

For: Arun District Council

**Review of
Applicant Submitted Viability Position**

**BMW House
Chandlers Garage Ltd
Water Lane
Angmering
BN16 4EH**

September 2021
(DSP21419P)

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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 Arun District Council (ADC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.
- 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. DSP is a specialist consultancy working only with Local Authorities on development viability matters. We work on a national basis, though much of our work is in the South East. This work includes previous reviews undertaken and others underway for ADC. Our work is on both strategic / policy level projects and a day-to-day caseload on site-specific viability reviews, which we conduct rigorously using an "audit" type approach.
- 1.1.5. So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. 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). In looking at 'Accountability', since July 2018 (para. 021 revised in May 2019), the published 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.’*

- 1.1.6. We note the Council’s website stated approach is that (from May 2016) it intends to publish all viability assessments in cases where the affordable housing policy requirements are not met. This will be for ADC to consider.
- 1.1.7. DSP 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 ADC area.
- 1.1.8. 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 Arun District Council (ADC) to carry out an independent review of the 'Financial Viability Assessment' (FVA) dated 28th May 2021 and supplied to the Council on behalf of the planning applicant by Alder King (AK). This is in relation to the proposed redevelopment at BMW House, Chandlers Garage Ltd, Water Lane, Angmering, BN16 4EH.
- 2.1.2 The FVA has been submitted in support of a full planning application (ref. A/110/21/PL) which seeks permission for the: *'Erection of retirement apartment with 20 No. 1 Bed flats & 13 No.2 Bed flats with communal facilities & car parking, erection of a retail store with car parking & associated highway works.'*
- 2.1.3 By way of background, in April 2020 DSP carried out an independent review of the Development Viability report dated 13th December 2019 submitted in support of a full planning application (ref. A/45/19/PL) by Home Consultancy Limited. That planning application sought permission for the demolition of existing buildings (comprising car show room, workshops and a dwelling - 'Phares Courtledge') and erection of 19no. dwellings, a convenience store, a community building, public toilets and associated car parking and landscaping. DSP concluded within our report (April 2020 ref. DSP20419L) that the scheme appeared sufficiently viable to support a CIL/affordable housing financial contribution to the value of £417,000.
- 2.1.4 The planning application (ref. A/45/19/PL) was refused on 28th May 2020 with one of the reasons for refusal cited as: *"The scheme fails to provide an affordable housing contribution in conflict with policy AH SP2 of the Arun Local Plan."*
- 2.1.5 The Development Plan for the area currently comprises the Arun Local Plan 2011-2031 which was adopted in July 2018. Policy AH SP2 relates to affordable housing and states:
- "For all developments of 11 residential units or more the Council will require a minimum 30% of the total number of units proposed on site to be provided as affordable housing on the same site in the first instance."*

Where it can be proven, however, that 30% affordable housing provision is not viable, then a reduction in the amount of affordable housing on a site or off-site provision as part of another development within Arun District may be considered (as agreed with the local planning authority). The provision of affordable housing on a site at less than 30%, or on an alternative site or by way of a commuted sum will only normally be allowed in very exceptional circumstances if supported by robust evidence including, where appropriate, viability evidence.

The Council will negotiate the affordable housing tenure mix on development sites from an initial position of 75% rent and 25% intermediate housing.'

- 2.1.6 In presenting their viability position, the applicant has supplied to the Council the aforementioned FVA including the following appended details:
- Location Plan
 - Proposed site and floor plans
 - Alder King Valuation.
 - BCIS Extract
 - EPC
 - Sensitivity Analysis
- 2.1.7 Additionally, as requested, DSP has usefully been provided with an electronic (functioning) copy of the development appraisal, prepared by AK using Argus Developer. DSP has also had sight of the documents contained within the Council's online planning application file.
- 2.1.8 This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to generate land value) associated with that aspect of the overall proposals.
- 2.1.9 For background, development viability is a measure that may be defined as: *'the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to*

*the developer in delivering that project*¹. Under normal circumstances where a viability appraisal is provided, if the residual land value (RLV) created by a scheme proposal exceeds the existing use value or (in the absence of a clear existing use, potentially an alternative use value) 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).

- 2.1.10 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site (£1,396,000) and assesses the level of additional residual potentially available in excess of that after allowing for a fixed developer's profit (assumed at 20% GDV). Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable financial contribution for affordable housing. This is shown as the 'residualised amount' in the development appraisal.
- 2.1.11 The FVA states: *'The Proposed Scheme produces a surplus of £50,418 which can be paid to the Local Authority for Section 106 contributions including a commuted payment in lieu of onsite Affordable Housing.'*
- 2.1.12 The FVA includes sensitivity analysis considering changes in the build costs and sales values. We have included the table of results below.

Table of Gross Development Value and Land Cost					
Construction: Rate /m ²					
Sales: Rate /m ²	-10.000%	-5.000%	0.000%	+5.000%	+10.000%
	1,455.30 /m ²	1,536.15 /m ²	1,617.00 /m ²	1,697.85 /m ²	1,778.70 /m ²
-10.000%	£11,025,936 (£1,325,581)	£11,025,936 (£1,019,912)	£11,025,936 (£714,243)	£11,025,936 (£408,574)	£11,025,936 (£102,905)
-5.000%	£11,570,936 (£1,691,668)	£11,570,936 (£1,386,000)	£11,570,936 (£1,080,331)	£11,570,936 (£774,662)	£11,570,936 (£468,993)
0.000%	£12,115,936 (£2,057,751)	£12,115,936 (£1,752,087)	£12,115,936 (£1,446,418)	£12,115,936 (£1,140,750)	£12,115,936 (£835,081)
+5.000%	£12,660,936 (£2,423,844)	£12,660,936 (£2,118,171)	£12,660,936 (£1,812,506)	£12,660,936 (£1,506,837)	£12,660,936 (£1,201,168)
+10.000%	£13,205,936 (£2,789,932)	£13,205,936 (£2,484,263)	£13,205,936 (£2,178,592)	£13,205,936 (£1,872,925)	£13,205,936 (£1,567,256)

- 2.1.13 This review does not seek to pre-determine any Council positions and 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; it deals only with viability matters, in accordance with our instructions. Given the crux of the VR and this review

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

however, we note our normal assumption would be that development cannot proceed without essential mitigation (usually via s.106) that makes it acceptable in planning terms. This appears to be relevant in this case and in accordance with the guidance and good practice viability should be used to inform rather than constrain sustainable development.

- 2.1.14 Accordingly, ADC 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 – information all provided below.
- 2.1.15 We have based our review on the submitted FVA 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) utilising in this case the supplied appraisal basis as a starting point.
- 2.1.16 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has 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 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.
- 2.1.17 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of ADC - 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.
- 2.1.18 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 appraisal assumptions as explained within the FVA submission and associated appendices.

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'² states that:

² RICS Professional Guidance – Financial viability in planning (August 2012) – Updated guidance is effective 01.07.21 (see 3.2.3)

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

3.2.4 The viability section of the PPG and the new NPPF³ 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 Planning Practice Guidance (PPG) on Viability and the revised National Planning Policy Framework last updated 20th July 2021

3.2.5 The guidance defines existing use value as: *‘the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams’ locally held evidence.’*

3.2.6 It states that a Benchmark Land Value should:

- *‘be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.’*

3.2.7 The guidance further states that: *‘Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.’* It goes on to state: *‘Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to*

emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement.)’

- 3.2.8 With regard to assuming an alternative use value to determine BLV the guidance states: *‘For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.’*
- 3.2.9 It is therefore clear that the only acceptable approach to defining a benchmark land value for the purposes of a viability assessment, is the EUV+; or, exceptionally, AUV.
- 3.2.10 In this case, the BLV has been placed at £1,396,000 based on the FVA assessment of the existing use value of the former Chandlers BMW premises and cottage plus a 20% landowner’s premium.
- 3.2.11 Similarly, to the previous viability submission albeit undertaken by Home Consultancy Limited (not AK) (planning application ref. A/45/19/PL) the FVA considers the VOA rating valuation for the former BMW premises, which is stated to apply a rent of £13.17/ft² to the showroom element and £5.64/ft² for the workshop accommodation.
- 3.2.12 AK have assumed a capital value of £50/ft² for the workshop, storage and first floor accommodation with a stated yield of 11% therefore a £5.50/ft² rental assumption. For

the showroom element, AK have assumed a capital value of £91/ft², again with a stated yield of 11% and a £10/ft² rental assumption.

- 3.2.13 Based on the above, the FVA arrives at the following existing use value for the former BMW premises:

<i>Workshops/stores/first floor offices</i>	<i>13,843 ft² @ £50.00 ft²</i>	<i>=</i>	<i>£692,150</i>
<i>Showroom/sales offices/kiosk</i>	<i>4,297 ft² @ £91.00 ft²</i>	<i>=</i>	<i><u>£391.027</u></i>
Total			<i>£1,083,177 say £1,080,000</i>

- 3.2.14 Comparable evidence is limited. The car showrooms and workshops currently being marketed for rent are significantly more modern facilities than the subject premises in this case. Therefore, the reference to the VOA rating valuation is not inappropriate in the circumstances in our opinion as a starting point.
- 3.2.15 The previous viability submission assumed an EUV for the former BMW premises of £1,402,420 and at the time, DSP noted that the BLV could potentially be lower than stated when considering the nature and condition of the premises and how potentially attractive the location would be to prospective tenants for a continuation of the previous (existing use). In our view, the lower placed EUV of £1,080,000 is appropriate. However, when considered together with the 20% premium (EUV+/BLV £1,296,000) a lower site value still could be considered.
- 3.2.16 The FVA has assumed a value of £100,000 for the existing Phares Courtledge Cottage, based upon a one third plot value of the rebuild/refurbished dwelling value in the region of £300,000 to £350,000. Whilst we would not necessarily agree with the approach, after reviewing both property values within Angmering and latest available BCIS data for the rehabilitation of 'one-off' housing detached rebased to an Arun location factor, we do not consider the assumed value of £100,000 to be unreasonable (previously submitted at £350,000).
- 3.2.17 The FVA applies a 20% premium to the former BMW premises only, stating that the value for the cottage already reflects a premium, to arrive at a BLV of £1,396,000. DSP's view, in our previous April 2020 report, was that the BLV could be lower than the submitted £1,752,420. The assumed BLV now represents a reduction of £356,420 from the previous

submission and our view is that this could probably go further. Once again, considering the nature and condition of the existing premises and how potentially attractive the location of the premises is to prospective tenants, our view is that a lower premium (“plus” element) could be considered – 10% in this instance. We have therefore tested the scheme against a reduced BLV of £1,288,000 made up as follows:

EUV of former BMW premises	£1,080,000
Plus a premium of 10%	£108,000
Sub-Total	£1,188,000
Phares Courtledge Cottage	£100,000
Total BLV	£1,288,000

Acquisition Costs

3.2.18 The submitted development appraisal includes acquisition costs based on an agent’s fee of 1% and a legal fee of 0.8%. These are typical allowances – we do not consider these assumptions to be unreasonable.

3.2.19 The SDLT is based on the BLV and is reduced within our trial appraisal relating to DSP’s revised BLV.

3.3 Gross Development Value

Residential

3.3.1 The proposed development is a retirement housing scheme consisting of 33 flats, with a net saleable floor area of 2,018.46m².

Type	Av. Size (Sq M)	No. of Units
Retirement Living Apartments (1 bed)	52.36	20
Retirement Living Apartments (2 bed)	74.70	13
TOTAL		33
Retail Unit - GIA	375.96	1

3.3.2 Based on web-based review of locally available information as set out at 7.1.2 of the FVA, the submission places the assumed value of the 1-bed apartments at £285,000 and the 2-bed apartments at £400,000. The total GDV of £10,900,000 equates to an average value of £5,400/m².

- 3.3.3 The FVA then cross checks the assumed values against the Retirement Housing Group formula assuming that a 1-bed new build retirement flat is worth 75% of the value of a second-hand 3-bed semi-detached property locally and a 2-bed new build retirement flat would be worth the same as 100% of a second-hand 3-bed semi-detached property locally.
- 3.3.4 In order to assess whether the assumed sales values are reasonable, we have carried out our own desktop research of retirement property values using the Land Registry and property search engines Rightmove, Zoopla, and similar sources to review local market indications for comparable properties or reasonable indicators; considering sold prices and current / recent asking prices with reference to available information for the locality.
- 3.3.5 Based on our research and judgments, we are of the view that overall, the values are appropriately placed.

Retail space

- 3.3.6 The FVA approach to valuing the retail unit has been to apply an assumed rental at £19.69/sq. ft. (£212.79/sq. m) capitalised using a 6.5% yield assumption.
- 3.3.7 The valuation allows for an initial 6-month rent-free period and arrives at a capital value of £1,215,936.
- 3.3.8 We have researched comparable properties as far as available using the CoStar commercial database and Rightmove commercial. The average achieved retail rent in the last 3 years within a 3-mile radius of Angmering is £24.82. However, it is noted that the properties leased are considerably smaller than the proposed retail unit here (the majority being under 1,000ft²/93m²) and would therefore be expected to achieve a higher rent than larger premises (the proposed unit is 375.96m²).
- 3.3.9 Overall, therefore, we are satisfied with the approach taken by AK.
- 3.3.10 Purchaser's costs of £70,184 have been deducted from the sum noted at 3.3.7 above (5.77%) representing the investment sale of that income flow and is a reasonably typical approach.

- 3.3.11 Generally, on assumed scheme revenue, it is also worth noting that any improvement in the sales value assumptions (compared with a level considered at the point of the planning stage 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.

Ground Rents

- 3.3.12 There has been no allowance made within the submitted appraisal for any investment income derived from ground rents. We note that legislation has been proposed to remove the ability to charge ground rents. This has not been enacted, however, and may not be in the short term and is not intended to be retrospective, as noted in McCarthy & Stone's published information⁴.
- 3.3.13 We have therefore included ground rents within our trial appraisal, assumed at £425 p.a. for the 1 bed flats and £495 p.a. for the two beds, capitalised at a yield of 5%, and therefore adding £298,700 to the GDV, before the deduction of purchaser's costs, which we have included at 5.75%.

3.4 Development Timings

- 3.4.1 The development timings set out for the proposed development include a lead-in of 6 months, followed by 12 months' construction. An 18-month sales period is anticipated with 10 units (30%) assumed to be sold off plan, a further 16 units (50%) assumed to sell by the end of year 1 and the remaining 7 units (20%) are assumed to be sold over the next 6 months. The average rate of sale over the 24-month sales period is 1.83 per month.
- 3.4.2 The lead-in and construction periods appear reasonable in our opinion. However, the average rate of sales is below what is usually estimated by McCarthy & Stone for such schemes. We have not adjusted the sales timings in our appraisal but note that the sales programme represents a cautious view.

⁴ <https://www.mccarthyandstone.co.uk/info-and-faqs/ground-rents/>

3.5 Cost Assumptions

Build Costs & Fees

3.5.1 Build costs are based upon the BCIS median rates (although stated to be based on the mean rate within the FVA) rebased to West Sussex (location factor 108 compared with based 100), which at the time of the report FVA were noted as (as per BCIS extract appended to the FVA):

- Supported Housing - £1,617/m²
- Shops - Generally - £1,228/m²

3.5.2 The FVA uses the 'default' period BCIS results i.e. not the data relating to the last 5 years which is the approach used generally by DSP and other practitioners. We have reviewed the latest BCIS data rebased to an Arun location factor and using the same category as selected in the FVA (or closest available to that) this shows that there is no data for Shops other than when using the 'default' period (at £1,224/m²) and that the rate for supported housing is slightly lower at £1,572/m². We have tested the scheme against this slightly lower build rate.

3.5.3 The FVA applies an additional 10% allowance for external works, which is a typical assumption and therefore is not considered unreasonable.

3.5.4 The supported housing build rate has been applied to the gross area of the building - 2,898.42 m² (31,003 ft²). The net:gross floor area ratio is 69.64 % meaning that 30.36 % of the overall built floorspace is in the form of communal, non-saleable floorspace. DSP has not checked this ratio from the provided information. We assume it to be correct in reference to the specific proposal plans, and it is a fairly typical floor area proportion for a retirement apartments scheme; it is within the range seen.

3.5.5 Professional fees have been included at 10% and a contingency allowance of 5% (of the stated builds cost). These assumptions are considered reasonable – they do not exceed normal parameters.

Abnormal Development Costs

3.5.6 The development appraisal includes an allowance of £180,000 for demolition and site clearance and an allowance of £30,000 for S.278 works. We do not consider the demolition costs to be unreasonable given the nature of the existing premises. However,

no breakdown of the demolition and the S278 works costs has been provided and the Council may wish to request additional evidence. With no verification or information to the contrary, we have not made any adjustments to the assumed costs at this stage.

Empty property costs

- 3.5.7 Empty property costs (which reflect the cost of running the building over the 18 months sales period) have been included, based on an assumption of the likely time taken to sell the properties. The costs have been calculated at £79,777. The calculation is set out in Appendix 7 of the FVA and we consider the assumptions (including the sales period on which they are based) to be not unreasonable based on the range seen across a number of similar reviews. However, we would usually see the ground rent income offsetting (and reducing these costs) and we consider that this assumption is high. We have not adjusted the assumption at this stage, however, we recommend that an amended calculation is requested from the applicant which includes the ground rent income.

CIL / s.106 Planning Obligations

- 3.5.8 The appraisal includes an allowance of £202,890 for CIL. We recommend that ADC confirm this figure or provide an alternative that can be included within the appraisal.
- 3.5.9 It should be noted that any change in the chargeable sum(s) would have an impact on the overall viability of the scheme as viewed through the appraisal - a reduction in the s.106 cost assumption would improve the viability outcome and an increase would pull it downwards (looking at the effect of this assumption only). In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

Development Finance

- 3.5.10 Finance costs have been included in the FVA appraisal using a 6.5% interest rate assumption.
- 3.5.11 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.'

3.5.12 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 paper 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)*'.

3.5.13 The 6.5% interest rate assumption, representing finance costs inclusive of all fees, is considered acceptable, being an assumption that is consistent with our recent and current experience.

Agent's, Marketing & Legal – Private Residential

3.5.14 The FVA includes marketing fees of 3% and sales fees of 2%. This is higher than the rate applied to standard market housing, and we accept the principle of there being greater marketing costs due to the nature of retirement housing. We have therefore, not made any adjustments within our trial appraisal.

3.5.15 Legal fees (on sale) are also included at £650 per unit within the development appraisals. This assumption is not unreasonable in our view.

3.6 Developer's Risk Reward – Profit

3.6.1 In this case, the level of profit has been included as a fixed input at 20% of gross development value (GDV).

3.6.2 The Planning Practice Guidance (PPG) on Viability states: '*Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan*'. It goes on to state: '*For the purpose of plan making an*

assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types⁵.

- 3.6.3 We disagree that the 20% GDV assumption as submitted here, and regularly submitted in such cases, is necessarily a given – a fixed scenario. As part of seeking to find a different balance between on the one hand the acknowledged commercial drivers and landowner positions and on the other the community needs side, some flexibility ought to be possible. For the purposes of our appraisal, we have sensitivity tested a developer return of 17.5% GDV as well as the submitted 20% GDV.

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

4. Summary - Overview

- 4.1.1 The submitted overall approach to assessing the viability of the proposed development is considered to be appropriate in terms of general principles and approach to the development appraisal.
- 4.1.2 Likewise, the majority of the assumptions appear fair at this stage. However, there are some areas where we have a difference of opinion, as follows:
- Benchmark Land Value – we have reduced the BLV assumption down from £1,396,000 to £1,288,000 (paragraph 3.2.17).
 - Ground Rents – we have included a capital contribution from ground rent income (paragraph 3.3.13).
 - Build costs on Supported Housing – we have applied a slightly reduced build rate of £1,572/m² (paragraph 3.5.2).
 - Empty Property Costs – we recommend that the Council requests an amended calculation which includes ground rent income which can be utilised within the appraisal (paragraph 3.5.7).
 - Profit – we have undertaken sensitivity also applying a profit level of 17.5% GDV (paragraph 3.6.5).
- 4.1.3 The FVA states that the proposed scheme, as presented, produces a surplus of £50,418, after allowing for a fixed developer's profit of 20% GDV.
- 4.1.4 We have carried out sensitivity testing based on making our suggested amendments to the development appraisal. When making the amendments as referred to throughout this report and as summarised in paragraph 4.1.2 above, the scheme (using a 20% GDV profit level) produces a surplus ('Residualised Amount') of £513,564 (DSP Appraisal v1).
- 4.1.5 When reducing the profit level to 17.5% GDV, the scheme produces a surplus ('Residualised Amount') of £779,898 (DSP Appraisal v2).
- 4.1.6 On this basis, overall, we consider that the scheme viability appears to have been understated and we are unable to support an approach which provides a total of £50,418 for S106 contributions and affordable housing.

- 4.1.7 Of course, no viability report or assessment can accurately reflect costs and values until a scheme is built and sold – this is the nature of the viability process and the reason for local authorities needing to also consider later stage review mechanisms when significant developments fall short of policy provision. In this sense, the applicant and their agents are in a similar position to us in estimating positions at this stage – it is not an exact science by any means, and we find that opinions can vary.
- 4.1.8 We need to be clear that the above 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.
- 4.1.9 As regards the wider context including the Covid-19 pandemic and post-Brexit influenced 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. Whilst in the short term we may with more time see evidence of negative influences on viability, it is also possible that we may see some balance for example in terms of continued market resilience, development cost levels, Government interventions or other factors. Recently reported market trends and currently available forecasts point to significantly stronger housing market conditions than many were expecting or fearing a year or more ago.
- 4.1.10 As set out in the PPG, a balanced assessment of viability should consider the returns against risk for the developer and also the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission. DSP will continue to monitor the established appropriate information sources, as the Council will also be able to so.
- 4.1.11 DSP will be happy to advise further if/as required by ADC.

Review report ends

September 2021

ANGMERING - Former BMW Showroom
McC&S Scheme - 33 RL Flats
DSP Appraisal v1

Development Appraisal
DSP
20 September 2021

ANGMERING - Former BMW Showroom
McC&S Scheme - 33 RL Flats
DSP Appraisal v1

Appraisal Summary for Phase 1 Open Market

Currency in £

REVENUE

Sales Valuation	Units	m²	Sales Rate m²	Unit Price	Gross Sales
Retirement Living - 1 Beds	20	1,047.34	5,442.36	285,000	5,700,000
Retirement Living - 2 Beds	<u>13</u>	<u>971.12</u>	5,354.64	400,000	<u>5,200,000</u>
Totals	33	2,018.46			10,900,000

Rental Area Summary

	Units	m²	Rent Rate m²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Retail Unit	1	375.96	212.79	80,000	80,000	80,000
Ground Rents - 1 beds	20			425	8,500	8,500
Ground rents - 2 beds	<u>13</u>			495	<u>6,435</u>	<u>6,435</u>
Totals	34	375.96			94,935	94,935

Investment Valuation

Retail Unit					
Current Rent	80,000	YP @	6.5000%	15.3846	1,230,769
Rent Free	(80,000)	YP 6mths @	6.5000%	0.4769	
		PV 15yrs @	6.5000%	0.3888	(14,834)
					1,215,936

Ground Rents - 1 beds

Current Rent	8,500	YP @	5.0000%	20.0000	170,000
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Ground rents - 2 beds

Current Rent	6,435	YP @	5.0000%	20.0000	128,700
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Total Investment Valuation

1,514,636

GROSS DEVELOPMENT VALUE

12,414,636

Purchaser's Costs - Retail	1.80%	(27,263)	
Purchaser's Costs - Retail		(48,297)	
Purchaser's Costs - Ground Rents	5.75%	(17,175)	
Effective Purchaser's Costs Rate	6.12%		
			(92,735)

NET DEVELOPMENT VALUE

12,321,900

NET REALISATION

12,321,900

OUTLAY

ACQUISITION COSTS

Residualised Amount	513,564		
Fixed Price	1,288,000		
Total Acquisition		1,801,564	
			1,801,564
Stamp Duty		51,900	
Effective Stamp Duty Rate	2.88%		
Agent Fee	1.00%	12,880	
Legal Fee	0.80%	10,304	
			75,084

CONSTRUCTION COSTS

Construction	m²	Build Rate m²	Cost
Retail Unit	375.96	1,228.00	461,679
Retirement Living - 1 Beds	1,503.93	1,572.00	2,364,185
Retirement Living - 2 Beds	<u>1,394.49</u>	1,572.00	<u>2,192,132</u>
Totals	3,274.38 m²		5,017,996
Contingency		5.00%	284,990
Demolition/Site Clearance			180,000
S.278 Works			30,000
			5,512,986

Other Construction

External Works	10.00%	501,800	
			501,800

ANGMERING - Former BMW Showroom
McC&S Scheme - 33 RL Flats
DSP Appraisal v1

PROFESSIONAL FEES

Professional Fees	10.00%	569,980	569,980
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MARKETING & LETTING

Marketing & Agents Fees	5.00%	545,000	545,000
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DISPOSAL FEES

Sales Agent Fee - Investment (Reta)	1.00%	11,505	
Sales Legal Fee - Residential	33.00 un 650.00 /un	21,450	
			32,955

Additional Costs

Empty Property Costs - RL Block		79,777	
Community Infrastructure Levy		202,890	
			282,667

FINANCE

Timescale	Duration	Commences
Pre-Construction	6	May 2021
Construction	12	Nov 2021
Sale	18	Nov 2022
Total Duration	36	

Debit Rate 6.500%, Credit Rate 0.500% (Nominal)			
Total Finance Cost			516,938

TOTAL COSTS**9,838,973****PROFIT****2,482,927****Performance Measures**

Profit on GDV%	20.00%
IRR% (without Interest)	28.55%

ANGMERING - Former BMW Showroom
McC&S Scheme - 33 RL Flats
DSP Appraisal v2

Development Appraisal
DSP
20 September 2021

ANGMERING - Former BMW Showroom
McC&S Scheme - 33 RL Flats
DSP Appraisal v2

Appraisal Summary for Phase 1 Open Market

Currency in £

REVENUE

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Totals	33	2,018.46			10,900,000

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Totals	34	375.96			94,935	94,935

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Total Investment Valuation					1,514,636

GROSS DEVELOPMENT VALUE

12,414,636

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Purchaser's Costs - Retail		(48,297)	
Purchaser's Costs - Ground Rents	5.75%	(17,175)	
Effective Purchaser's Costs Rate	6.12%		
			(92,735)

NET DEVELOPMENT VALUE

12,321,900

NET REALISATION

12,321,900

OUTLAY

ACQUISITION COSTS

Residualised Amount	779,898		
Fixed Price	1,288,000		
Total Acquisition		2,067,898	
			2,067,898
Stamp Duty		51,900	
Effective Stamp Duty Rate	2.51%		
Agent Fee	1.00%	12,880	
Legal Fee	0.80%	10,304	
			75,084

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McC&S Scheme - 33 RL Flats
DSP Appraisal v2

PROFESSIONAL FEES

Professional Fees	10.00%	569,980	569,980
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MARKETING & LETTING

Marketing & Agents Fees	5.00%	545,000	545,000
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Sale	18	Nov 2022
Total Duration	36	

Debit Rate 6.500%, Credit Rate 0.500% (Nominal)			
Total Finance Cost			560,970

TOTAL COSTS**10,149,339****PROFIT****2,172,561****Performance Measures**

Profit on GDV%	17.50%
IRR% (without Interest)	24.76%