

**DEVELOPMENT VIABILITY REPORT
FOR RESIDENTIAL DEVELOPMENT AT 25 SUDLEY ROAD,
BOGNOR REGIS, WEST SUSSEX, PO21 1EW.**

On behalf of Grand Property Ltd

**By Simon Corp BSc (Hons)
11th November 2020**



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1.0 Introduction and Instructions

- 1.1 S106 Affordable Housing (Hampshire) Ltd has been instructed by Grand Property Ltd to prepare a development viability assessment to determine the viable level of affordable housing and other s106 contributions which can be funded from the proposed development converting and extending the first floor and adding an additional floor to create a scheme providing 10no apartments at 25 Sudley Road, Bognor Regis.
- 1.2 The report has been prepared by Simon Corp, I have a BSc (Hons) in Residential Development from Nottingham Trent University and 27 years experience in affordable housing development, most of this time was spent working for Registered Providers developing affordable housing projects including Aldwyck Housing Group, Raglan Housing Group now Stonewater and Eastleigh Housing Association now Vivid Housing. I am a Director of S106 Affordable Housing (Hampshire) Ltd a specialist practice providing viability, development and affordable housing consultancy services.
- 1.3 The purpose of the study is to set out the policy background, development details, viability and cost issues and make a case for the level of s106 contributions the development can viably sustain. Our methodology will be to carry out a viability assessment without any affordable housing or other s106 costs and compare this with the benchmark land value to determine the total development subsidy that is available to fund any planning obligations.
- 1.4 The appraisal has been carried out using the HCA (now Homes England) Development Appraisal Toolkit (DAT), where information is not available any assumptions made are either in line with industry norms or the default settings of the toolkit.
- 1.5 The updated NPPF and Planning Practice Guidance (Viability) states that an applicant must make a case why a viability assessment is required and a viability assessment should refer back to the viability assumptions adopted at plan making stage. The Arun District Council affordable housing policy is based on a borough wide viability assessment undertaken by HDH Planning and Development Ltd in 2017, in common with all district wide assessments this is based on a range of development typologies and appraisal assumptions. A site specific viability assessment is therefore required to compare the broad assumptions which underpin the Local Plan requirement with the site specific circumstances.
- 1.6 This report has been undertaken with objectivity, impartiality, without interference and 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 fees nor have any contingent fees have been agreed.

2.0 Executive Summary

- 2.1 The property currently provides retail space on the ground floor and additional workshop space on the first floor. It is proposed the ground floor retail area is reconfigured but retaining the retail use, the first floor space is converted and extended with a new second floor to provide a new residential scheme providing 10no one and two bedroom apartments.
- 2.2 The Arun Local Plan 2011-2031 was adopted in July 2018 and policy AH SP2 states that on all sites providing 11 or more dwellings 30% affordable housing will be required and this should be provided as 75% affordable rent and 25% intermediate forms of tenure. However national policy as set out in the 2019 NPPF states that affordable housing is required from all major developments defined as ten units and above and on the basis of national policy an affordable housing requirement would apply to this site. If the Local Plan policy requirement for 30% affordable housing was applied to the development this will equate to a requirement to provide 3no units, in our experience it would be very difficult to identify a Registered Provider interested in taking 3no dwellings above retail and therefore the obligation would be best delivered if viable as a contribution towards offsite affordable housing.
- 2.3 A policy compliant level of affordable housing provision should reflect the net benefit to the developer of not providing affordable housing on site and so our methodology has been to prepare two appraisal one on an open market basis and a second on a policy compliant basis with 3no affordable housing units and the difference between the two appraisal outcomes reflects the uplift in value achieved by not providing affordable housing on site.
- 2.4 To assess the viability of the scheme and to establish if a surplus is generated to deliver an affordable housing contribution in line with the Planning Practice Guidance we have compared the residual land value derived by the proposed scheme with the benchmark existing land value based on an existing use plus premium valuation.
- 2.5 The results of the assessment are set out below:

Scenario	Residual Land Value (£)	Benchmark land value (£)	Surplus/deficit (£)
Open market	1,116,783	1,382,073	-265,290
Including 3no AH dwellings	1,079,445	1,382,073	-302,628

- 2.6 The viability assessment on all open market basis with no affordable housing provision shows a negative outcome with a deficit at -£265,290 and clearly no surplus is generated to support any affordable housing provision. For the site to come forward the developer will have to take a commercial view to accept a lower level of return and develop the site for long term investment.
- 2.7 The NPPF states that a viability assessment should refer back to the assumptions used at plan making stage. The Arun Local Plan policies are based on a Local Plan Viability Assessment provided by HDH Planning and Development in 2017 and so we have summarised below the assumptions used in the HDH assessment with the assumptions used to construct the viability assessment. This shows the assumptions are either in line or at a lower level than the assumptions used in the Local Plan Viability Assessment.

Assumption	HDH Assumption	Scheme Assumption
Build costs	BCIS median rate	BCIS median rate
External works	5% of build costs for flats	nil
Contingency	5%	5%
Professional fees	10%	7%
Sales costs	3.5% of GDV	2.5% of GDV
Finance costs	6% plus 1% arrangement	6.5%
Developers profit	17.5% of GDV	17.5% of GDV
AH return	6%	6%

- 2.8 In summary the viability assessment on an all open market development basis shows a viability deficit and therefore no surplus is generated by the development to support any affordable housing contribution or other s106 costs.

3.0 Viability Assessment

- 3.1 The property currently provides retail use on the ground floor and additional workshop space on the first floor. It is proposed the ground floor retail area is reconfigured, the first floor space is converted and extended with a new second floor to provide a scheme of 10no one and two bedroom apartments.
- 3.2 The Arun Local Plan 2011-2031 was adopted in July 2018 and policy AH SP2 states that on all sites providing 11 or more dwellings 30% affordable housing will be required and this should be provided as 75% affordable rent and 25% intermediate forms of tenure. However national policy as set out in the 2019 NPPF states that affordable housing is required from all major developments defined as ten units and above and on the basis of national policy an affordable housing requirement would apply to this site. If the Local Plan policy requirement for 30% affordable housing is applied to the development this will equate to 3no units, in our experience it would be very difficult to identify a Registered Provider interested in taking 3no dwellings above retail and therefore the obligation would be best delivered if viable as a contribution towards offsite affordable housing.
- 3.3 A DAT appraisal based on all open market development constructed on a residual valuation basis shows a residual value at £1,116,783. This is based on a developers profit at 17.5% of GDV which is in line with the assumption adopted in the Local Plan viability assessment and at the mid point of the range set out in the Planning Practice Guidance at 15-20% of GDV.
- 3.4 To assess the policy compliant level of affordable housing contribution we need to run a second appraisal including the policy compliant requirement for 3no units for affordable housing and the difference between the two results reflects the net benefit to the developer and not providing the affordable housing on site and sets the level for a policy compliant affordable housing contribution.

Residual land value open market	£1,116,783
Residual land value including AH	<u>£1,079,445</u>
Difference	£37,338

- 3.5 To fully assess the viability of the scheme and its ability to support a policy compliant contribution of £37,338 we need to compare the resultant level of residual value derived from the proposed scheme with the existing benchmark land value. The Planning Practice Guidance states that benchmark land value is based on an existing use plus premium valuation or a reasonable alternative use valuation. The EUV plus premium method is essentially valuing the property on an existing use value taking account of its current lawful planning use and allowing for an additional landowner's incentive to encourage the landowner to bring the site forward to the market. The Planning Practice Guidance also states that an Alternative Use Valuation

(AUV) can be used if that alternative use complies with local plan policies but an AUV valuation is deemed to be inclusive of any landowner's premium.

- 3.6 In this case the existing use is made up of ground floor retail space which we understand has a gross floor area at 542.5m² and first floor workshop/storage space with a gross floor area at 159.4m². To establish an achievable level of rent for the ground floor we identified two comparable retail properties very close to the site with rents between £15.83-23.36/ft² and we have adopted a rent at the lower end of this range at £15/ft². For the first floor workshop space we have been guided by comparable light industrial/warehouse buildings available in the wider Bognor Regis area and have adopted a rent at £7/ft².
- 3.7 We have set out details on the properties and an EUV assessment in more detail in section 5 of this report which shows based on a conservative 7.5% yield and allowances for purchasers' costs and a rent free period the combined EUV is £1,201,803. It is standard viability practice and an integral part of the EUV plus premium method to provide an additional landowners margin to provide an incentive for them to bring the site forward for development. The premium should be set at a level to provide sufficient incentive but the usual range is 15-30% in this case we have adopted 15% at the lower end of this range generating a benchmark land value at £1,382,073.
- 3.8 In summary the appraisal results are set out below:

Scenario	Residual Land Value (£)	Benchmark land value (£)	Surplus/deficit (£)
Open market	1,116,783	1,382,073	-265,290
Including 3no AH dwellings	1,079,445	1,382,073	-302,628

- 3.9 The results show that even without any affordable housing contribution the appraisal results in a deficit of -£265,290 based on the standard level of developer's profit at 17.5% of GDV. If we account for the viability deficit if the developer self funds the project the return will be circa 13% of GDV whilst this will allow the development to come forward the level of return is below the profit levels set out in the Planning Practice Guidance at 15-20% and the Local Plan viability evidence at 17.5% of GDV. On this basis clearly no surplus is generated to fund any affordable housing contribution.
- 3.10 The assessment has been constructed with sales values based on local comparable evidence within 0.25 miles of the site, construction costs have been informed by the BCIS median rates and all other assumptions are either

in line with the assumptions in the Local Plan Viability Assessment or standard market assumptions we have agreed on other viability assessments.

- 3.11 It should be noted the net contribution to development value from the ground floor retail space is negligible as following re-configuration the lettable floor area reduces from 542.5m² to 478m² and the ground floor value has to be reflected in both the existing use value assessment and the new scheme appraisal. The refurbished space in the proposed scheme will attract a better rent level and yield (set at £18/ft² and 6.5% respectively) but the additional value is to a large degree offset by the costs of refurbishment.
- 3.12 The site falls within CIL Zone 4 where a nil rate applies to schemes providing only apartments and we have not made any allowance for any other s106 contributions so we can observe the total subsidy available to fund all planning obligations.
- 3.13 In summary the appraisal shows a viability deficit at -£265,290 and the developers net return is less than the levels set out in the Planning Practice Guidance at 15-20% and therefore no surplus is generated by the development to support any s106 contributions. It should be noted the assessment has been carried out based on predominantly pre-Covid 19 market evidence and the RICS has issued material uncertainty provisions to valuation guidance. If the crisis continues to cause increases in unemployment this could have a negative effect on market confidence potentially leading to falling houseprices and sales rates and construction costs could increase due to requirements of social distancing on site increasing preliminary costs. The market conditions will need to be kept under review as the development proceeds.

4. Policy Background

Local Plan Policies

- 4.1 The Arun Local Plan 2011-2031 was adopted in July 2018 and policy AH SP2 states that on sites providing 11 or more dwellings 30% affordable housing provision is required. The policy goes on to state that affordable housing should be delivered as 75% rent and 25% intermediate forms of tenure.
- 4.2 There is a recognition of the role of viability the policy states a lower level of provision may be considered where robust viability information is submitted.

National Planning Policy Framework June 2019

- 4.3 Following a consultation period the revised NPPF was issued on the 19th June 2019 and the main sections which effect s106 viability are outlined below.
- 4.4 Section 34 states that Local Plans should set out the obligations that are expected from developments including affordable housing, however it says that such plans should not undermine the deliverability of the plan
- 4.5 As set out in the previous versions the 2019 framework states planning obligations should only be sought where they meet the following tests:
- Necessary to make the development acceptable in planning terms.
 - Directly related to the development
 - Fairly and reasonably related in scale and kind to the development
- 4.6 Section 57 of the framework sets out one of the keys changes around viability, this states that where policies around contributions have been set out in the plan, schemes that comply with them will be deemed to be viable. It is up to the applicant to demonstrate that particular circumstances differ from the Local Plan assumptions which require a viability assessment. Such examples would be particular existing use that was not modelled at plan making stage, abnormal costs or movement in the market since the plan was adopted.
- 4.7 Section 63 states that affordable housing should not be sought from schemes which are not major developments, this is defined at 10 units or less.

Planning Practice Guidance

- 4.8 The viability section of the Planning Practice Guidance has also been updated and there have been some changes introduced in the recommended assumptions for constructing a viability assessment. The key change being

land value should be based on an EUV plus premium valuation method. The guidance now also states that a viability assessment should refer back to the viability assumptions which backed up the Local Plan and should evidence how circumstances have changed to justify the need for a viability assessment.

- 4.9 The guidance now specifically states the EUV plus premium method should be adopted where as before a range of options were set out including the market value approach. This is a clear change of direction to provide more clarity on how to set a benchmark land value in a viability assessment.
- 4.10 The guidance also states that the use of an alternative use value is allowed if it is a reasonable alternative use and a planning consent on the site exists for that use.
- 4.11 The guidance states that developer's return in the range of 15-20% of gross development value is appropriate for plan making purposes but alternative levels can be utilised where it is justified by the scale and complexity of the development.
- 4.12 The guidance also states methodologies for assessing gross development value and build costs but these are broadly unchanged since the previous version of the guidance.
- 4.13 The guidance states that a viability assessment should be presented in a clear way so the assumptions for GDV, costs and developers profit are clear.

Statement In Response to Covid 19

- 4.14 On the 13th May 2020 the government issued additional guidance to councils in response to the Covid 19 Crisis, under the heading of s106 agreements the following statement has been made;

There are greater flexibilities within s106 planning obligations than CIL. Where the delivery of a planning obligation, such as a financial contribution, is triggered during this period, local authorities are encouraged to consider whether it would be appropriate to allow the developer to defer delivery. Deferral periods could be time-limited, or linked to the government's wider legislative approach and the lifting of CIL easements (although in this case we would encourage the use of a back-stop date). Deeds of variation can be used to agree these changes. Local authorities should take a pragmatic and proportionate approach to the enforcement of section 106 planning obligations during this period. This should help remove barriers for developers and minimise the stalling of sites.

5. Cost and Value Assumptions

Benchmark Land Value

- 5.1 The Planning Practice Guidance states that benchmark land value is based on an existing use plus premium valuation or a reasonable alternative use valuation. The EUV plus premium method is essentially valuing the property on an existing use value taking account of its current lawful planning use and allowing for an additional landowner's incentive to encourage the landowner to bring the site forward to the market. The Planning Practice Guidance also states that an Alternative Use Valuation (AUV) can be used if that alternative use complies with local plan policies but an AUV valuation is deemed to be inclusive of any landowner's premium.
- 5.2 In this case the existing use is made up of ground floor retail space which we understand has a gross floor area at 542.5m² and first floor workshop/storage space with a gross floor area at 159.4m². To establish an achievable level of rent for the ground floor retail area we have identified 1 Water Tower Buildings a 749ft² retail unit within the subject building is available to let at a rent equating to £23.36psf and we have also identified a nearby retail unit at 27 Sudley Road with a floor area of 805ft² available at £12,750pa which equates to £15.83/ft². We have therefore adopted a rental level at the lowest end of this range at £15/ft² to reflect the rent level incentive that may be required to achieve a letting on the space. The EUV assessment is set out below:

5839ft ² x £15/ft ²	£87,585pa
Capitalise on 7.5% yield	£1,167,800
Less	
Purchasers costs 5.75%	£67,149
6 months rent free	£43,793
EUV	£1,056,858

- 5.3 For the first floor workshop space there are no direct comparables but light industrial/warehouse units on the Durban Park Industrial Estate are being marketed at £7-7.84/ft². A town centre location will appeal to a wider range of occupiers but as this the only available evidence we have based the existing use value on an achievable rent at £7/ft²:

1716ft ² x £7/ft ²	£12,012pa
Capitalise 7.5% yield	£160,160
Less	
Purchasers costs 5.75%	£9,209
6 months rent free	£6,006
EUV	£144,945

- 5.4 The combined EUV is therefore £1,201,803. It is standard viability practice to also allow for a landowner's premium to provide an incentive for the landowner to bring the site forward for development. It should be set at a level which provides the landowner with sufficient incentive but the usual range is 15-30%, we have adopted 15% resulting in a benchmark land value at £1,382,073.

Sales values

- 5.5 To inform the sales value we have undertaken an internet based market research assessment of achievable values within a quarter mile radius of the site, looking at properties on the market, sale agreed and recently completed. We could not identify any newbuild developments within 0.5 miles of the site so we have relied on second hand evidence and will add on a newbuild premium.
- 5.6 One bedroom apartments on the general second hand market within 0.25 miles of the site range from £120,000-135,000 although apartments above retail in the town centre above retail will be at the lower end of this range. A good comparable is a one bedroom apartment above retail in Central Buildings, London Road which is on the market at £120,000.
- 5.7 Two bedroom apartments on the market range from £135,000-240,000 but the highest value comparable is a large apartment at 83.2m² which equates to £2,885/m². A good comparable is a fairly new two bedroom apartment on Longford Road with a floor area at 57m² this is on the market at £180,000 which equates to £3,157/m².
- 5.8 We need to be cautious relying on properties on the market which could be subject to offers and price reductions, a more reliable evidence base will be sold transactions taken from Land Registry records. We identified the following transactions within 0.25 miles of the site:

28 Harfield Court, Lyon Street 39m² sold July 2020 £75,000 (£1,923/m²)
 40 Linden Road 2 bed 57m² sold June 2020 £145,000 (£2,544/m²)
 2 Lyon Court, Lyon St West 42m² sold June 2020 £117,500 (£2,798/m²)
 Flat 2 Russell Place 49m² sold April 2020 £110,000 (£2,245/m²)

15 Gibson Way 41.7m² sold March 2020 £124,000 (£2,973/m)

- 5.9 Taking into account the range of comparable evidence a reasonable achievable base second hand value would be in the range of £2,500-2,800/m² but we do need to reflect an additional newbuild premium. We have therefore valued the proposed apartments as follows:

One bedroom-	£135,00-155,000
Two bedroom-	£215,000-245,000

- 5.10 The overall GDV on an all open market basis is £1,886,000 which equates to £3,149/m² which shows a newbuild premium of around 20% of the average second hand values.
- 5.11 The actual price achieved will be dependent on market conditions at the time of marketing, competitor developments and the completed specification and finishes. We will need to keep market conditions under review as at the time of writing we don't know how the market will respond to the Covid 19 crisis with increased risk of business failure and rising unemployment affecting market confidence.

Construction Costs

- 5.12 In line with standard practice and the Planning Practice Guidance on standardised inputs we have used the BCIS rates rebased to Arun to establish the construction costs. We have used the median rates which are £1,369/m² for the conversion element and £1,436/m² for the newbuild.
- 5.13 The BCIS rates exclude allowances in connection with external works and the usual default assumption is 5-15% of the base build costs, the assumption in the Local Plan viability assessment is 5% of the base build costs for apartments schemes. In this case there will be only very limited external works so we have assumed these can be absorbed into the overall BCIS rate and we have not allowed for any additional external works costs.
- 5.14 The HGH Local Plan viability assessment also bases construction costs on the BCIS median level and so the proposed build cost methodology is compliant with the Local Plan policy evidence base.
- 5.15 For the ground floor retail refurbishment we have allowed for a nominal cost at £550/m².
- 5.16 We have separately allowed for design and professional fees at 7% and contingency at 5% which are both in line with the assumptions adopted in the Local Plan Viability Assessment.

Developers Profit

- 5.17 The revised Planning Practice Guidance recommends a developers profit allowance in the range of 15-20% of GDV and the developer's profit should reflect the development risk profile. The HGH Local Plan Viability Assessment uses an assumption at 17.5% of GDV.
- 5.18 Over the last few years we have agreed a 17.5-18% of GDV profit level as a default position but with a backdrop of a strong economy and a rising market, the Covid 19 crisis has the potential to significantly increase the market risk profile which has to be reflected with an increase in the level of developers return. The increased risks are two fold with the risk of increased unemployment rates effecting market confidence potentially resulting in reductions in sales values and sales rates and social distancing measures on site increasing construction costs. At this point it is not clear how the market will react to the crisis but a developers profit at the higher end of the range in the guidance may now justified to offset the potential for much higher levels of development risk.
- 5.19 Although a case could be made for a higher level of developers return to offset the increased market risks we have maintained the profit at 17.5% for consistency with the Local plan viability assessment.

Affordable Housing Assumptions

- 5.20 We have assumed the rented properties will be let as affordable rented properties at 80% of market rent. The average market rental level for a one bedroom apartment in the central Bognor Regis area is circa £750pcm which gives rise to an affordable rent level at £138.46pw. This is marginally less than the LHA level at £143.84pw.
- 5.21 The shared ownership appraisal assumes an initial sale at 40% of open market value and a rent of the unsold equity at 2.75%pa.
- 5.22 In line with HCA guidance in the AHP bidding round that grant will not be supported on s106 units, we have not included any grant funding in the appraisals.
- 5.23 The net affordable housing revenue has been capitalised at 4.75% for the affordable rent and 5.25% on the shared ownership which is a sector average.

6 Other Model Assumptions and Inputs

- 6.1 The basis for assumptions on sales values, construction costs and profit are set out in section 5.

Programme

- 6.2 The DAT assumes a 6 month lead in to site start for detail design, building regulations approval, clearing pre-start planning conditions and site set up. The contract period is 12 months with a sales period of 4 months.

S106 and CIL Contributions

- 6.3 The site falls within CIL Zone 4 where there is a nil CIL rate for schemes providing only apartments and we have not allowed for any additional s106 costs so we can observe the total subsidy which is available to fund all planning obligations.

Interest Rates

- 6.4 The HGH Local Plan viability assessment assumes a finance rate at 6% plus a 1% arrangement fee, on similar developments we have agreed a 6.5% all in rate with Dixon Searle and the DVS so we have adopted the same assumption in this case.

Sales and marketing costs

- 6.5 We have allowed for an allowance of 2.5% of gross sales value for sales and marketing this will cover a sales agent of 1-1.5% and additional allowances for a show home production of marketing material, advertising and promotion.
- 6.6 The Local Plan viability uses a slightly higher 3.5% of GDV assumption but we have previously agreed a 2.75% assumption on similar developments so we have adopted the same assumption in this case.

Ground Rent Value

- 6.7 There is a current policy drive from central government to reduce and cap ground rents and so a prudent developer would in our opinion no longer build in any capitalised ground rent value into a purchase appraisal. For this reason we have not allowed for any ground rent value in the appraisal.

7 Conclusion

- 7.1 The proposed development will provide 10no dwellings and a policy compliant level of affordable housing provision will be 3no dwellings.
- 7.2 To establish if the development can viably support the affordable housing provision we have appraised the development on an all open market basis to establish if a surplus is generated over the existing land value based on an existing use plus premium valuation. This approach is in line with the Planning Practice Guidance and accepted standard practice.
- 7.3 The appraisal shows a deficit of -£265,290 and so clearly no surplus is generated to support any affordable housing provision. For the development to come forward the developer will need to take a commercial view to self fund the development and accept a lower level of return.
- 7.4 It should be noted this assessment has been carried out based on predominantly pre-Covid 19 market evidence and the RICS have issued material uncertainty provisions to valuation guidance. If the crisis continues to increase levels of unemployment this could affect market confidence with a resultant effect on sales values and sales rates. The viability will need to be kept under review as the development moves forward.

