



27 November 2019

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Economic Viability Assessment Update

Dear Sirs

Ref; Proposed Development at Wellington Way, Waterloooville.

Further to my Economic Viability Assessment (EVA) report dated 28 February 2019 and 23 August 2019 I have been instructed to update my valuation taking into account recent changes to the projects design and costs.

I am in receipt of the Dixon Searle (DS) draft verification report dated November 2019. DS have not agreed with the findings of our EVA and consider that the site is capable of providing an on-site affordable housing contribution. I consider the DS review to have been undertaken without objectivity and dispute the findings of their report.

I attach (Appendix A) a summary of my residual valuation worksheet. I will consider the specific aspects of the projects costs and revenues below.

This EVA has been carried out in accordance with the RICS Guidance Note 94 Financial Viability in Planning 2012, RICS Professional Standard and Guidance Financial Viability in Planning: Conduct and Reporting 1st Edition May 2019, National Planning Policy Framework and Planning Policy Guidance. I note that the reporting for this project has occurred over the transitional period of the updated RICS Guidance.

CPI Wellington Way 2 Ltd
EVA Update – Waterloooville PRS
27 November 2019

Professional Statement

This report has been undertaken with objectivity, impartiality and without interference. I have made reference to all appropriate available sources of information.

Instructions & Fees

This instruction does not result in any conflict of interest. This instruction is on a fixed fee basis. In preparing this report no performance related nor any contingent fees have been agreed.

Transparency

This EVA report has been prepared on the basis that it will be made publically available. This is subject to the authorisation of the client and subject to any commercially sensitive information of personal information being redacted.

Area Wide EVA Reviews

I have not previously submitted any viability evidence to the LPA as part of an area wide Viability Assessment

Justification

All inputs in this EVA are reasonably justified.

Benchmark Land Value

This reporting has previously considered key valuation data, where appropriate, including;

- Current Use Value (Existing use Value).
- Premium to Land Owner.
- Market Evidence.
- Supporting consideration, assumption and justification adopted.
- Alternative Use Value.

A statement has previously been included in the EVA setting out how the market advice and other supporting information has been analysed and, as appropriate, adjusted to reflect existing or emerging planning policy.

Origination

This report has been prepared on behalf of the planning applicant.

Sensitivity Analysis

I have included for a sensitivity analysis of the project based on a range of investment yields. The analysis allows the relevant parties to the planning application process, to consider how changes in inputs to a financial appraisal affect viability and to understand the extent of these results to arrive at an appropriate conclusion on the viability of the application.

Engagement

It is our intention to advocate reasonable, transparent and appropriate levels of engagement in carrying out this case and our instructions reflect this code.

Non-Technical Summary

The EVA report includes for a non-technical summary that includes for the key figures and issues that support my conclusions.

Author

This report has been undertaken by Mr John S Newman BSc(Hons) PGDip MCIH CBuildE MRICS, a fully qualified Chartered Engineer, Chartered Surveyor and Registered RICS Valuer acting in the capacity of an external Valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the valuation competently. The author has come to a reasonable judgement on viability on the basis of objectivity, impartiality, and without interference, taking into account all inputs, including those supplied by others.

Reports by Others

I note the previous EVA reports undertaken by this firm and the DS verification report.

Timeframe

I am advised that the planning application relating to this EVA report is due to be determined. It would be reasonable for the LPA to issue their final verification report within 4 weeks. The LPA or their advisors must confirm their agreement to this timetable or propose alternative arrangements on submission of the report.

Duty of Care and Due Diligence

When carrying out EVA reporting RICS Members must be reasonable, transparent and objective. Members must act impartially and are not influenced by their role, nor by external pressure. RICS members must comply with the principles of professional and ethical standards. These include a duty of care, given the public interest and reliance of third parties, and to disclose any circumstances where any gain from the appointment beyond the instruction exists. Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. Any potential or arising conflict of interest will be confirmed.

The proposed development has been the subject of a value engineering process and the project reflects the most cost effective way to deliver reasonable development performance.

The assumptions used within the EVA reflect reasonable industry standards within a range of evidence available. This reflects professional judgement, having regards to such matters or risk. These considerations apply to the resultant outputs in reaching a rational, reasonable and realistic conclusion.

This report remains valid for 3 (three) months from its date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

Construction Costs

I consider the correct BCIS rate to use for the main works cost is the BCIS Student Halls rate. The reason for this is that the buildings design and specification is exactly the same as a Student Halls development. The rate is currently £2,138m² producing a budget of £20,674,460.

DS have not agreed to the use of the Student Halls rate and suggest that the BCIS Flat development median rate for 6 plus storey buildings is used. This approach is unreasonable as the rate does not reflect the nature of the development. I note that the building will not intentionally house students but this fact is irrelevant. The average studio size is now 23.75m² reflecting a Halls development specification.

In particular the individual lettings units (dwellings) are very small and this would result in a higher average constructions cost compared to market size flats, or the BCIS Median rate. An objective approach to the use of the BCIS flattened rate would be to consider the Mean Rate as this reflects the design of the building. The mean Rate is currently £2,132m² which matches the Student Halls rate. I have included for the cost of the undercroft construction at £550m² being a budget of £128,700 as previously agreed by DS.

The BICS rate for multi storey car parks has increased to £631m² and the car park is also increased in size to 6,931m² producing a construction budget of £4,373,461. I note that the BCIS cost for the multi storey car parks used in my valuation is based on the median default rate as the 5 year index lacks sufficient data to provide any analysis.

The site specific and external works budget have been calculated on a measured rate basis of £603,318 which has been agreed by DS. The total works budget is £25,779,939.

I have again included for build contingency at 5%.

Fees and Charges

DS has agreed with the inclusion of a professional fee budget of 7%.

DS has agreed with an interest charge rate of 5%. I have calculated the interest charges on post contract costs using a cash-flow model over 24 months and the land holding costs and land fees as a fixed 5% charge for 24 months. Contract stage interest charges are £1,307,167 and land interest charges are £351,680.

The proposed building produces 9,670m² in accommodation, existing accommodation to be demolished accounts for 2,613m². The net gain in building area is therefore 7,057m² and the indexed CIL rate is currently £119.29m², which will result in a CIL liability of £841,830. I understand that there are s106 contributions of £91,344 for recreational mitigation which I have included for within my valuation.

The site has demonstrable viability issues and cannot support any additional s106 contributions such as to Nitrate Mitigation or contributions to the National Health Service etc.

I have included for Marketing, Legal and Sales fees at 1.5% of gross development value. It is well established that the proposed development will ultimately be sold to an investment company. The Purchasers costs are always paid by the Developer at a rate of 5.8% and I have included for these charges in the valuation. I have included for land acquisition fees including valuation in the sum of £59,200 which has been accepted by DS.

DS have accepted that statutory compensation due to leaseholders in surrendering their leases is a fully qualifying development cost that should be included within the valuation. SDLT on the Site Value at the appropriate commercial rate has been accepted by DS

Existing Use Value (EUV) – Land Costs

DS have accepted the Existing Use Value of the site at £2,574,000. However, DS has not accepted our incentive to the land owner at 15% of the EUV but instead considers an uplift of 10% is appropriate on the basis that commercial properties in Waterloooville are in low demand and require investment.

I strongly disagree with the DS opinion. The existing premises are the subject of a proposed regeneration project and as such would not receive any short term investment. The fact that there is low demand for commercial property in the town centre is irrelevant as the base value of the premises has already been taken into account in the EUV.

Planning Guidance suggests that the incentive to land owner can range from 10% to 30% on EUV. I have been reasonable in considering a level of 15%; the DS position at 10% is derisory. The approach to land owners incentive over and above EUV has been tested at the Maunsell House Inquiry (APP/G1580/A/08/2084559). It was upheld that that premium of 20% over EUV was correct; this is an important landmark decision.

The complications in assembling large commercial sites for regeneration are significant and freehold owners need suitable incentive to release property as their forward costs of purchase to reinvest in alternative commercial premises will be high. An allowance of 10% will typically not cover the basic onward costs of re-provision taking into account agents fees, SDLT, legal fees and moving costs. The DS position does not stand up to scrutiny and should be discarded.

I am informed that there are additional site acquisition costs of £200,000 payable to Hampshire County Council who own a freehold element of the required site area. I have now included for this transaction within the valuation.

Taking into account the EUV of £2,574,000 plus an incentive of 15% plus the HCC land acquisition of £200,000 the Site Value is now £3,160,100.

Profit and Overhead

I previously considered Profit and Overhead at 15% on cost. DS have disagreed with this and suggested that an appropriate profit margin should be 12% on cost; their opinion is unsupported.

Considering the project is not pre-let I am of the opinion that the minimum industry standard profit on cost of margin of 15% is appropriate. This matter has recently been tested and upheld at the Oxford Road Inquiry (APP/G1250/W/16/3159914); where a profit margin of 15% to 20% on cost was accepted by the Inspector as industry standard.

Revenue

DS has accepted the value of the new multi storey car park per bay and I have updated this to reflect the larger structure. I have included for the Market Value of the car park within my valuation so there should not be the need to consider its impact further on the projects overall review. However if the Car Parks revenue is reduced then there will be a corresponding reduction in the projects overall viability.

DS has also accepted the likely net rental income for the proposed studios flats at £7,000 per annum. However, DS do not agree with my opinion on Investment Yield at 5.75%. Instead DS propose an Investment Yield of 5% based on data for the South East England region.

I must restate that Waterloooville is a tertiary location and that the yield to be achieved at this location will be at the lowest level for any urban area in the region. I would also reiterate that this is not a pre-sold investment and as such the yield will also be lower because of it.

DS state at 3.1.34 that 'if the developer is prepared to proceed with the scheme as build to rent it has to be assumed that a market has been identified for it with similar levels of risk to other BTR developments'. This statement is highly unreasonable; the project has not been pre let and is being pursued at risk: the yield as such should reflect both this fact and its location.

This matter has recently been tested and upheld at the Oxford Road Inquiry (APP/G1250/W/16/3159914); It was accepted that the yield to be attributed to a project that is

not pre let must attract a lower yield. In this case a discount of at least 0.5% was considered the minimum difference.

The issue of *'if the developer is prepared to proceed with the scheme as build to rent it has to be assumed that a market has been identified for it with similar levels of risk to other BTR developments'* was also considered by the Inspector and he specifically agreed that in the absence of a pre let deal that enhanced yield should not apply.

The similarities of the above appeal to the Waterlooville project are very similar and considering the site specifics and appeal decision I can't accept a yield in excess of 5.75% within this valuation, however for the purposes of this review I have modelled a range of values for 5% to 5.75% by way of a sensitivity analysis.

Yield	YP	Rent	Value P.U.	Number	GDV
5.75% Yield	17.39	£7,000	£121,739	264	£32,139,130
5.5% Yield	18.18	£7,000	£127,273	264	£33,600,000
5.25% Yield	19.05	£7,000	£133,333	264	£35,200,000
5% Yield	20.00	£7,000	£140,000	264	£36,960,000

The above table shows the impact of improved Yield of between 5.75% and 5%. The adjustment to yield has a profound impact on the value of the scheme and by improving the yield to 5% DS increased the revenue by £4,820,870.

Considering the status of the site and its location I don't believe that DS have considered the issue of yield objectively but have sought to simply increase revenue for the purposes of planning gain. This is a very high risk project and adopting the DS aggressive position in regards both the Investment Yield and Profit Margin will simply prevent the project from coming forward.

At a yield of 5% the value of a given 250sqft studio flat is £140,000 which is producing revenue at £565sqft on the sales area. Considering the wider housing market, a new build 550sqft 1 bedroom flat in the better located Fareham market can be purchased for £140,000.

Taking into account the above evidence I consider the GDV of £32,139,130 to be entirely reasonable for this review at planning stage.

Summary

Below is a summary of the costs and revenues of the project.

Costs

Build Costs	
Main Building	£20,803,160
External Works	£603,318
Car Park	£4,373,461
Contingency	£1,288,997
Professional Fees	£1,804,596
Interest Charges	£1,658,847
Community Infrastructure Levy	£841,830
S106 Contributions	£91,344
Selling Fees	£525,101
Purchasers Costs	£1,864,068
Statutory Compensation	£150,000
Stamp Duty	£147,500
Land Fees	£59,200
Overhead & Profit	£4,998,526
Total to Costs	£39,209,948
Revenue	
Residential	£32,139,096
Car Park	£2,801,003
Total to Revenue	£34,940,099
Residual	-£4,269,849

Residual Value

Taking into account the reasonable assumptions considered in my report, the project produces a negative Gross Residual Value in the sum of -£4,269,849.

Considering the Existing Use Value inclusive of 15% vendor incentive the Land Value for the purposes of this review is £3,160,100. The projects development residual is therefore significantly under water at -£7,428,948.

Sensitivity Analysis

I have undertaken a sensitivity analysis of the project reflecting different investment yields of between 5.57% and 5% to show the impact on the residual valuation by increasing the revenue.

Yield	YP	Rent	Value P.U.	GDV	Costs	Residual
5.75% Yield	17.39	£7,000	£121,739	£34,940,133	£39,225,100	-£4,284,967
5.5% Yield	18.18	£7,000	£127,273	£36,401,003	£39,225,100	-£2,824,097
5.25% Yield	19.05	£7,000	£133,333	£38,001,003	£39,225,100	-£1,224,097
5% Yield	20.00	£7,000	£140,000	£39,761,003	£39,225,100	+£535,903

The above analysis shows that the project only makes a positive residual value when the yield is at 5%. The analysis includes for the Local Authority purchasing the multi storey carpark in the sum of £2.8m, being the market value. I understand that the Local Authority may not be prepared to undertake this purchase and as such the project even at a yield of 5% will result in a negative residual.

The project will only be delivered on the basis that the LPA purchases the new multi storey car park and the developer is prepared to deliver the project on reduced profit margins.

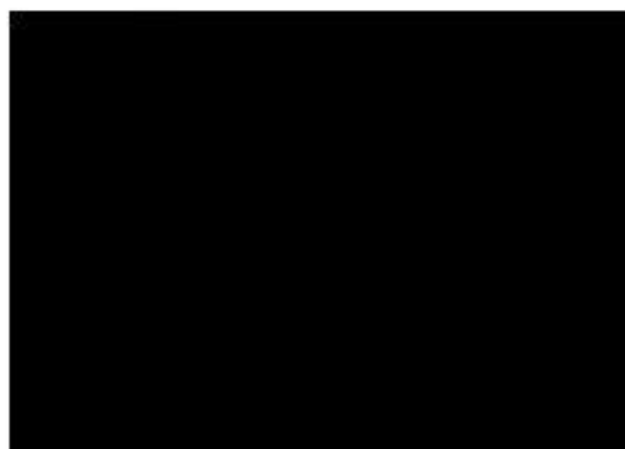
Conclusion

The redevelopment of this site is challenging. There are a number of site specific costs which impact on the overall viability including;

- Demonstrable Existing Use Value.
- Hampshire County Council land costs.
- Significant CIL charges.
- Off-site works (multi storey carpark).

The site will not be delivered with any additional s106 contributions including any Affordable Housing provision. Whilst the overall viability profile of the site may improve over time and during detailed design stage the viability issues will never be fully overcome and the project will always be considered a marginal development.

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



Waterlooville PRS - Financial Viability Assessment.Private Development Assumptions

27-Nov-19

CStandard Construction Costs

Unit Type	Number of Units	Gross Int Floor Area m2	Total GIA m2	Construction Cost Rate £m2	Total Build Cost
Studio Flats	264	23.75	6,270.00	£2,138	£13,405,260
Communal Areas			3,400.00	£2,138	£7,269,200
Undercroft			234.00	£550	£128,700
Multi Storey Car Park			6,931.00	£631	£4,373,461
Totals	264		16,835.00		£25,176,621

Over Extra Construction Costs

Podium Deck area- 354m2	£35,400
Roof Terrace - 308m2	£30,800
Demolition 2,613m2	£117,585
Utility Infrastructure Charges	£237,600
Incoming Services	£20,000
Foul Drainage	£20,000
Surface Water Drainage	£20,000
Off Site Works -200m2	£24,000
Euro Bins -33	£8,250
Hard Surfaces -200m2	£16,000

Car Park Landscaping	£5,000
Car Park Services	£5,000
Car Park External Bays	£16,474
Car Park External Road	£37,210
Car Park SWD	£10,000

Sub Total **£603,318**

Total **£25,779,939**

Contingency @ 5% **£1,288,997**

Grand Total **£27,068,936**

Administration and Development Allowance

Professional fees @7%	£1,804,596			
Build Interest (£29,819,809 @5%)	£1,307,167	See Calc	Gross Area	9670
Land Interest (@5% 24 months)	£351,680		Demolition	2613
CIL - 7,057m2 @£119.29	£841,830	49.06% Index	Net Area	7057
Selling Fees @1.5%	£524,101			
Purchasers Costs @5.8%	£1,864,068			
S106 Contributions	£91,344			
Nitrogen Mitigation	£0			
Statutory Compensation etc	£150,000			
Stamp Duty	£147,500	4.67%		
Land - Valuation, Legal & Agent	£59,200			
Total	£7,141,485			

Overhead & Development Profit

Overhead Profit @15% On Cost	£4,998,526	14.31%	On GDV
Total Profit	£4,998,526		

Gross Development Costs **£39,208,947**

<u>Total Gross Development Value</u>		<u>Sales</u>		<u>£m2</u>	<u>£sqft</u>
Studio Flats	264	£121,739	£32,139,096	£5,125.85	£476.19
Car Park (263 bays)			<u>£2,801,003</u>		
Totals Market GDV	264		<u>£34,940,099</u>		

Residual to Site Value	<u>-£4,268,848</u>
Car Park Land Costs	£0
HCC Land Costs	£200,000
Existing Use Value	<u>£2,574,000</u>
Plus 15% Uplift	<u>£3,160,100</u>
Difference between SV and EUV	<u>-£7,428,948</u>

Build Interest payments

Contract period expenditure		£29,806,705		
24 month cycle to last sale loan paid				
Intro Fee 0%		£0		
Borrowing rate 5%				
Month 0	£500,000	£500,000	£2,083	Planning
month 1	£500,000	£1,000,000	£4,167	Mob
month 2	£500,000	£1,500,000	£6,250	
month 3	£906,000	£2,406,000	£10,025	SOS
month 4	£1,000,000	£3,406,000	£14,192	
month 5	£1,000,000	£4,406,000	£18,358	
month 6	£1,200,000	£5,606,000	£23,358	
month 7	£1,200,000	£6,806,000	£28,358	
month 8	£1,200,000	£8,006,000	£33,358	
month 9	£1,400,000	£9,406,000	£39,192	
month 10	£1,600,000	£11,006,000	£45,858	
month 11	£1,800,000	£12,806,000	£53,358	
month 12	£2,000,000	£14,806,000	£61,692	
month 13	£2,000,000	£16,806,000	£70,025	
month 14	£1,800,000	£18,606,000	£77,525	
month 15	£1,600,000	£20,206,000	£84,192	
month 16	£1,400,000	£21,606,000	£90,025	
month 17	£1,200,000	£22,806,000	£95,025	
month 18	£1,200,000	£24,006,000	£100,025	
month 19	£1,200,000	£25,206,000	£105,025	
month 20	£1,200,000	£26,406,000	£110,025	
month 21	£1,200,000	£27,606,000	£115,025	
month 22	£1,200,000	£28,806,000	£120,025	PC 18
month 23	£1,000,000	£0	£0	
month 24		£0	£0	
	<u>£29,806,000</u>		<u>£1,307,167</u>	
Total Finance Cost		£1,307,167		