

Viability Report

Land East of Westergate, West Sussex

Turner Morum

Commercially Sensitive

31st January 2024

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1. BACKGROUND AND RELEVANT EXPERIENCE

- 1.1. My name is Thomas Hegan of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2010 following the award of an Honours degree in Real Estate Valuation and Management from the University of West England, Bristol – in 2005.
- 1.2. In 2007 I joined the practice of Turner Morum Chartered Surveyors and was made a Partner in 2013. I am a specialist in the field of development site appraisals and associated subjects. Some of the work I am currently undertaking or have recently undertaken is attached to this statement as **Appendix 4**.
- 1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land. I am currently instructed by a substantial number of Local Authorities, Landowners, Developers, Receivers & Liquidators and have extensive experience in this field. I am an Accredited Expert Witness and have previously provided Expert Valuation Evidence. I have successfully undertaken the Advanced Professional Award in providing Expert Witness Evidence & am also an RICS Registered Valuer.
- 1.4. Turner Morum was appointed by the applicant, CALA Homes (South Home Counties) Ltd. ("CALA") in May 2022 to provide a financial viability assessment in respect of their proposed residential scheme at Westergate, West Sussex. The proposed scheme includes the provision of 400 units including both flats and houses. The net area extends to 24.36 acres (9.86 ha) with a gross area of 47.8 acres (19.35 ha). A site location/layout plan is included at **Appendix 1**.
- 1.5. The original assessment was reviewed by Arun Council's appointed consultant, Carter Jonas ("CJ") in October 2022. I have now been instructed by CALA to provide a refreshed viability assessment. However, where appropriate, I have sought to maintain inputs previously agreed with Carter Jonas – or adopted their assumptions with a view to reaching a swift agreement in the refreshed viability negotiations. A copy of Carter Jonas' Viability Review is included at **Appendix 5**.
- 1.6. In undertaking the enclosed analysis, I am aware of and follow the mandatory requirements set out in RICS Financial Viability in Planning; Conduct & Reporting (2019) (**Appendix 7**).
- 1.7. I am also aware of viability guidance documents such as the RICS Financial Viability in Planning (2012), Viability Testing Local Plans (the Harman report) and the RICS Assessing viability in planning under the NPPF 2019 for England (2021). I am also aware of the Planning Practice Guidance on Viability published following updates to the National Planning Policy Framework (NPPF).

2. MECHANICS OF THE ASSESSMENT

2.1. My residual appraisal analysis can be summarised as follows: -

- **Appendix 2 Tab 1A** – Appraisal reflecting the 400-unit scheme including 30% affordable housing with an affordable housing tenure split of 67% affordable rent and 8% shared ownership and 25% First Homes.
- **Appendix 2 Tab 1B** – Appraisal reflecting the 400-unit scheme including 20% affordable housing with the same tenure split as above.
- **Appendix 2 Tab 1C** – Appraisal reflecting 400-unit scheme including 15% affordable housing and the same tenure split.
- **Appendix 2 Tab 1D** – Appraisal reflecting 400-unit scheme with 10% affordable housing and the same tenure split.

2.2. I will now run through the various appraisal inputs in sequential order as they appear in my residual appraisal analysis:

RESIDENTIAL MIX & ACREAGES

2.3. A breakdown of the residential mix is included at **Appendix 2 Tab 2** (Accommodation Schedule) with the mix including a mixture of market and affordable apartments/houses. The adopted residential mix results in a density of 16.2 units per net developable acre.

REVENUES

2.4. In my original assessment, MCC provided Market Revenue advice on a unit-by-unit basis which averaged £385 per square foot. Carter Jonas increased these revenues allowances to average £389 per square foot in their October 2022 review.

2.5. MCC provided updated market revenue advice in November 2023 (Appendix 3) equating to £362 per square foot which I have adopted in this assessment. For the purposes of this updated assessment, I have adopted market revenues in line with MCC's assumptions. By way of comparison the Land Registry HPI has dropped by 4.81% between October 2022 and the latest available (see Appendix 3). If applied to Carter Jonas' average revenue of £389 per square foot from October 2022, this would show £370 per square foot today.

2.6. Carter Jonas previously sought to raise Affordable Revenues in the Viability Review – see paragraph 5.1.4 of **Appendix 5**. CJ disagreed with my own assumptions of applying allowances

equating to 50% of OMV to affordable rent units and 65% OMV to shared ownership units, and instead applied a value of £230 per square foot to affordable rent units and £270 per square foot to Shared Ownership Units. I do not agree with this level of achievable affordable revenue, and certainly not in the current economic climate.

- 2.7. In this instance, I have maintained my previous OMV benchmarked and as I would consider these to be based upon standard industry benchmark percentages of Open Market Value ("OMV"). At **50% of OMV** – affordable rent units are now equivalent to **£181 per square foot**, First Homes at 70% of OMV (capped at £250k per unit) equating to **£252 per square foot** and the shared ownership values are maintained at 65% of OMV – equivalent to **£235 per square foot**. On the basis of a 67% affordable rent / 8% shared ownership / 25% First Homes tenure split, the blended affordable housing revenue equates to 55% of OMV.
- 2.8. The above revenue assumptions result in GDVs ranging from £128.38m at 30% affordable housing to £146.49m at 10% affordable housing.

DEVELOPMENT COSTS

- 2.9. Fees and marketing costs on the market housing are included at 3.0% of the market housing GDV. Allowances for First Homes are also included at 3% of First Home GDV (where applicable). Transaction costs are included at 0.5% of affordable housing GDV, with this allowance intended to reflect the costs associated with transferring the affordable housing from the developer to a Registered Provider. This was previously agreed by CJ at paragraph 5.2.7 of their report and I have maintained this allowance again.
- 2.10. Standard construction costs are derived from the Royal Institution of Chartered Surveyors (RICS) Build Cost Information Service (BCIS). Standard construction costs were previously agreed in adopting the latest derived Median quartile figures for 'Estate Housing – Generally' and 'Flats – Generally'. As per BCIS guidance, to the base construction costs I have made additional allowances for locational weighting (1.08 Arun, West Sussex), net to gross on flats/apartments (15%), external allowances (10%) and contingency (5%). These inputs were all previously adopted by Carter Jonas.
- 2.11. The latest allowances result in standard construction costs of £168.27 per square foot for estate housing and £223.76 per square foot for flats. A breakdown of the standard construction costs is included at **Appendix 2 Tab 3**.
- 2.12. I have maintained allowances for garages with costs for single and double garages, included on a rate per unit basis. The enclosed appraisal assumes a cost allowance of £10,000 per single and

£15,000 per double garage. Again, this was previously agreed with Carter Jonas at paragraph 5.2.2 of their Report.

- 2.13. Part L construction costs were previously agreed as an extra-over cost of **£4k per dwelling**. Within this updated viability, however, I have also included an allowance for Part F costs, again at **£4k per dwelling**. By the time this scheme gets through the planning stage and my client acquires the site, they will be required to comply with Part F Building Regulations.
- 2.14. Allowances for professional fees were previously included at 10% of the standard construction, garage and Part L construction costs. Carter Jonas lowered these fees to **8%** as per para 5.2.6 of their report and I have adopted their 8% allowance in this instance with a view to agreeing the viability.
- 2.15. Developer profit allowances are again included based upon standard industry allowances, with the developer profit included at 20% of the market housing GDV, 10% of First Homes GDV and at 6% for the affordable. It should be noted that I previously adopted a profit of 15% of First Homes GDV and have lowered this in line with CJ's 10%, with a view to agreeing the viability.
- 2.16. These allowances result in blended developer profit margins ranging from 18.0% of GDV at 30% affordable housing to 19.4% of GDV at 10% affordable housing. In my opinion, these profit allowances are the minimum amount required for a capital-intensive scheme of this nature, especially in current economic conditions – with considerable market sales uncertainty.
- 2.17. In my original assessment, I included Infrastructure and Abnormal costs that were derived from the Applicant's internal estimations. Carter Jonas lowered these costs somewhat and I have adopted their base Infrastructure and Abnormal costs respectively, after applying appropriate indexation in line with BCIS All in TPI (**Appendix 4**), which has increased by **3.73%**.
- 2.18. A breakdown of these costs is included at Tabs 4A and 4B of **Appendix 2** – which now total **£6.03m** for Infrastructure and **£5.44m** for Site Abnormals. It should also be noted that I previously applied professional fees of 10% to these costs, which Carter Jonas also lowered to 8%. In an attempt to reach a swift agreement, I have adopted their 8% allowance in this instance.
- 2.19. Section 106 costs have been included at **£12.13m** as derived from the Applicant's current estimations, drawn from schemes of a similar size in this locality, equating to £30,325 per dwelling. A full breakdown is included at **Appendix 2 Tab 4C**.

FINANCE COSTS

- 2.20. Allowances for finance costs are calculated within quarterly cashflow appraisals reflecting the projected revenue / cost amounts and timings for each development scenario. It is assumed that

site clearance will commence immediately with residential construction also commencing in Q2 Year 1. With regards to completions, the enclosed finance cashflows assume residential completions commencing from Q1 Year 2 with a sales rate of 25-market completions per quarter (assuming two sales outlets) and affordable disposals on a proportionate basis. These assumptions are in line with my previous assessment which was previously deemed reasonable by CJ at paragraph 5.2.11 of their Viability Review.

- 2.21. The cashflow appraisals now assume a debit finance rate of 8.5% per annum, which I believe is appropriate in the current economic climate. This is an increase from the previously agreed 6.5% rate however I would consider reflective of changes in the economy – by way of comparison when my original assessment was submitted in June 2022 the Bank of England Base rate was at 1.25% and it is currently at 5.25% - a **4% increase**.
- 2.22. These assumptions result in total finance costs of c. **£7.13m** at 30% affordable housing and **£5.84m** at 10% affordable housing.

3. VALUATION METHODOLOGY

- 3.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an adopted Benchmark Land Value (BLV). If the RLV exceeds the Land Value, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the Land Value, a deficit is produced and the scheme should be considered "Non-Viable".
- 3.2. The issue of what is deemed to be an appropriate BLV for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate BLV.
- 3.3. Within my original analysis, I adopted a land value derived from the latest Arun District Council CIL Viability Update produced by HDH Planning and Development in July 2018. The adopted Viability Threshold within this document for agricultural land is included at £330,000 per hectare, which equates to c. £134,000 per gross acre. Carter Jonas lowered this to **£125,000 per gross acre** which I have adopted in my updated assessment – equating to a BLV of some £5.976m.
- 3.4. I have then made allowances for Stamp Duty Land Tax (SDLT) at the prevailing rates (equating to 4.82%) and Agent/Legal fees at 1.75% of the total BLV. After making these allowances, the total BLV adopted for the purposes of this assessment equates to some **£6.369m**.

4. SUMMARY CONCLUSIONS & SENSITIVITY ANALYSIS

4.1. The results of the viability analysis can be summarised as follows:

Tab	AH %	RLV	BLV	Surplus/Deficit	Viable/ Non-Viable
1a	30%	-£11,014,095	£6,369,661	-£17,383,756	NON-VIABLE
1b	20%	-£5,544,777	£6,369,661	-£11,914,437	NON-VIABLE
1c	15%	-£2,679,602	£6,369,661	-£9,049,263	NON-VIABLE
1d	10%	£159,597	£6,369,661	-£6,210,064	NON-VIABLE

4.2. As outlined within the above table, in order to assess the viability, I have undertaken a sensitivity analysis by varying the levels of affordable housing. Furthermore, the model has also been set-up to consider further scenarios (including amendments to tenure etc.) and these can be examined in due course if required.

5. NON-TECHNICAL SUMMARY

5.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an appropriate Benchmark Land Value (BLV). If the RLV exceeds the BLV, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the BLV, a deficit is produced and the scheme should be considered "Non-Viable". I have provided a comparison table below to outline the points that are agreed/ not agreed with Carter Jonas:

Input:	TM	Carter Jonas	Comments/references:
Market Revenues	£363 per ft ²	£370 per ft ² (Indexed)	Not Agreed
Affordable Revenues	£181 psf AR £235 psf SO	£230 psf AR £270 psf SO	Not Agreed
Fees and Marketing (Market):	3.0%	3.0%	Agreed
Transaction Costs (Affordable):	0.5%	0.5%	Agreed
Standard Construction Costs	Latest Median BCIS	Latest Median BCIS	Agreed
Contingency	5%	5%	Agreed
Professional Fees:	8%	8%	Agreed

Developer Profit	20% Market GDV 10% FH GDV 6% AH GDV	20% Market GDV 10% FH GDV 6% AH GDV	Agreed
Finance Rate:	8.5%	6.5%	Not Agreed
BLV per Gross Acre	£125k per Gross Acre	£125k per Gross Acre	Agreed

6. CONCLUSIONS

- 6.1. As will be observed from the Summary Conclusions, the scheme is considered "Non-Viable" when assuming affordable housing quantities ranging from policy (30%) to 10% affordable housing.
- 6.2. In this instance, I can confirm that CALA are prepared to proceed with the scheme on the basis of 10% affordable housing and s106 contributions of £12.13m despite the deficit of circa £6.2m – provided this does not increase any further.
- 6.3. This deficit essentially represents an amount of 'usually obtainable' developer profit that my client would effectively be 'forgoing' in order to see the scheme proceed. However, if the deficit were to increase further – as a result of a requirement for additional affordable or s106 contributions – the achievable profit would reduce, which would place doubt over the development proceeding.
- 6.4. I trust this provides a suitable summary; I would welcome the opportunity to discuss my findings with you at your earliest convenience.



Thomas Hegon MRICS

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