

Site at The Wheatsheaf Public House, Leigh Park, Havant
Development Viability Appraisal Draft Report

Pre-Planning Application

28 March 2013

1. INTRODUCTION:

I refer to Richard Nash's email and telephone instructions and my letter of confirmation dated **22 October 2012** with our Standard Terms of Business. The applicant agreed to pay our fees in a letter dated **12 November** which we received on **4 December 2012**. You requested my valuation advice in regard to the Pre-planning application. The site was granted planning for 14 units in 2007.

We held a meeting on 24 March 2012 with the planning agent, Simon Corp, the two owners of the site, and a representative of the Housing Association.

I understand that a planning application for 21 units will be made in the near future. The Housing Association will agree to buy the site and provide all Affordable Rented housing, which will require grant funding. However, grant funding cannot be provided on any units which are required to be S106 affordable housing. For this reason the applicants wish to prove that the site is not viable when required to provide 30% affordable housing.

This is an unusual situation, and we have therefore undertaken valuations for

- a. Policy compliant scheme of 30% affordable housing, 70/30 Affordable Rent/Shared Ownership. I have assumed that no grant would be available for the affordable housing in this instance.
- b. All private scheme.

National Planning Policy Framework states *"To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into account of the normal cost of development and mitigation, provide competitive*

returns to a willing land owner and willing developer to enable the development to be deliverable

(National Planning Policy Framework, 2012, paragraph 173)

In order for this to be demonstrated, the applicant needs to provide a viability study that shows why a policy compliant scheme would render the development unviable. This study needs to be sufficiently detailed with evidence supporting the key inputs into the study.

My role therefore is to provide a report to you in which I:

- a) Appraise the study to consider whether this is based on the correct viability methodology.
- b) Assess whether the inputs are properly evidenced and reasonable.
- c) Review the toolkit to check it has been correctly applied.

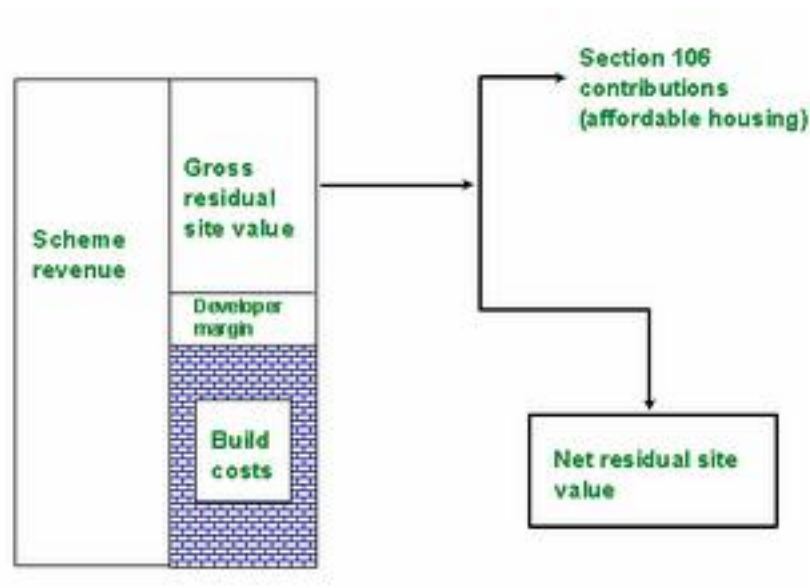
The applicant has provided an Affordable Housing Viability Report written by Simon Corp of S106 Affordable Housing Ltd and I have used this and further discussions in order to report.

2. VIABILITY METHODOLOGY:

General viability approach

The recommended approach to undertaking development assessments is provided in a number of guides. These include the National Planning Policy Framework, RICS VIP 12- "Valuation of development land" and RICS GN "Financial Viability in Planning" (due for formal release shortly).

The approach recommended is to assess viability based on a residual valuation basis. This means assessing the development value of the scheme and deducting from this the costs of the development to leave a gross residual sum representing the site value and planning policy requirements. The following table illustrates this:



This residual site value is then compared to a Benchmark site value. This is based on Market Value, and assumes that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. This Benchmark site value takes in to account the value of the existing use of the property and appropriate alternative uses, and a competitive return to a willing landowner.

If the residual site value is in excess of the Benchmark site value the scheme is viable and should be planning policy compliant. If it falls below the Benchmark site value it may not be viable, and may require a reduction in delivery of planning policy requirements.

Residual valuation toolkit

The usual way of carrying out a residual valuation is to use a toolkit. The toolkit used by the applicant is the HCA EAT, and I consider it is appropriate for this review, although this toolkit is rather out of date and has been replaced by the HCA DAT which is able to produce a cashflow and can therefore be made more accurate.

Information required in a development viability assessment:

In making a case that viability is an issue in meeting planning policy obligations, it is implicit that the viability assessment includes sufficient information to enable the local planning authority to evaluate the report. The report should include an explanatory assessment with detailed supporting information. This information should comprise the following details (in both hard copy and electronic form):

- a) Planning application details - plans, design & access statement, sections, elevations etc. as relevant
- b) Supporting reports for site abnormalities, schedules of condition etc
- c) QS cost assessment- The evidence should include a current day full build cost estimate, not summary, showing how the costs have been estimated (and include a full breakdown of both gross and net internal areas).
- d) Market evidence- This needs to comprise:
 - (i) Estimate of sales/rental values of each individual unit of accommodation;
 - (ii) Sales Market reports together with evidence in support of the sales/rental values adopted;
 - (iii) Sales rates assumptions;
 - (iv) Values assessed for affordable housing (if applicable).
- e) Detailed valuation reports for the current market value of the site (include tenures, easements, description etc). This needs to include a valuation of the site in its existing or potential or alternative use with an explanation showing how these values have been assessed and supporting evidence as appropriate.
- f) Viability appraisal including cash flow. This needs to be provided in an electronic file format to enable us to review the calculations.

3. ASSESSMENT PROVIDED BY THE APPLICANT:

The information provided by Simon Corp comprised the following inputs:

Gross development value (GDV):

- a) Market sales values. Simon has provided sales values of £100,000 for one bed apartments, £128,000 for two bed apartments and £155,000 for three bed apartments. I have undertaken research and am of the opinion that the sales values are £104,000 (1 bed), £128,000 (2 Bed) and £159,000 (3 bed). The Housing Association have had a separate valuation indicating that the 1 beds are £104,000, the 2 beds £119,500 and the 3 beds £159,000.
- b) Affordable housing values. Simon has indicated that the shared ownership properties have a value of 1 bed has a capital value of £95,420 and the 2 bed £115,000. The Housing Association have indicated that the Affordable Rents are 1 Bed £93.63, 2 Bed £112.03 and 3 Bed £147.18. The Housing Association have indicated that they will discount at 6.75% and include management/unit/year at £354pa, Maintenance at £1144pa and Voids at £90 pa. Simon has assumed that 50% of the shared ownership property will be sold, and 50% rented.

For the purposes of this valuation, I have assumed 5% management cost, 3.5% voids and 5% repairs, although Simon has used 11% management costs, 3.5% voids and 13% repairs.

Grant . I have assumed for the policy compliant scheme that **no** grant would be available. This may be incorrect and needs to be verified.

- c) Ground Rents. Ground rents of £200 per month are included at a yield of 6% and the applicant has used a yield of 7.25%.

Gross Development Costs (GDC):

- a) Build costs. The applicant has provided a breakdown of the anticipated build costs. We have assumed that the GIA is 1634m² at a rate of £1,071/m². There was no drawing provided when the QS undertook the assessment and so a 12% allowance

was assumed for external works.

Our Quantity Surveyor has assessed the build costs and his assessment of the build costs is very close to that of the applicant. A copy of his assessment is attached as an Appendix to this report.

- b) Abnormals. We asked for more information regarding abnormals and these were provided in the form of estimates for the diversion of a sewer and a solicitor's letter indicating that a ransom payment of £60-65,000 would be required for the leaseholder of the existing off-licence premises to vacate the property. We have therefore used those figures.
- c) Contingency. The applicant has included 5% within the HCA EAT and we are in agreement with this at this stage of the development.
- d) Professional fees. The applicant has included professional fees at 8% and we are in agreement with this figure.
- e) S106 & CIL obligations. The applicant has not included any S106 obligations within the appraisal. If this is incorrect then please let me know.
- e) Marketing costs. The applicant has included sales and marketing fees of 5% and legals of £500 per unit. We consider that the sales and marketing fees should be around 3.5% and agree with the legal costs.
- f) Finance Interest and finance costs are primarily affected by the amount of money borrowed and repaid throughout the development period from commencement of the scheme (ie the preliminary period) to the final sale. The actual applicant's arrangements are not what should be considered, but those for a typical developer of the application scheme. The HCA DAT User Guide explains this well:

"3.12 Finance cost 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. It depends 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. If the developer has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is potentially the same as the debit interest charge. If not, and the developer would simply put the funds into the bank, then a lower rate is appropriate.”

We have assumed that the interest rate is in the region of 6-7% and the applicant has applied an interest rate of 6.75% plus an arrangement fee of £8,000 and surveyors fees of £3000. We consider that these fees are slightly higher than we would anticipate and have applied an interest rate of 6.75% to include the arrangement fee and surveyors fee.

- g) Disposal programme. The applicant has proposed starting construction at month 6, and a construction period of 18 months. We consider that construction should start at month 3 and agree that it may take 18 months from that date with all sales being completed at month 30.
- h) Profit. The applicant has included a profit of 20% of the gross development value. We consider that is a reasonable profit for this development and have used this figure. We have used a profit level of 6% for the affordable housing contribution.

Residual land value (RLV). NPPF requires the applicant to demonstrate that a planning policy compliant scheme is unviable. This means the assessment should show viability results assuming a policy compliant scheme. If this is correctly done, the deduction of GDC from GDV produces a net residual site value (RLV) which is compared to the Benchmark value. If the RLV is in excess of the Benchmark, the scheme is viable.

Benchmark value: The applicant has provided a land value for the site based on a development appraisal which indicates that the land has a value of £36,000 and we are content with this figure.

I have reviewed the applicant's toolkit and taken in to account my comments on the inputs used.

4. DVS ASSESSMENT OF VIABILITY.

I have carried out two viability assessments the first of which is all private housing and the second providing 30% affordable Housing, using my assessments of values and costs, as explained above.

The assessment for all private indicates that the development can provide £10,000 of S106 contributions, when taking into account £15,000 S106 contributions and using a benchmark land value of £36,000.

If the development is undertaken at policy **without** any social housing grant then I consider that the development is not viable, using a benchmark land value of £36,000

5. CONCLUSIONS.

I have carried out a detailed review of the applicant's viability appraisal and concluded that:

- a) The information now provided is acceptable.
- b) The viability methodology used is the HCA EAT (July 2009) which is reasonable.
- c) The inputs used to assess the residual land value (RLV) are reasonable.
- d) It should be verified as to whether any housing grant would be available for a policy compliant scheme.

My overall review of the viability appraisal is that the figures are reasonable.

I have carried out my own assessment of what might be viable, based on my own assessments of values and costs. This is indicative only, as a planning application has not yet been made.

I trust that the viability review is clear. You may have queries on a number of the issues I have raised, and I would be pleased to provide further information if you require this.

Yours sincerely

Diana Ayles BSc MRICS
DVS Development Consultancy Team

Attached:

Appendix A: DVS Development Viability