

For: Arun District Council

**Review of
Applicant Submitted Viability Position**

**25 Sudley Road
Bognor Regis
PO21 1EW**

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(DSP204190)**

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ARUN DISTRICT COUNCIL BR/298/2019



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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.
- 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 ‘Viability Report’ (VR) dated 7th January 2021 and supplied to the Council on behalf of the planning applicant by S106 Affordable Housing (S106AH). This is in relation to the proposed redevelopment (through adaptation and new-build extension works) at 25 Sudley Road, Bognor Regis, PO21 1EW.
- 2.1.2 The VR has been submitted in support of a full planning application (ref. BR/298/20/PL) which seeks permission for: *‘New 2 storey extension on first floor with loft and 8 (4 front & 4 rear) dormer windows, first floor rear extension (mansard floor) with 8 roof windows, alteration to ground floor shop front and new access to upper floor into use for 10 residential units (5 x 1-bed & 5 x 2-bed).’*
- 2.1.3 This current application is also noted as a resubmission following application ref. BR/196/20/PL (which earlier details DSP has not considered, aside from noting from the Council’s planning applications web portal that the previous application was refused in November 2020 for 3 reasons each associated with the absence of a signed s.106 agreement).
- 2.1.4 The Development Plan for the area currently comprises the Arun Local Plan 2011-2031 which was adopted in July 2018. Normally this type of review by DSP for ADC focusses on the level of affordable housing considered achievable in viability terms. However, in this case we do not consider Policy AH SP2 because at 10 proposed new dwellings, the application falls beneath the policy threshold (at 11 or more). We will not note that policy detail, therefore. In this case the applicant’s intended purpose of the VR is to demonstrate that there is insufficient viability to support any level of s.106 contributions or obligations (i.e. for infrastructure provision/development mitigation matters other than affordable housing) – none have been offered as far as we understand (consistent with the VR conclusion, as noted below). We note also that an earlier version VR submission was made (November 2020) but we have not considered that – our review scope here is the current application and VR (January 2021) only.
- 2.1.5 In presenting their viability position, the applicant has supplied to the Council the aforementioned VR includes the following appended details:

- Prints of submitted appraisal summaries – versions without (i.e. nil) s.106 cost and with the reported ADC required total s.106 cost of £97,414.
- BCIS (RICS Building Cost Information Service) build cost extract (residential costs, rebased to Arun – new-build and rehabilitation/conversion flats).
- Commercial property marketing particulars examples (2 retail unit examples; 1 industrial).
- Selection of residential property values examples (rightmove sourced).

2.1.6 Additionally, as requested DSP has usefully been provided with an electronic (functioning) copy of both above noted appraisals, prepared by S106AH using the (former) HCA Development Appraisal Tool (DAT). The VR does not very comprehensively explain the scheme proposals but DSP has also viewed the documents contained within the Council's online planning application file in order to build up more of a picture and help consider this review. We have considered the assumptions individually listed within the VR and provided our commentary based on those. 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 (the scope available to support planning obligations (s.106 costs) along with the reasonable development costs and suitable levels of land value and development profit as the commercial drivers of the proposals).

2.1.7 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).

2.1.8 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site and assesses the level of additional residual

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

potentially available in excess of that after allowing for a fixed developer's profit (assumed at 17.5% GDV). Therefore, an approach has been taken that sets out to consider in this case, the applicant's view of the maximum supportable level of s.106 financial contributions. As above, the consideration of affordable housing viability does not come into this case – the proposal is all for market sale homes on the upper floors together with retained ground floor retail space.

- 2.1.9 Applying a development profit input at 17.5% GDV (gross development value), the VR states that the scheme proposal produces a deficit of -£260,705 with no s.106 cost allowed for (appraisal RLV reported at £1,121,368 minus stated BLV of £1,382,073). With the s.106 total of £97,414 as an additional cost input reflecting the ADC position, the VR reported scheme proposal RLV reduces to £1,035,014 which against the same stated BLV results in an increased deficit conclusion at -£347,059.
- 2.1.10 With the 17.5% GV profit assumption generating a profit sum of £330,050 in the appraisal, deducting either level of VR deficit as noted here either largely or completely erodes the outturn profit expected by the submission. The VR notes at its 2.5: *'If we account for the viability deficit the appraisal shows a developers return at 1-2% GDV, this funds all the development costs and allows the site to come forward but the levels of return [are return] are significantly below the levels set out in the Planning Practice Guidance at 15-20% GDV.'* The VR goes on to state that: *'Introducing any s106 contributions will clearly generate a net loss and prevent the site from coming forward.'*
- 2.1.11 This position is echoed in the VR conclusion section (7) which says that: *'clearly no surplus is generated to support any s106 contributions'; and: 'For the development to come forward the developer will need to take a commercial view to accept a lower level of return.'*
- 2.1.12 In our view the presentation of a non-viable scheme proposal when there is no affordable housing, no CIL (the ADC CIL charging schedule is understood to produce a nil charge for this proposal) and no s.106 cost supported does seem counter-intuitive, however. Initially it suggests that based on the VR assumptions there is a more fundamental imbalance between the estimated scheme value and costs or perhaps a site/proposal mismatch (a scheme selection issue, potentially). It appears that it is not the c. £97,000 s.106 cost that is responsible for the presented non-viability, with a very low or nominal level of profit not a normal measure of viability and indicator of a scheme that is ready to proceed.

However, it will be necessary to consider whether the s.106 cost does tip the balance once we have considered the submitted assumptions.

- 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 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 VR 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.
- 2.1.19 As the VR does, DSP acknowledges the Covid-19 related context at this time, as regards increased uncertainty in respect to considering these matters. As regards the wider context including the economic situation, in accordance with the relevant viability guidance our review is based on current assumptions – a present view is appropriate for this purpose, as noted above. Whilst in the short term we may with more time see evidence of negative impacts on viability, it is also possible that we may see some balance for example in terms of development cost levels, Government interventions or other factors. 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. To assist the Council in its decision-making in this context, where appropriate we have considered the sensitivity of the viability position to variations in key inputs.

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 VR 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)

‘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 revisions to the Viability PPG³ and the new NPPF (updated 19th February 2019 and further updated to May 2019 in other respects) now 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.’*

3.2.4 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;*

³ Most recently updated on May 2019 in respect of land value considerations; last PPG updates on ‘Viability’^{1st} September 2019

estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'

3.2.5 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.'*

3.2.6 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.)'*

3.2.7 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.'

- 3.2.8 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.
- 3.2.9 In this case, the BLV has been placed at £1,382,073 based on the VR assessment of the capitalised rental value of the existing retail and 'workshop' premises plus premium to incentivise sale to make way for the redevelopment. Accordingly, the PPG principles of an EUV+ based BLV have been followed, and we will go on to see whether in our view the assumptions on rent, yield and other matters are appropriate in our view.
- 3.2.10 As the VR recognises, the estimated value of the ground floor space is relevant to considering both the BLV (in existing form) and the overall scheme value (gross development value (GDV) resulting from the proposal – effectively on a “before and after” type basis. Therefore, the relatively between the change in value of the ground floor space following the scheme and the cost of the works in that space space is key to consider – again as the VR notes. Generally, a refreshed retail space or retail space formed from a less valuable use (e.g. storage / workshop) could be expected to command better letting prospects and support a value uplift in terms of rental rate (£/sq. ft. or £/sq. m) the, although the cost of adaptation works would off-set this.
- 3.2.11 Looking at the existing ground floor plan on the ADC planning application web-pages which denotes the rear ground floor space as 'workshop' we are not clear that this rear portion (with no access opening onto Sudley Road) is retail space as such. From the provided and available web-based information, this section of the property might be more appropriately described as ancillary space to the rear of the London Road fronting shop unit. In our view it is not appropriate to estimate its value £/sq. ft. at the same level as may be applied appropriately to the front (London Road/Water Tower Buildings) part.

Although the existing floor plans show the space being linked via an opening in the rear wall of the London Road property, this and the space above it (which is acknowledged in the VR as being workshop space) forms a “dog-leg” section to the building with no direct access from Sudley Road within the red line planning application boundary, as far as we can see. While this section of Sudley Road has the rear entrance to the Boots store nearby and 2 retail units at the junction with London Road to the West, this property does not appear to present a retail frontage in current form. This will reflect significantly in the rental views, as existing.



(Source: Google maps – Sudley Road – rear of current premises; front entrance point for scheme proposal and new ground floor retail space)

- 3.2.12 In our view, either a proportion of the ground floor area at least the size of the footprint of the first floor workshop space, if not larger, should be considered at a significantly lower rental value than the London Road fronting shop unit section; or a lower overall rental assumption rate should be applied to the whole ground floor.
- 3.2.13 We do not have a stated floor area for the main (existing) shop part and have not been able to check the areas generally, but from the plans online this appears to have a width of approximately 10m and depth of just under 30m. This would place the main retail area at not more than around 300 sq. m. (c. 3,200 sq. ft.) excluding the off-set / “dog-leg” section to the rear, which appears to be low-grade or ancillary space only in its current form. In our view, with that remaining (rear, as existing) floor area at approximately 240 sq. m assuming the VR’s 542 sq. m ground floor area total to be correct, that would be a reasonable proportion of the overall space to apply a considerably lower value to.

3.2.14 This appears an appropriate approach representing, approximately at least, the current provision of space on the ground floor (although we note that in any event neither this nor the supplied information fits with the planning application form noted overall site area of just 330 sq. m – the latter appears not to reflect the red line area).

3.2.15 The VR provides details of 2 nearby retail units:

- 1 Water Tower Buildings – 749 sq. ft. unit (former Age UK shop) fronting onto London Road within the same building advertised at £17,500 p.a. i.e. c. £23.36/sq. ft. equivalent.
- Unit 2 at 27 Sudley Road (at junction with London Road) – 805 sq. ft. unit (PDSA shop) advertised at £12,750 p.a. i.e. c. £15.83/sq. ft. equivalent.

3.2.16 On this basis, the VR adopts an assumed £15/sq. ft. and applies this to the whole, much larger floor area of the subject premises (stated at the above 5,839 sq. ft. or approx. 542 sq. m total) and then makes the following adjustments to arrive at an EUV view of £1,056,858 for the ground floor:

- | | |
|--------------------------------|--------------|
| • 5,839 x £15/sq. ft. | £87,585 p.a. |
| • Capitalised using 7.5% yield | £1,167,800 |
| Less | |
| • Purchaser's costs @ 5.75% | £67,149 |
| • 6 months rent free | £43,793 |
| • = EUV presented in the VR @ | £1,056,858 |

3.2.17 We have carried out our own research on retail unit values in the vicinity. Reference to Co-Star property data resource indicates 19 lease deals agreed on shop premises within c. 0.2 mile of the site in the last 4 years. The data shows the following averages relating to these lettings (ADC can be provided with the Co-Star reporting extract if required):

- | | |
|-------------------------|----------------|
| • Asking rent: | £17.60/sq. ft. |
| • Achieved rent: | £13.81/sq. ft. |
| • Net effective rent: | £12.25/sq. ft. |
| • Asking rent discount: | 8% |
| • Time on market: | 19 months |

- Rent-free period: 11 months
- Floor area: 1,337 sq. ft. (c. 124 sq. m)
- Length of lease deal: 84 months

3.2.18 Although with about 2/3 of its area extending beyond the 'Zone A' London Road retail frontage, in our view the most positive appropriate position to adopt in estimating the value of the existing space is applying a figure of £14/sq. ft. (c. £150.70/sq. m) – between the Co-Star average and the VR £15/sq. ft. (c. £161.50) - to the c. 300 sq. m main retail space noted at 3.2.13 above; together with a very much lower level of rental value to the remainder of the ground floor space, as existing. We will apply £6/sq. ft. (c. £75.35/sq. m) to the remainder (c. 242 sq. m also as above). This approach produces a retail area value of £45,210 p.a. and a value of £15,628 p.a. for the ground floor rear section additional / ancillary space.

3.2.19 The information points to a significantly lower level of rental income compared with the VR view, based on the existing ground floor – at circa £60,000 p.a. based on the above assumptions.

3.2.20 Whilst some £24,000 p.a. lower than the VR view, further review of Co-Star suggests that this still appears to represent a positive view. The data shows that the most recent recorded letting of the subject premises (stated at 5, 585 sq. ft.) was by Grandprop Ltd to Edinburgh Woollen Mill from November 2019 for 10 years at a starting rent of £50,000 p.a. amounting to an equivalent rent of £40,524 p.a. after reflecting an 18 month initial, rent free period.

3.2.21 Although reserving scope to consider this further, applying for now the more positive £60,000 p.a. rental level DSP has looked at here and following the VR steps as per 3.2.16 above (although applying alternative assumptions reflecting the available data in doing so), we get the following as our view of the EUV of the ground floor:

- Rental £60,000 p.a.
- Capitalised using 10% yield (in accordance with Knight Frank Yield guide for 'Secondary/Tertiary' High Street Retail in current condition and circumstances) + £600,000

Less

- Purchaser's costs as per VR @ 5.75% (representing stamp duty, agency and legal fees) £34,500
- 11 month rent free (as per Co-Star reported average for lets in the vicinity) @ £55,000
- = alternative EUV view, ground floor @ £510,500 (£546,358 less than presented by the VR).

3.2.22 Turning to the first floor (current rear) workshop space above the rear ground floor ancillary area, the VR assumptions in reaching its EUV are as follows:

- 1,716/sq. ft. @ £7/sq. ft. = £12,012 p.a.
- Capitalised @ 7.5% yield £160,160
- Less
- Purchaser's costs @ 5.75% £9,209
- 6 months rent free £6,006
- = VR EUV view £144,945

3.2.23 The VR draws upon an example of a relatively modern purpose-built industrial unit at 16B Castlegrove Business Park, Durban Road where the quoted asking rent provided in the agent's details appended to the VR is £7/sq. ft. In our view, that example represents a quite different proposition, offering much improved access and likely greatly improved scope for use. While it is possible that in theory a niche type use might be identified for the subject space, it is not clear whether this can be accessed and used independently of the above discussed retail space. We agree with the VR regarding a lack of comparables, but in our view a more appropriate look at this element is as follows (again broadly following the VR approach, but using DSP assumptions):

- 1,716/sq. ft. (again as stated – not verified) @ £4/sq. ft. = £6,864 p.a.
- Capitalised @ 10% yield reflecting investment prospects £68,640
- Less
- Purchaser's costs (say) £5,148
- 6 months rent free (as per VR for now) £3,432
- = alternative EUV view, first floor @ £60,060
(= £84,885 less than presented by the VR).

- 3.2.24 The above elements viewed using our assumptions therefore support an EUV of £510,500 + £60,060 = £570,560.
- 3.2.25 As per the VR, a landowner's premium then needs to be considered, reflecting an incentive to take the premises out of existing use at the appropriate time to facilitate development. In our view the 15% premium noted by the VR (as the plus element within the 'EUV+' approach) reflects the maximum likely to be suitable in these circumstances. Applying the same, we reach an alternative BLV view of £656,144 – i.e. in the region of not more than £650,000. We will use this BLV level to compare with the appraisal RLV view and in our opinion this begins to show why such a redevelopment would be considered for progression rather than the proposals supporting a level of residual that falls beneath the stated view of the site value (BLV, in viability in planning terms) as presented. We also undertook some initial searching on Land Registry with a view to checking any recent purchase details of the property. This did not provide any further information quickly and so we have not pursued that at this stage.
- 3.2.26 Compared with this BLV the submitted scheme proposal RLV of £1,035,014 (VR appraisal outcome with the c. £97,000 s.106 obligations accounted for) indicates a significant surplus and so also indicates the potential for a stronger outcome than stated, both in terms of achievable development profit and scope to support the development mitigation that we assume is essential. This does not support the VR statement that: *'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 s106 costs.'* It is not clear why the proposal is referred to in this way because, as above, ADC policy does not require affordable housing from this scheme.

Acquisition Costs

- 3.2.27 The submitted development appraisal includes acquisition costs based on an agent's fee of 1% and a legal fee of 0.5%. These are typical allowances – along with the stamp duty cost, we do not consider these assumptions to be unreasonable.

3.3 Gross Development Value

- 3.3.1 As it has been treated as part of the application and BLV scope, appropriately the VR has also attributed an end value to the London Road fronting retail space as well as the updated retail space that will front onto Sudley Road (shown on the proposal plans as becoming a separate unit from the existing front section). In this next section we will therefore consider the sale values assumed for both the proposed residential and the retail as envisaged after the works. The plans indicate no change to the existing front part but show the proposed new shop unit footprint on Sudley Road as containing an accessible toilet, a small refuse store for the development and the entrance lobby and stairwell to the proposed new flats above (new Sudley Road access formed, together with new shop unit access there).

Residential

- 3.3.2 Based on web-based review of locally available information as set out at 5.5 to 5.11 of the VR, with examples appended, the submission places the overall blended / average sales value assumption for the proposed scheme at £3,149/sq. m (approx. £293/sq. ft.). The VR states assumed flat sale prices (for the proposed mix as below in the range £135,000 - £245,000 overall). That range of indications are not all directly recognised in the appraisal, but inputs often need to be adjusted to use the appraisal as preferred. The proposed dwelling mix and values have been entered into the VR appraisal as follows (extract from VR HCA DAT input sheet), reflecting the assumption of a GDV (residential proposal) of £1,886,000 – the GDV total matches the VR discussion and the total stated residential floor area at 598.8 sq. m closely matched that stated in the ADC CIL form (596.95 sq. m):

Open Market Phase 1:		Phase 1					
Type of Unit	Sales Value per unit £	<i>Unit size</i>	<i>Capital (Sales) Value (£ psm)</i>	<i>No of units</i>	<i>Total Revenue</i>	<i>Total sqm</i>	<i>Capital (Sales) Value (£ p sq ft)</i>
1 Bed Flat Low rise	141,500	47.5	2,979	4	566,000	190	277
2 Bed Flat Low rise	230,000	69.7	3,299	2	460,000	139	306
			3,114.3	6	1,026,000	329.5	
Open Market Phase 2:		Phase 2					
Type of Unit	Sales Value per unit £						
1 Bed Flat Low rise	200,000	64.9	3,082	2	400,000	130	286
2 Bed Flat Low rise	230,000	69.7	3,299	2	460,000	139	306
			3,194.1	4	860,000	269.3	

3.3.3 In order to assess whether the assumed sales values are reasonable, we have carried out our own desktop research of 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.

3.3.4 While higher values could be expected near the sea and in the leafier areas away from the town centre, this location is likely to be viewed as convenient and the properties could represent a relatively affordable option in terms of new builds.

3.3.5 Based on our research and judgments, we are of the view that overall values placed between £3,000 and £3,300/sq. m (as per the appraisal input range), are appropriate for purposes of this review. Although it can be said that currently there are no direct comparables, the indicators that we found suggested values of around £3,100 – 3,200/sq. m which is consistent with the view taken in the VR.

Retail space

3.3.6 The appraisal reflects the VR commentary (at 3.10) and includes a total shop units floor space of 478 sq. m (approx. 5,145 sq. ft.) after forming the stairwell and bin store within the rear area footprint, as noted above. Again, the stated floor areas have not been checked (measured) by DSP. After the works as proposed, the retail space is separated

into 2 smaller units each with their own frontage and shop front access – front unit formed into a shop accessed from Sudley Road; opposing London Road fronting unit (the pre-scheme front unit) remaining unaltered except from its separation from the Sudley Road side).

- 3.3.7 As the VR notes, it is appropriate to make more positive assumptions relating to the envisaged reconfigured retail space and reflecting an uplift in the value of and investment prospects for the improved provision over the existing premises nature, layout and condition – as addressed through considering the BLV assumption (above).
- 3.3.8 The VR approach has been to apply an assumed rental at £18/sq. ft. (£194/sq. m) capitalised using a more positive 6.5% yield assumption.
- 3.3.9 The appraisal appears to allow for the letting income deferred in the cashflow for approx. 6 months after the assumed works completion.
- 3.3.10 All in all, we are satisfied that a reasonably positive looking approach has been taken to considering the reconfigured retail (ground floor premises) value assumptions – the approach to this aspect is not dragging down the overall viability view and overall, the approach taken appears fair for the purpose. The resulting contribution to the overall scheme proposal GDV is £1,347,336 although as with the residential proposals and noted above / in the VR there are also works and other costs to consider (more on these below).
- 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.

Other points on Gross Development Value

- 3.3.12 As noted above (and appropriately in the circumstances) there are no affordable housing related revenue or other assumptions relevant to preparing the VR submission or this review of it.

Ground Rents

- 3.3.13 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. While there are uncertainties around this and we see mixed approaches including continued allowances for ground rents made within viability submissions, at this stage we have not adjusted this. It may be appropriate for the Council to consider this further, however, depending on the overall outcome (if for example there is to be a permission granted and s.106 agreement entered into, but securing a level of contributions beneath the full ADC requirements – restrictions or a review mechanism could be considered).

3.4 Development Timings

- 3.4.1 The development timings set out in the include a 6-month lead in to start of construction on site, a 12-month construction period and 4 months for sales. The latter assumption is equivalent to a sales rate of circa 2.5 units per month. Whilst it could be possible to see a shortened overall period, these timings do not appear unreasonable in our view and at this stage we are not proposing adjusted assumptions in this respect.

3.5 Cost Assumptions

Build Costs & Fees

- 3.5.1 Build costs are based upon the BCIS median rates selected for 'Flats (apartments)' rebased to Arun (location factor 107 compared with based 100), which at the time of the report VR were noted as:

- Residential (flats) from conversion - £1,369/sq. m (as per BCIS extract appended to VR)
- Residential (flats) new build (extension) - £1,436/sq. m (ditto)

And for the works to the retail element:

- The VR states: '*For the ground floor retail refurbishment we have allowed for a nominal cost at £550/m².*' Applied to the whole assumed revised ground floor retail area of 478 sq. m – 2 (front and rear) shop units – this adds £262,900 cost to

the appraisal before contingency, fees and finance costs are also applied (see below). In all, the VR appraisal carries £322,315 works related costs for the ground floor retail.

3.5.2 The VR uses the 'default' period BCIS results i.e. not the part of the data relating to the last 5 years (maximum age of projects within data 5 years) which is the approach used generally by DSP. We have reviewed the latest BCIS data and using the same category as selected in the VR (or closest available to that) this shows:

- Flats from conversion - £1,244 sq. m (note: 'generally' rate) (5yr); £1,300/sq. m (generally) and £1,388/sq. m (1-2 storey) (default period).
- Flats – new build £1,387/sq. m (1-2 storey) and £1,413 (generally) (5yr); £1,442 sq. m (1-2 storey) and £1,519/sq. m (generally) (default period).

3.5.3 The BCIS median build costs rates approach of DSP on the max 5 year data (reflecting most recent and therefore likely most relevant data only) generally points to lower figures than the default set used by S106AH. However, with the scheme characteristics here and given the nature of some other assumptions made in the VR, our view is that the costs assumptions are of a broadly appropriate order in this particular case and purpose when viewed overall. Whilst not agreeing to the specific data selection from BCIS, and in our view the retail area works costs assumptions appear high for the limited extent of work indicated by the proposal plans, for example the VR appraisal has not applied any development profit to the retail re-provision (and we consider that this could have been appropriate/acceptable to apply to the existing rear portion - new Sudley Road shop unit - at 15% GDV). There is some balancing that we can bear in mind here in considering assumptions, if not agreeing the specifics.

3.5.4 The VR makes no additional allowance for external works, which is an appropriate assumption bearing in mind the works appear to be confined to the existing building footprint and car-free development is envisaged. Refuse and cycle storage provision is proposed as integral to the adjusted ground floor Sudley Road retail space, as above.

3.5.5 The appraisal includes a net:gross floor area adjustment of 18% so that the assumption is that 82% of the overall floor space is directly saleable; the 18% representing the common areas that need to be constructed (stairs, landings, corridors). Although slightly above the

allowances typically made in the most efficient flatted developments (around 15%) this does not appear out of line with the proposals. We note that the layout gets less efficient on the upper floors, with single-sided corridors for example. Again, DSP has used the stated floor areas, and the Council will be able to check the floor areas from the plans validated with the planning application if the stated areas give rise to any obvious anomalies.

- 3.5.6 Professional fees have also been included at 7% and contingency fees at 5% (of the stated builds cost). These assumptions are considered reasonable – they do not exceed normal parameters.

Abnormal Development Costs

- 3.5.7 There are no additional / abnormal costs specifically mentioned or allowed for within the VR and submitted appraisal basis.

CIL / s.106 Planning Obligations

- 3.5.8 Being a flatted proposal within ADC CIL charging zone 4, the development would be liable for CIL at £0/sq. m.
- 3.5.9 As noted above, with no affordable housing due under policy, the scope of planning obligations is limited to the s.106 obligations / contributions considered necessary as part of a supportable, sustainable development. These s.106 requirements amount to a total sum of £97,414, which is understood to be made up of:

• Pagham Harbour contribution	£8,710
• Education (additional equipment at Edward Bryant Primary School)	£6,295
• Education (Phase 1 new secondary school contribution)	£13,826
• Education (additional equipment at Felpham Community College)	£1,587
• Libraries (additional stock – Bognor Regis)	£2,664
• Fire & Rescue (equipment - vulnerable persons homes)	£250
• Hotham Park – for planting refurbishment	£19,712
• Hotham Park – for play equipment	£17,300
• Contributions towards Community Sports Hub (W of Bersted)	£5,167
• Contribution towards new Leisure Centre for the district	£4,052
• Avisford Park recreation ground – improvements & maintenance	£8,602
• Bognor Regis Rugby Club - improvements & maintenance	£2,573

- Felpham Recreation Ground - improvements & maintenance £4,978
- W Bersted Strategic Development – pitches, maintenance & facilities £1,968
- Parking capacity survey - 5 additional on-street spaces (sum not stated)
- >> Total £97,414

3.5.10 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.

3.5.11 As noted above, the VR appraised the scheme proposal both with and without this s.106 total, concluding that the scheme is unviable (with RLV beneath VR assumed BLV) prior to allowing for these costs, and sent further negative when including them.

Development Finance

3.5.12 Finance costs have been included in the VR appraisal using a 6.5% interest rate assumption.

3.5.13 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.'*

3.5.14 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)'.*

- 3.5.15 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 – we find this suitable for the purpose, as noted by S106AH within their VR.

Agent's, Marketing & Legal – Private Residential

- 3.5.16 Sales and marketing costs have been assumed at 2.5% as noted in the VR, together with an allowance of £1,000 per unit included in the submitted appraisal for legal costs on sale. These are considered reasonable assumptions for this review.

- 3.5.17 Sales costs of 2% have been included within the appraisal for the costs associated with the retail units. Again, we do not consider this assumption to be unreasonable.

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 17.5% of gross development value (GDV) for the market residential units.

- 3.6.2 The RICS Guidance⁴ states that: *'When a developer's return is adopted as the benchmark variable, a scheme should be considered viable, as long as the cost implications of planning obligations are not set at a level at which the developer's return (after allowing for all development costs including site value) falls below that which is acceptable in the market for the risk in undertaking the development scheme. If the cost implications of the obligations erode a developer's return below an acceptable market level for the scheme being assessed, the extent of those obligations will be deemed to make a development unviable as the developer would not proceed on that basis'.*

- 3.6.3 It goes on to state: *'The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and*

⁴ RICS - Financial viability in planning (GN/94/2012)

availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. A development project will only be considered economically viable if a market risk adjusted return is met or exceeds a benchmark risk-adjusted market return’.

3.6.4 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’.

3.6.5 The VR’s selection of a 17.5% GDV profit assumption is suitable in our view, reflecting both recent and current experience of schemes under viability review and (as noted by the VR) the ADC Local Plan viability assessment assumption.

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, while we have queried or been unconvinced on certain areas, viewed overall we have found many of the submitted assumptions to be within the range we would expect.
- 4.1.3 However, we have found elements of the works costs to be potentially high. At this stage though we have not found it necessary to adjust individual inputs because there are other assumptions that might be said to compensate to some degree. More crucially though, without any adjustments to the appraisal we consider there to be viability scope to support the necessary s.106 planning obligations (at £97,414 total and being the only obligations needing to be addressed here with a nil CIL cost and no affordable housing due).
- 4.1.4 We have found this because our view is that the VR's placing of the BLV (benchmark land value) – i.e. site (existing premises) value view in viability in planning terms as per the PPG – is significantly higher than we consider appropriate in the circumstances.
- 4.1.5 The proposed scheme appraisal RLV (residual land value) with the s.106 sums included is £1,035,014 (VR outcome). While this falls short of the very high looking VR submitted BLV of £1,382,073, it comfortably exceeds DSP's much lower BLV view of c. £650,000. That reduced BLV view is put forward as a likely maximum, based on the circumstances and information reviewed (see 3.2.25 and related text above on this). Although not needing to be considered on this basis a lower still BLV, as the review information shows could well be appropriate, would further cement this relativity and our view that the viability has been understated here as presented.
- 4.1.6 The VR shows that the s.106 costs are not responsible for a switch from viability to non-viability. Our review echoes this and goes on to demonstrate our view that furthermore the scheme appears unlikely to be marginal to that extent (i.e. to the point of needing to exclude the s.106). This is because it appears that other savings may be made but also, moving the other way, some assumptions moved against viability would still enable some surplus – there appears to be some leeway. In our view there should be some scope for

unfavourable values / costs movements before viability is actually threatened in the terms of the PPG once a more realistic assessment of BLV is made. At approximately £1.38m the submitted BLV is out of balance with the scheme value and other costs – the submission shows that adjustments need to be made in order to consider the scheme one that would be progressed. The appraisals show that the proposals would not support such a site (existing use) value. We consider the findings consistent with viability in planning being about informing rather than constraining sustainable development.

- 4.1.7 Therefore, in our view a convincing case has not been made that the stated s.106 costs cannot be supported in this case. We consider there to be scope to support these.
- 4.1.8 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.
- 4.1.9 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.
- 4.1.10 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.
- 4.1.11 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.

4.1.12 DSP will be happy to advise further if/as required by ADC.

Review report ends

March 2021