownfield site which was formally occupied by a commercial building that has since been demolished. The site is described as extending to 1.66 ha (4.1 acres).
- 3.2.11 The EVR considers that the EUV of the site is “as a development site for employment purposes” and then goes on to consider the value of the site with reference to the sale of other sites in the locality that are described as being developed for employment purposes.
- 3.2.12 The EVR then adopts the following BLV:

Site Area	Price	Benchmark Land Value
1.66 ha (4.10 acres).	£1,610,000 ha (£620,000 acre)	£2,670,000

- 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 view, at £1.61m/ha, this could be considered overstated. 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 sufficient. This would place the value of the site between £1.66m and £2.49m. Taking a mid-point view, would equate to a value of £2,075,000 (equivalent to £1.25m/ha).
- 3.2.14 An alternative view would be to value the site as open storage land for which we would expect to see rents of no more than £1.50/ft². Applying this rent to the subject site and capitalised at a yield of 12% would produce a capital value of circa £2.25m before considering any works needed to secure the site.
- 3.2.15 We have therefore tested the scheme against a lower BLV of £2.075m, 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 £150,207 in total (5.6% of the stated BLV) have been applied including SDLT of £41,712, an agent's fee of 1.5%, a legal fee of 0.75%, a Town Planning fee of £75,000 and a site investigation – contamination cost of £10,000.
- 3.3.2 The agent's fee is high in our view and we have reduced this to 1%. Also we would not expect to see Town Planning fee and site investigation costs here – an overall allowance being made within the development appraisal for professional fees as is typical in viability assessments for the purposes of determining planning obligations.

3.4 Gross Development Value - Private Residential

- 3.4.1 The EVR reviews 191 flats over three residential blocks. However, we understand that the accommodation mix has been revised to include 111no. 1-bedroom units and 64no. 2-bedrooms (175no. flats). The update letter states that: *"Revising the composition between one and two bedroom flats reduces the total units from 191 units to 175 units which will reduce viability of the scheme."*
- 3.4.2 We understand from the amended plans that the number of flats within Block C has been revised resulting in a revised mix of 35no. 1-bedroom flats and 44no. 2-bedroom flats

(compared to 92no. 1-bedroom flats and 3no. 2-bedroom flats – a reduction of 16 units overall).

3.4.3 The update letter confirms that the average assumed value of a 1-bedroom flats is £356/ft² (£3,832/m²) and the average assumed value of a 2-bedroom flat is £290/ft² (£3,122/m²).

3.4.4 A schedule of accommodation is annexed to the EVR at Appendix 3. The schedule indicates the following GDV assumptions.

Block	Total GDV	Total M2	Total Ft2	£/m2	£/ft2
A	£10,475,000	2835.2	30518	£3,695	£343
B	£5,552,500	1600.9	17232	£3,468	£322
C	£15,020,000	3946.6	42481	£3,806	£354
Totals	£31,047,500	8382.7	90231	£3,704	£344

3.4.5 Whilst, as noted above, the revisions to the scheme have resulted in a reduced number of units within Block C, the floor area has increased from 3,946.6m² to 4,173.8m². Applying the EVR assumptions to the revised Block C results in the following assumptions.

Flats	Total GDV	Total M2	Total Ft2	£/m2	£/ft2
35 1 bed	£5,607,712	1463	15752	3832	£356
44 2 bed	£9,043,940	2710	29174	3337	£310
Totals	£14,651,652	4173	44926	£3,511	£326

3.4.6 The revisions to Block C have the following impact on the scheme's overall GDV assumptions.

Block	Total GDV	Total M2	Total Ft2	£/m2	£/ft2
A	£10,475,000	2835.2	30518	£3,695	£343
B	£5,552,500	1600.9	17232	£3,468	£322
C	£14,651,652	4173	44926	£3,511	£326
Totals	£30,679,152	8609.1	92676	£3,564	£331

3.4.7 We have carried out our own research of property values in the area, based on Land Registry sales data, and advertised prices on property websites for both new and resale properties. Our review indicates that the assumed GDV assumptions are relatively positive, and we have therefore not adjusted the sales values in our appraisal other than to reflect the revised number of units.

- 3.4.8 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.

3.5 Ground Rents

- 3.5.1 Although, the EVR notes that the Government intends to bring forward legislation to limit ground rents, the development appraisals include a ground rent of 0.1% GDV. This results in a capital contribution of £566,055 within the 100% market scheme appraisal and £397,127 within the policy compliant scheme appraisal. We do not consider these assumptions to be unreasonable.
- 3.5.2 Purchaser's costs of 1.8% and SDLT (equivalent to a total of 6.53%), a sales fee of 1.5% and a sales legal fee of £2,000 have been included for the sale of the ground rent investment. We do not consider these assumptions to be unreasonable.

3.6 Gross Development Value – Affordable Housing

- 3.6.1 In the submitted policy compliant appraisal which includes affordable housing, the affordable units are assumed to be 50 no. 1 bed flats and 7 no. 2 bed flats based on the 191-unit scheme.
- 3.6.2 A blended value of 65% GDV has been assumed for the affordable tenures and the intermediate/shared ownership units.
- 3.6.3 We consider these assumptions to be not unreasonable.
- 3.6.4 A cost of £10,000 has been included for sale of the affordable units to an RP, which equates to £175 per unit – these costs are not explained in the EVR and whilst some cost is expected this assumption seems high for the number of affordable housing units. However, we have not made any adjustments at this stage.

Gross Development Value – Commercial

- 3.6.5 The 2no. proposed commercial units comprise of the following together with 47 car parking bays, outside seating areas and landscaping:

Unit	Description	Sq m	Sq ft
McDonalds	Single storey Drive-Thru	322.93	3,476
Costa	Single Storey Drive-Thru	166.50	1,792
	Total	489.43	5,268

- 3.6.6 The EVR states that terms have been agreed with the prospective tenants and that these terms form the basis of the assumptions. The rent assumptions are as follows:

Name	Lease Term	Rent Agreed
McDonalds	New 25 year lease with tenant only break after the 20th year. 5 yearly market reviews. 6 month rent free period has been agreed.	£113,000 pa
Costa	New 15 year lease. 5 yearly market reviews. 6 month rent free period has been agreed.	£78,000 pa

- 3.6.7 The rents are capitalised at a yield of 5.75% and purchaser's costs again of 1.8% and SDLT (equivalent to a total of 6.53%) have been deducted. The resulting capital value for McDonalds is £1,836,888 and for Costa £1,267,941 or £589/ft².
- 3.6.8 The EVR provides a list of comparables providing details of sales values and lease details. In addition to reviewing the submitted comparables, we have conducted our own research into roadside catering investments.
- 3.6.9 Overall, we consider the submitted assumptions to be within the expected range and therefore not unreasonable. However, we note that a rent-free subsidy of £101,500 has been included within the development appraisals, whereas 6 months rent would equate to £95,500. We have used the functionality of the appraisal tool to adjust this assumption within our trial appraisal.
- 3.6.10 The update letter states that: *"Drive-thru pay substantially elevated price by comparison to other commercial occupiers and therefore creates significant enhanced value over and above standard commercial or employment land."*

Due to the site's proximity with residential, there is a limitation to the types of commercial that would be appropriate on the site. Clearly, manufacturing is unlikely to be appropriate because of the adjoining residential dwellings. Although offices may be appropriate on the site, there is an oversupply of offices in the region generally and an office scheme would not be viable to build in this location without a subsidy.

Having considered the alternative potential commercial occupiers, it is clear that the two drive-thru units are needed to provide support to enable the original scheme of 191 units (now 175 units) to come forward. Without the drive-thrus being permitted, the site is unlikely to generate sufficient return to enable the proposed residential development to proceed."

- 3.6.11 We have undertaken our own research into rental values for offices and warehousing/light industrial, which is included below.

Offices	Rent Per Annum	Ft ²	£/ft ²
Unit C5 Cairo Place	£20,500	1835	£11.17
Asgard House	£60,000	4901	£12.24
Belvedere Point	£60,000	5328	£11.26
Langstone Park	£41,256	2500	£16.50
	£181,756	14564	£12.48
Industrial	Rent Per Annum	Ft ²	£/ft ²
1 Downley Business Park	£57,504	7519	£7.65
Dakota Business Park	£28,500	3360	£8.48
Unit 8 Downley Point	£19,500	2194	£8.89
Solent Distribution Park	£500,000	50000	£10.00
Luxor Park	£168,802	17313	£9.75
2 Downley Road	£20,000	2405	£8.32
9 Kingscroft Court	£16,750	1862	£9.00
	£811,056	84653	£9.58

- 3.6.12 At a rent of £32.50/ft² for the McDonalds unit and £43.53/ft² for the Costa unit. It appears that the proposed commercial use produces a higher capital value than an alternative use.

3.7 Development Timings

- 3.7.1 Sales timings have been assumed at a rate of 3 per month. The construction timings assume that Block C would commence when Blocks A and B have been completed. The total construction period assumed for the residential element is 36 months. This results

in an overall project period of 7 years for a development of 175 flats and 2 commercial units, which appears particularly pessimistic in our view.

- 3.7.2 The BCIS duration calculator indicates a 90% confidence interval of 75 to 93 weeks and a 90% prediction interval of 55 to 125 weeks for a project of this size. Certainly, in our experience, a construction period of 36 months for 175 flats appears to be a pessimistic view. We have reduced the construction period for the residential element to 24 months.
- 3.7.3 The EVR assumes that the construction and sale of the commercial units would take 12 months. It should be noted that most projects involving construction of roadside restaurants and drive-thrus are stated as having very short build periods, using modern methods of construction, with the actual time on site often being less than 3 months, and not usually more than 6 months including fitout. We have adjusted the build period for the commercial element to 6 months in our appraisal.

3.8 Cost Assumptions - Build Costs - Residential

- 3.8.1 Base build costs for the flats are stated to have been based on BCIS median rates for 3-5 storey development rebased to Havant at a rate of £143.90/ft² (£1,549/m²).
- 3.8.2 The EVR states that the default period has been used because it is based on a more comprehensive range of samples. We have reviewed the BCIS 5-year data set for the same category, which at the time of this report is £1,421/m². We note that this is based on 143 samples compared to 571 for the default period. We agree with the EVR that it is more common to use the 5-year data set when assessing build costs and we have therefore provided sensitivity testing based on the lower rate of £1,421/m² (£132/ft²).
- 3.8.3 An allowance of £2,500 per upper floor flat (above ground floor) has been allowed for glass fronted balconies. This equates to a total of £390,000 (156 units). With the revision of the number of units, we can see from the revised plans that the number of above ground units has now reduced to 144. We have therefore revised the allowance to reflect the reduction in number. This equates to a revised allowance of £360,000 for the 100% market scheme.
- 3.8.4 In addition to the base build cost, an additional rate of £1,076/m² has been applied to the undercroft car parking to produce a total cost of £127,100. We do not consider this assumption to be unreasonable.

- 3.8.5 For the 191 unit scheme, the EVR states that the gross internal area (GIA) of the residential blocks has been calculated at 122,999ft². Within the development appraisals a net:gross adjustment of 74% has been made to the 90,969ft² (8,451.2m²) net internal area of the flats to allow for the communal areas of the building, leading to a gross internal area (GIA) of 123,067ft². The residential element includes a high proportion of non-saleable floorspace, and the Council will be able to check these figures from the plans validated with the planning application. The submitted BCIS rate of £1,549/m² has been applied to the GIA of 123,067ft², leading to total submitted base build cost is £17,683,590.
- 3.8.6 The net internal area for the 175 unit scheme appears to increase to 93,416ft² (8,678.6m²), this equates to a net:gross adjustment to the GIA of 123,067ft² (11,433m²) of 76%. This remains a high proportion of non-saleable floorspace. DSP has not checked this ratio from the provided information, but the Council will be able to confirm this from the plans validated with the application.
- 3.8.7 An additional 5% has been added to the base build cost to cover the external works for the residential element, landscaping etc, which we consider a suitable assumption.

3.9 Cost Assumptions - Build Costs - Commercial

- 3.9.1 For the commercial development, the costs of the McDonalds unit have been provided by a McDonalds contractor for delivering the building to shell fit. For the Costa unit, the costs are stated to be based on a detailed specification supplied to the developer. The following costs have been included within the development appraisal.

Name	Build Cost	£ sq ft
McDonalds	£563,463	£97.64
Costas	£400,000	£223.23

- 3.9.2 We have been advised that the floor area of the McDonalds building is 3,476ft², which has the effect of increasing the build rate from £97.64/ft² to £162.10/ft².
- 3.9.3 The EVR compares the assumed costs to BCIS for 'cafes, snack bars, coffee bars and milk bars', the mean rate for which is stated to be £3,025/m² (£281/ft²). We have reviewed the BCIS median rate, which at the time of our report is £2,599/m² (£241/ft²). The construction cost of drive-thru or roadside restaurant facilities is a more specialist area,

therefore we have looked at some specific projects to use as comparables for this scheme, which are summarised in the table below.

Scheme	Contractor	ft ²	m ²	Contract Value	£/ft ²
Costa Drive Thru, Thanet	Conamar	1841	171	£400,000	£217
Costa Drive Thru, Bedford	Ashe Construction	1851	172	£400,000	£216
Costa Drive Thru, Somerset	TBC	1800	167	£450,000	£250

3.9.4 Information of McDonalds projects is more limited; however, we note one example in Tamworth with a build cost of £600,000, equivalent to a build rate of £123/ft² based on a floor area of 4887ft².

3.9.5 Based on the examples above, we consider that the construction cost of the commercial element is within the usual parameters for these restaurants.

3.9.6 The development appraisals include an additional 10% of the build costs for external works. However, Sturt and Co have subsequently advised of an external works cost of £508,194 for the commercial element. This equates to circa 50% of the build cost for the buildings. A build estimate produced by Fortitudo has been supplied. This includes circa £250,000 for porous paving to the parking/drive thru areas. We have not made any adjustments to this assumption, but it is an option for the Council to have the costs reviewed by an independent quantity surveyor.

3.10 Cost Assumptions – Professional fees and contingency

3.10.1 Professional fees related to the construction of both the residential and commercial elements have been included at 8%, which we consider to be reasonable for a scheme of this type and scale.

3.10.2 A contingency allowance of 3% (on build costs) has also been included. This assumption falls within the typical range agreed and is also not unreasonable for a scheme of this type.

3.10.3 Allowances of £5,000 for S106 legal fees and £3,000 for the LA monitoring fee, in addition to the allowances for EPC and PAT testing have been included within the development appraisals. We would not expect to see individual assumptions for these costs – we would usually expect these to be included within the overall professional fees allowance.

Similarly, the development appraisals include allowance for warranties, and again we would expect that these costs would fall within the professional fees allowance rather than the inclusion of individual assumptions.

3.11 Cost Assumptions – Site Specific Costs

3.11.1 The EVR refers to site specific costs and states that “*all works needed have not been identified or assessed.*” A table of those identified so far has been provided and we have included it below.

Site Specific Costs		
Item	Description	Cost
Attenuation Solution	It is likely to require permeable surfaces and underground storage crates. PC Sum for permeable surfaces (360 sq m) and storage crates (63 m3 storage)	£50,000
Off Site Electrical Upgrades	A cost is to be provided by the utility undertaker	TBC
Site Clearance	Remove demolition material stored on site and sub soil structures	TBC
New Entrance	New entrance onto Martin Road.	TBC
Cycle Stores	Bike Store with appropriate bike storage system 403 sq ft at £80 sq ft.	£32,250
	Total	£82,250

3.11.2 Where allowances are “*to be confirmed*”, the development appraisal includes a nominal figure of £1. We have not made any adjustments to these assumptions.

3.12 Cost Assumptions - CIL / Planning Obligations

3.12.1 The 100% market scheme development appraisal includes the following allowances:

Statutory Contribution		
Solent Recreational Mitigation Strategy	£346 per one bedroom dwelling and £500 per two bedroom dwelling. These prices will be indexed.	£69,628
HBC S106 Monitoring Fee	PC sum	£3,680
HBC S106 Legal Fee	PC sum	£3,500
Bio-Diversity Net Gain	No Assessment yet.	TBC
Nutrient Neutrality	A final scheme has not been agreed but a solution will be required and allowed for.	TBC
Off Site Highways	No assessment yet.	TBA
CIL	Current Level is £119.29 but indexed up as commencement with not start until 2021.	£1,363,582
	Total	£1,440,390

3.12.2 The policy compliant scheme development appraisal includes the following allowances:

- CIL - £957,090
- Solent Rec Mitigation 1 bed – 40,828
- Solent Rec Mitigation 2 bed - £8,000
- Nitrates Mitigation - £134
- Solent Rec Mitigation - £17,300
- Solent Rec Mitigation - £3,500
- Nitrates Mitigation £57

3.12.3 We recommend that HBC confirms these figures. We have reduced the allowances proportionally to the reduced number of units.

3.13 Cost Assumptions - Development Finance

3.13.1 Finance costs have been included using a rate of 6.5% including all fees.

3.13.2 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.'

3.13.3 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 Guidance Note 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)*'.

3.13.4 Typically, in the recent period we would expect to see finance rates of 6% - 6.5% inclusive of all fees, therefore the submitted assumption of 6.5% including all ancillary fees does not exceed the expected range, and we have not adjusted this in our appraisal.

3.14 Cost Assumptions - Agent's, Marketing & Legal – Private Residential

3.14.1 The appraisal has assumed 2.5% GDV for sales and marketing costs. This assumption is not unreasonable in our view.

3.14.2 Legal costs of £1,250 per unit have been included, which is high in our experience. We would not expect to see this assumption exceed £1,000 per unit.

3.14.3 A sales incentive allowance of £750 per unit in addition to empty property costs at £274 per unit are also included within the development appraisals. Sales incentives are specific to the developer and are not always required. We would not expect to see an allowance for sales incentives included within the appraisals. We have therefore removed this assumption. Similarly, we would not expect to see an allowance for empty property costs and we have excluded this from the development appraisals.

3.15 Cost Assumptions - Agent's, Marketing & Legal – Commercial

3.15.1 Fees related to letting are included at 10% GDV (total of £22,213) and a letting legal fee of £5,000 per unit. These costs are within expected parameters.

3.15.2 A sales agent fee of 1.5% and a sale legal fee of £2,000 per unit has also been included. Again, these costs are within expected parameters.

3.16 Developer's Risk Reward – Profit

- 3.16.1 Profit has been assumed at 20% of GDV for the market housing, and at 6% for the affordable housing (where included). Profit of 20% on GDV has been assumed for the commercial units. It should be noted that as calculated by DSP, when the deficit, as presented, is taken into account, the 'actual' profit from the 100% market scheme is 15% on GDV.
- 3.16.2 The RICS Guidance³ 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'.*
- 3.16.3 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'.*
- 3.16.4 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*

³ RICS - Financial viability in planning (GN/94/2012)

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 types⁴'.

- 3.16.5 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.
- 3.16.6 Based on the commentary above, we are of the view that a 20% profit does not necessarily form a required rate and that a lower profit should be acceptable to enable a scheme to proceed. As noted above, the outturn position of the submission appears to support this. Taking this into consideration, we are of the view that a profit assumption at 17.5% GDV on the market units is a more reasonable and appropriate in this case, as indeed we see in many cases that reach this stage of needing viability review. This profit assumption serves as the benchmark in our trial appraisal, alongside the assumption of 6% on the affordable housing element within our further sensitivity analysis.
- 3.16.7 In addition to the residential element, a profit level of 15% is more appropriate for the commercial element.

⁴ <https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment> - Paragraph: 018 Reference ID: 10-018-20190509

4. Recommendations / Summary

- 4.1.1 We consider the submitted approach to assessing viability to be appropriate.
- 4.1.2 A number of the assumptions appear fair at this stage too. However, there are aspects that we have queried or where a difference of opinion exists.
- 4.1.3 Reviewing the discussion above, in summary these include:
- Benchmark Land Value (BLV) – we have tested the scheme against a lower BLV assumption of £2.075m, reduced from £2.67m (paragraph 3.2.15);
 - Acquisition costs – we have reduced the agent’s fee from 1.5% to 1% and we have excluded the Town Planning fee and site investigation allowance (paragraph 3.3.2);
 - Development Timings – we have reduced the construction period of the residential element from 36 months to 24 months and for the commercial element from 12 months to 6 months (paragraph 3.7.3);
 - Build costs – we have tested the scheme using both the submitted default BCIS median rate and the 5 year data set (paragraph 3.8.2);
 - Professional fees – we have excluded the s106 legal fees and LA monitoring fee (paragraph 3.10.3);
 - Legal costs – we have included legal costs of £1,000 per unit for the residential element – a downward adjustment from the submitted £1,250 per unit (paragraph 3.14.3);
 - Sales incentives and empty property costs – we have excluded these from our development appraisals, on the basis that they fall within the general sales and marketing costs (paragraph 3.14.3);
 - Profit – we have tested the scheme with a profit of 17.5% for the market housing, 6% for the affordable housing and 15% for the commercial units;
 - We have also adjusted the appraisals to reflect the revised scheme of 175 units.

4.1.4 The scheme as presented by the EVR (with 191 units) produces the following outcomes:

Scheme	Residual Land Output	Target BLV	Shortfall
Scheme 1 – 191 Flats with 57 Affordable. (50 x 1 bed and 7 x 2 bed)	£160,000	£2,670,000	-£2,510,000
Scheme 2 – All private units	£1,045,000	£2,670,000	-£1,625,000

4.1.5 When making adjustments as advised throughout this report and summarised at paragraph 4.1.2 above, the scheme produces the following results:

Scheme	RLV DSP build costs	Surplus/Deficit compared to BLV of £2.075m	RLV submitted build costs	Surplus/Deficit compared to BLV of £2.075m
All Private	£3,123,731	£1,048,731	£1,560,205	-£514,795
Policy Compliant	£1,987,870	-£87,130	-£320,315	-£2,395,315

4.1.6 Taking an overall view of the viability of this scheme, it is our opinion that the likely position is that once the full costs have been assessed (i.e. in respect of the new entrance, site clearance and statutory costs) the scheme will not sufficiently viable to support a full policy compliant level of affordable housing, however, a nil affordable housing position does not appear appropriate at this stage.

4.1.7 We need to be clear our review 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.

4.1.8 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. In this sense, the applicant and their agents are in a similar position to us in estimating positions – it is not an exact science by any means, and we find that opinions will usually vary.

4.1.9 As regards the wider context including the economic situation, in accordance with the relevant viability guidance our review is based on current day costs and values – a current view is appropriate for this purpose. The Nationwide (amongst other commentators) has reported the highest growth rate in house prices for six years and whilst, there is some uncertainty in the short term, we are likely to see further Government interventions,

already see, against any negative impacts on viability. DSP will continue to monitor the established appropriate information sources.

4.1.10 DSP will be happy to advise further as required.

**Review report ends
May 2021**

Appendix I – DSP appraisal summaries

Bartons Road Havant- All Private

Development Appraisal
DSP
06 May 2021

APPRAISAL SUMMARY**DSP****Bartons Road Havant- All Private****Appraisal Summary for Phase 1 All Private**

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Block A 1 Bed Flat	57	25,080	356.48	156,850	8,940,450
Block A 2 Bed Flat	7	5,467	280.79	219,300	1,535,100
Block B 1 Bed Flat	19	8,341	356.38	156,450	2,972,550
Block B 2 Bed Flat	13	9,633	290.15	215,000	2,795,000
Block C 1 Bed Flat	35	15,752	355.57	160,026	5,600,910
Block C 2 Bed Flat	<u>44</u>	<u>29,174</u>	<u>309.73</u>	<u>205,368</u>	<u>9,036,195</u>
Totals	175	93,447			30,880,205

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale
McDonalds	1	3,476	32.51	113,000	113,000
Costa	1	1,792	43.53	78,000	78,000
Ground Rents	<u>191</u>			163	<u>31,133</u>
Totals	193	5,268			222,133

Investment Valuation**McDonalds**

Market Rent	113,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,911,043

Costa

Market Rent	78,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,319,127

Ground Rents

Current Rent	31,133	YP @	5.5000%	18.1818	566,055
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Total Investment Valuation**3,796,224****GROSS DEVELOPMENT VALUE****34,676,429**

Purchaser's Costs	1.80%	(68,332)	
SDLT		(179,311)	
Effective Purchaser's Costs Rate	6.52%		(247,643)

NET DEVELOPMENT VALUE**34,428,786****NET REALISATION****34,428,786****OUTLAY****ACQUISITION COSTS**

Residualised Price (4.10 Acres @ 761,885.59 /Acre)	3,123,731	
		3,123,731

APPRAISAL SUMMARY**DSP****Bartons Road Havant- All Private**

Agent Fee	1.00%	31,237	
Legal Fee	0.75%	23,428	
			54,665

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
McDonalds	3,476	162.10	563,463	
Costa	1,792	223.21	400,000	
Block A 1 Bed Flat	25,080	132.01	3,310,811	
Block A 2 Bed Flat	5,467	132.01	721,699	
Block A Common Areas	12,156	132.01	1,604,714	
Block A Undercroft	1,271	100.00	127,100	
Block B 1 Bed Flat	8,341	132.01	1,101,095	
Block B 2 Bed Flat	9,633	132.01	1,271,652	
Block B Common Areas	5,890	132.01	777,539	
Block C 1 Bed Flat	15,752	132.01	2,079,422	
Block C 2 Bed Flat	29,174	132.01	3,851,260	
Block C Common Areas	13,466	132.01	1,777,647	
Bike Shed	<u>403</u>	80.00	<u>32,240</u>	
Totals	131,901 ft²		17,618,641	
Contingency		3.00%	528,559	
Remove Onsite Material			1	
Decomination Removal/Monitoring			1	
New Entrance			1	
S278 - TBC			1	
CIL Residential	125,362 ft²	11.08	1,389,011	
Solent Rec Mitigation 1 Bed	111 un	346.00 /un	38,406	
Solent Rec Mitigation 2 Bed	64 un	500.00 /un	32,000	
Nitrates Mitigation (PC Sum)	175 un	1.00 /un	175	
				19,606,796
Other Construction				
Balconies			390,000	
Externals Residential		5.00%	831,147	
External Commercial			508,194	
New Entrance onto Martin Road			1	
Attenuation			50,000	
Off Site Electrical Upgrade			1	
				1,779,343

PROFESSIONAL FEES

Professional Fees	8.00%	1,485,347	
			1,485,347

MARKETING & LETTING

Letting Agent Fee		10.00%	22,213	
Letting Legal Fee	2 un	5,000.00 /un	10,000	
				32,213

DISPOSAL FEES

Residential Sales & Marketing Suite		2.50%	772,005	
Commercial Sales Fees		1.50%	48,453	
Ground Rent Sale Fee		1.50%	8,491	
Sales Legal Fee Residential	175 un	1,000.00 /un	175,000	
Sales Legal Fee Commercial	2 un	2,000.00 /un	4,000	
Sales Legal Fee Ground Rent	1 un	2,000.00 /un	2,000	

APPRAISAL SUMMARY**DSP****Bartons Road Havant- All Private**

1,009,948

FINANCE

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)

Total Finance Cost

1,344,656

TOTAL COSTS**28,436,700****PROFIT****5,992,086****Performance Measures**

Profit on Cost% 21.07%

Profit on GDV% 17.28%

Profit on NDV% 17.40%

Development Yield% (on Rent) 0.78%

Equivalent Yield% (Nominal) 5.71%

Equivalent Yield% (True) 5.92%

IRR% (without Interest) 22.62%

Rent Cover 26 yrs 12 mths

Profit Erosion (finance rate 6.500) 2 yrs 12 mths

APPRAISAL SUMMARY

DSP

Bartons Road Havant- All Private

Initial
MRV
113,000
78,000
31,133
222,133

APPRAISAL SUMMARY

DSP

Bartons Road Havant- All Private

APPRAISAL SUMMARY

DSP

Bartons Road Havant- All Private

Bartons Road Havant- All Private

Development Appraisal
DSP
06 May 2021

APPRAISAL SUMMARY**DSP****Bartons Road Havant- All Private****Appraisal Summary for Phase 1 All Private**

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Block A 1 Bed Flat	57	25,080	356.48	156,850	8,940,450
Block A 2 Bed Flat	7	5,467	280.79	219,300	1,535,100
Block B 1 Bed Flat	19	8,341	356.38	156,450	2,972,550
Block B 2 Bed Flat	13	9,633	290.15	215,000	2,795,000
Block C 1 Bed Flat	35	15,752	355.57	160,026	5,600,910
Block C 2 Bed Flat	<u>44</u>	<u>29,174</u>	<u>309.73</u>	<u>205,368</u>	<u>9,036,195</u>
Totals	175	93,447			30,880,205

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale
McDonalds	1	3,476	32.51	113,000	113,000
Costa	1	1,792	43.53	78,000	78,000
Ground Rents	<u>191</u>			163	<u>31,133</u>
Totals	193	5,268			222,133

Investment Valuation**McDonalds**

Market Rent	113,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,911,043

Costa

Market Rent	78,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,319,127

Ground Rents

Current Rent	31,133	YP @	5.5000%	18.1818	566,055
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Total Investment Valuation**3,796,224****GROSS DEVELOPMENT VALUE****34,676,429**

Purchaser's Costs	1.80%	(68,332)	
SDLT		(179,311)	
Effective Purchaser's Costs Rate	6.52%		(247,643)

NET DEVELOPMENT VALUE**34,428,786****NET REALISATION****34,428,786****OUTLAY****ACQUISITION COSTS**

Residualised Price (4.10 Acres @ 380,537.74 /Acre)	1,560,205	
		1,560,205

APPRAISAL SUMMARY**DSP****Bartons Road Havant- All Private**

Agent Fee	1.00%	15,602	
Legal Fee	0.75%	11,702	
			27,304

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
McDonalds	3,476	162.10	563,463	
Costa	1,792	223.21	400,000	
Block A 1 Bed Flat	25,080	143.90	3,609,012	
Block A 2 Bed Flat	5,467	143.90	786,701	
Block A Common Areas	12,156	143.90	1,749,248	
Block A Undercroft	1,271	100.00	127,100	
Block B 1 Bed Flat	8,341	143.90	1,200,270	
Block B 2 Bed Flat	9,633	143.90	1,386,189	
Block B Common Areas	5,890	143.90	847,571	
Block C 1 Bed Flat	15,752	143.90	2,266,713	
Block C 2 Bed Flat	29,174	143.90	4,198,139	
Block C Common Areas	13,466	143.90	1,937,757	
Bike Shed	<u>403</u>	80.00	<u>32,240</u>	
Totals	131,901 ft²		19,104,403	
Contingency		3.00%	573,132	
Remove Onsite Material			1	
Decomination Removal/Monitoring			1	
New Entrance			1	
S278 - TBC			1	
CIL Residential	125,362 ft²	11.08	1,389,011	
Solent Rec Mitigation 1 Bed	111 un	346.00 /un	38,406	
Solent Rec Mitigation 2 Bed	64 un	500.00 /un	32,000	
Nitrates Mitigation (PC Sum)	175 un	1.00 /un	175	
				21,137,131
Other Construction				
Balconies			390,000	
Externals Residential		5.00%	905,435	
External Commercial			508,194	
New Entrance onto Martin Road			1	
Attenuation			50,000	
Off Site Electrical Upgrade			1	
				1,853,631

PROFESSIONAL FEES

Professional Fees	8.00%	1,604,208	
			1,604,208

MARKETING & LETTING

Letting Agent Fee		10.00%	22,213	
Letting Legal Fee	2 un	5,000.00 /un	10,000	
				32,213

DISPOSAL FEES

Residential Sales & Marketing Suite		2.50%	772,005	
Commercial Sales Fees		1.50%	48,453	
Ground Rent Sale Fee		1.50%	8,491	
Sales Legal Fee Residential	175 un	1,000.00 /un	175,000	
Sales Legal Fee Commercial	2 un	2,000.00 /un	4,000	
Sales Legal Fee Ground Rent	1 un	2,000.00 /un	2,000	

APPRAISAL SUMMARY**DSP****Bartons Road Havant- All Private**

1,009,948

FINANCE

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)

Total Finance Cost

1,212,059

TOTAL COSTS**28,436,699****PROFIT****5,992,087****Performance Measures**

Profit on Cost% 21.07%

Profit on GDV% 17.28%

Profit on NDV% 17.40%

Development Yield% (on Rent) 0.78%

Equivalent Yield% (Nominal) 5.71%

Equivalent Yield% (True) 5.92%

IRR% (without Interest) 23.95%

Rent Cover 26 yrs 12 mths

Profit Erosion (finance rate 6.500) 2 yrs 12 mths

APPRAISAL SUMMARY

DSP

Bartons Road Havant- All Private

Initial
MRV
113,000
78,000
31,133
222,133

APPRAISAL SUMMARY

DSP

Bartons Road Havant- All Private

APPRAISAL SUMMARY

DSP

Bartons Road Havant- All Private

Bartons Road Havant 30% Affordable

Development Appraisal
DSP
06 May 2021

APPRAISAL SUMMARY**DSP****Bartons Road Havant 30% Affordable****Appraisal Summary for Merged Phases 1 2**

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Block A 1 Bed Flat	40	17,600	356.48	156,850	6,274,000
Block A 2 Bed Flat	5	3,905	280.79	219,300	1,096,500
Block B 1 Bed Flat	13	5,707	356.38	156,450	2,033,850
Block B 2 Bed Flat	9	6,669	290.15	215,000	1,935,000
Block C 1 Bed Flat	12	5,280	355.57	156,450	1,877,400
Block C 2 Bed Flat	43	29,154	309.73	210,000	9,030,000
Block A 1 Bed Affordable	17	7,480	231.70	101,950	1,733,150
Block A 2 Bed Affordable	2	1,562	182.46	142,500	285,000
Block B 1 Bed Affordable	6	2,634	231.66	101,700	610,200
Block B 2 Bed Affordable	4	2,964	188.60	139,750	559,000
Block C 1 Bed Affordable	23	10,120	231.14	101,700	2,339,100
Block C 2 Bed Affordable	<u>1</u>	<u>678</u>	<u>201.33</u>	<u>136,500</u>	<u>136,500</u>
Totals	175	93,753			27,909,700

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale
McDonalds	1	5,771	19.58	113,000	113,000
Costa	1	1,792	43.53	78,000	78,000
Ground Rents	134			163	21,842
Totals	136	7,563			212,842

Investment Valuation

McDonalds					
Market Rent	113,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,911,043
Costa					
Market Rent	78,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,319,127
Ground Rents					
Current Rent	21,842	YP @	5.5000%	18.1818	397,127
Total Investment Valuation					3,627,297

GROSS DEVELOPMENT VALUE**31,536,997**

Purchaser's Costs	1.80%	(65,291)	
SDLT		(170,865)	
Effective Purchaser's Costs Rate	6.51%		(236,156)

NET DEVELOPMENT VALUE**31,300,841****NET REALISATION****31,300,841**

APPRAISAL SUMMARY**DSP****Bartons Road Havant 30% Affordable****OUTLAY****ACQUISITION COSTS**

Residualised Price		2,189,003	
Residualised Price (Negative land)		(201,133)	
			1,987,871
Stamp Duty		88,894	
Effective Stamp Duty Rate	4.06%		
Agent Fee	1.00%	21,890	
Legal Fee	0.75%	16,418	
			127,201

CONSTRUCTION COSTS

Construction	ft ²	Build Rate	ft ²	Cost
McDonalds	5,771	97.64		563,463
Costa	1,792	223.21		400,000
Block A 1 Bed Flat	17,600	132.01		2,323,376
Block A 2 Bed Flat	3,905	132.01		515,499
Block A Common Areas	8,509	132.01		1,123,273
Block A Undercroft	1,271	100.00		127,100
Block B 1 Bed Flat	5,707	132.01		753,381
Block B 2 Bed Flat	6,669	132.01		880,375
Block B Common Areas	4,123	132.01		544,277
Block C 1 Bed Flat	5,280	132.01		697,013
Block C 2 Bed Flat	29,154	132.01		3,848,620
Block C Common Areas	9,508	132.01		1,255,151
Bike Shed	403	80.00		32,240
Block A 1 Bed Affordable	7,480	132.01		987,435
Block A 2 Bed Affordable	1,562	132.01		206,200
Block B 1 Bed Affordable	2,634	132.01		347,714
Block B 2 Bed Affordable	2,964	132.01		391,278
Block C 1 Bed Affordable	10,120	132.01		1,335,941
Block C 2 Bed Affordable	678	132.01		89,503
Block A Common Areas	3,647	132.01		481,440
Block B Common Areas	1,767	132.01		233,262
Block C Common Areas	4,075	132.01		537,941
Totals	134,619 ft²			17,674,481
Contingency		3.00%		533,684
Remove Onsite Material				1
Decomination Removal/Monitoring				1
New Entrance				1
S278 - TBC				1
CIL Residential	90,858 ft ²	11.08		1,006,707
Solent Rec Mitigation 1 bed	65 un	346.00 /un		22,490
Solent Rec Mitigation 2 bed	57 un	500.00 /un		28,500
Nitrates Mitigation (PC Sum)	122 un	1.00 /un		122
Solent Rec Mitigation	46 un	346.00 /un		15,916
Solent Rec Mitigation	7 un	500.00 /un		3,500
Nitrates Mitigation	53 un	1.00 /un		53
				19,285,457
Other Construction				
Balconies				275,000

APPRAISAL SUMMARY**DSP****Bartons Road Havant 30% Affordable**

Externals Residential	5.00%	603,403	
External Commercial		508,194	
New Entrance onto Martin Road		1	
Attenuation		50,000	
Off Site Electrical Upgrade		1	
Externals Aff	5.00%	230,536	
Balconies		115,000	
			1,782,135

PROFESSIONAL FEES

Professional Fees	8.00%	1,111,757	
Architect	8.00%	387,300	
			1,499,057

MARKETING & LETTING

Letting Agent Fee	10.00%	21,284	
Letting Legal Fee	2 un 5,000.00 /un	10,000	
			31,284

DISPOSAL FEES

Residential Sales & Marketing Suite	2.50%	556,169	
Commercial Sales Fees	1.50%	48,453	
Ground Rent Sale Fee	1.50%	5,957	
Sales Legal Fee Residential	122 un 1,000.00 /un	122,000	
Sales Legal Fee Commercial	2 un 2,000.00 /un	4,000	
Sales Legal Fee Ground Rent	1 un 2,000.00 /un	2,000	
Legal Fee Affordable		10,000	
			748,578

FINANCE

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)			
Total Finance Cost			1,102,648

TOTAL COSTS**26,564,231****PROFIT****4,736,610****Performance Measures**

Profit on Cost%	17.83%
Profit on GDV%	15.02%
Profit on NDV%	15.13%
Development Yield% (on Rent)	0.80%
Equivalent Yield% (Nominal)	5.72%
Equivalent Yield% (True)	5.93%
IRR% (without Interest)	22.01%
Rent Cover	22 yrs 3 mths
Profit Erosion (finance rate 6.500)	2 yrs 7 mths

APPRAISAL SUMMARY

DSP

Bartons Road Havant 30% Affordable

Initial
MRV
113,000
78,000
21,842
212,842

APPRAISAL SUMMARY

DSP

Bartons Road Havant 30% Affordable

APPRAISAL SUMMARY

DSP

Bartons Road Havant 30% Affordable

Bartons Road Havant 30% Affordable

Development Appraisal
DSP
06 May 2021

APPRAISAL SUMMARY**DSP****Bartons Road Havant 30% Affordable****Appraisal Summary for Merged Phases 1 2**

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Block A 1 Bed Flat	40	17,600	356.48	156,850	6,274,000
Block A 2 Bed Flat	5	3,905	280.79	219,300	1,096,500
Block B 1 Bed Flat	13	5,707	356.38	156,450	2,033,850
Block B 2 Bed Flat	9	6,669	290.15	215,000	1,935,000
Block C 1 Bed Flat	12	5,280	355.57	156,450	1,877,400
Block C 2 Bed Flat	43	29,154	309.73	210,000	9,030,000
Block A 1 Bed Affordable	17	7,480	231.70	101,950	1,733,150
Block A 2 Bed Affordable	2	1,562	182.46	142,500	285,000
Block B 1 Bed Affordable	6	2,634	231.66	101,700	610,200
Block B 2 Bed Affordable	4	2,964	188.60	139,750	559,000
Block C 1 Bed Affordable	23	10,120	231.14	101,700	2,339,100
Block C 2 Bed Affordable	<u>1</u>	<u>678</u>	<u>201.33</u>	<u>136,500</u>	<u>136,500</u>
Totals	175	93,753			27,909,700

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale
McDonalds	1	5,771	19.58	113,000	113,000
Costa	1	1,792	43.53	78,000	78,000
Ground Rents	134			163	21,842
Totals	136	7,563			212,842

Investment Valuation

McDonalds					
Market Rent	113,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,911,043
Costa					
Market Rent	78,000	YP @	5.7500%	17.3913	
(6mths Rent Free)		PV 6mths @	5.7500%	0.9724	1,319,127
Ground Rents					
Current Rent	21,842	YP @	5.5000%	18.1818	397,127
Total Investment Valuation					3,627,297

GROSS DEVELOPMENT VALUE**31,536,997**

Purchaser's Costs	1.80%	(65,291)	
SDLT		(170,865)	
Effective Purchaser's Costs Rate	6.51%		(236,156)

NET DEVELOPMENT VALUE**31,300,841****NET REALISATION****31,300,841**

APPRAISAL SUMMARY**DSP****Bartons Road Havant 30% Affordable****OUTLAY****ACQUISITION COSTS**

Residualised Price		506,202	
Residualised Price (Negative land)		(826,517)	
			(320,315)
Agent Fee	1.00%	5,062	
Legal Fee	0.75%	3,797	
			8,859

CONSTRUCTION COSTS**Construction**

	ft²	Build Rate ft²	Cost	
McDonalds	5,771	97.64	563,463	
Costa	1,792	223.21	400,000	
Block A 1 Bed Flat	17,600	143.90	2,532,640	
Block A 2 Bed Flat	3,905	143.90	561,929	
Block A Common Areas	8,509	143.90	1,224,445	
Block A Undercroft	1,271	100.00	127,100	
Block B 1 Bed Flat	5,707	143.90	821,237	
Block B 2 Bed Flat	6,669	143.90	959,669	
Block B Common Areas	4,123	143.90	593,300	
Block C 1 Bed Flat	5,280	143.90	759,792	
Block C 2 Bed Flat	29,154	143.90	4,195,261	
Block C Common Areas	9,508	143.90	1,368,201	
Bike Shed	403	80.00	32,240	
Block A 1 Bed Affordable	7,480	143.90	1,076,372	
Block A 2 Bed Affordable	1,562	143.90	224,772	
Block B 1 Bed Affordable	2,634	143.90	379,033	
Block B 2 Bed Affordable	2,964	143.90	426,520	
Block C 1 Bed Affordable	10,120	143.90	1,456,268	
Block C 2 Bed Affordable	678	143.90	97,564	
Block A Common Areas	3,647	143.90	524,803	
Block B Common Areas	1,767	143.90	254,271	
Block C Common Areas	4,075	143.90	586,392	
Totals	134,619 ft²		19,165,273	19,165,273

Contingency		3.00%	578,408	
Remove Onsite Material			1	
Decomination Removal/Monitoring			1	
New Entrance			1	
S278 - TBC			1	
CIL Residential	90,858 ft²	11.08	1,006,707	
Solent Rec Mitigation 1 bed	65 un	346.00 /un	22,490	
Solent Rec Mitigation 2 bed	57 un	500.00 /un	28,500	
Nitrates Mitigation (PC Sum)	122 un	1.00 /un	122	
Solent Rec Mitigation	46 un	346.00 /un	15,916	
Solent Rec Mitigation	7 un	500.00 /un	3,500	
Nitrates Mitigation	53 un	1.00 /un	53	
				1,655,700

Other Construction

Balconies		275,000	
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APPRAISAL SUMMARY**DSP****Bartons Road Havant 30% Affordable**

Externals Residential	5.00%	657,179	
External Commercial		508,194	
New Entrance onto Martin Road		1	
Attenuation		50,000	
Off Site Electrical Upgrade		1	
Externals Aff	5.00%	251,300	
Balconies		115,000	
			1,856,674

PROFESSIONAL FEES

Professional Fees	8.00%	1,197,798	
Architect	8.00%	422,184	
			1,619,981

MARKETING & LETTING

Letting Agent Fee	10.00%	21,284	
Letting Legal Fee	2 un 5,000.00 /un	10,000	
			31,284

DISPOSAL FEES

Residential Sales & Marketing Suite	2.50%	556,169	
Commercial Sales Fees	1.50%	48,453	
Ground Rent Sale Fee	1.50%	5,957	
Sales Legal Fee Residential	122 un 1,000.00 /un	122,000	
Sales Legal Fee Commercial	2 un 2,000.00 /un	4,000	
Sales Legal Fee Ground Rent	1 un 2,000.00 /un	2,000	
Legal Fee Affordable		10,000	
			748,578

FINANCE

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)			
Total Finance Cost			967,709

TOTAL COSTS**25,733,743****PROFIT****5,567,098****Performance Measures**

Profit on Cost%	21.63%
Profit on GDV%	17.65%
Profit on NDV%	17.79%
Development Yield% (on Rent)	0.83%
Equivalent Yield% (Nominal)	5.72%
Equivalent Yield% (True)	5.93%
IRR% (without Interest)	29.36%
Rent Cover	26 yrs 2 mths
Profit Erosion (finance rate 6.500)	3 yrs

APPRAISAL SUMMARY

DSP

Bartons Road Havant 30% Affordable

Initial
MRV
113,000
78,000
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212,842

APPRAISAL SUMMARY

DSP

Bartons Road Havant 30% Affordable

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DSP

Bartons Road Havant 30% Affordable