

LU/229/10.

Report prepared for Stuart Lyons

Windroos Nursery Viability Study

July 2010

## **1.0 Instructions**

This report has been prepared on behalf of Stuart Lyons (the Applicant) to assess the viability of the redevelopment of the Windroos Nursery (the Property) in order to reduce the on-site affordable housing requirement. The Applicant is the freeholder of the Property.

In preparing this report we have relied upon outline plans and schedules of accommodation produced by Savills.

## **2.0 Objective**

This report has been commissioned to investigate the following points:

1. Whether a redevelopment of the Property for residential use produces a land value which is at a premium over the existing value of the Property, sufficient to fund the relocation of the Applicant's business.
2. Whether the proposed development delivers a profit to a house builder which will enable them to secure funding and deliver the scheme.

## **3.0 Background**

### **3.1 The Property**

The site area is 2.37 hectares (5.87 acres) and is previously developed land within the settlement boundary of Littlehampton. The area is mixed in character with residential use to the north, west and south and commercial uses to the east.

The site has a lawful use as a haulage depot (distribution of agricultural/horticultural produce) with ancillary workshop, all within Use Class B8. This use is unrestricted in planning terms and can be lawfully operated 24 hours a day, 7 days a week. Two bungalows are located at the Property.

The site forms part of a wider area of land as identified in the Local Plan, 2003 and a Development Brief for Land at Toddington, Supplementary Planning Guidance, October 2003 for redevelopment to principally residential uses. Development of the adjacent land in accordance with the Local Plan and the Development Brief is currently well under construction with a number of dwellings now completed and occupied.

For identification purposes a site plan of the Property is attached at **Appendix 1**.

### 3.2 Planning Policy

The adopted Arun District Local Plan 2003 (the 'Local Plan') covers the period up to 2011. Following the Planning and Compulsory Purchase Act 2004 a number of its policies have expired. A summary of the relevant 'saved' Local Plan policies is included in Appendix 1 of the adopted Development Brief 2003 that covers the site and the adjoining land and briefly, the key policies are identified below.

Policy SITE 7 is relevant. The extent of SITE 7 is shown on the Proposals Map for the Local Plan and includes the adjoining land to the north and west which is currently under construction.

Policy GEN 5 identifies SITE 7 as an allocated site for 180 dwellings with a further 120 homes north of SITE 7 as an identified site to deliver in total approximately 300 homes by 2006.

Policy GEN 20 refers to public open space provision for residential development at minimum standards of 2.4 hectares per 1,000 population and play equipment to meets the needs of the development.

Policy DEV 17 refers to the provision of affordable housing on-site for developments of 25 units or more or residential sites of 0.8 hectares or more. Paragraph 3.25 states that the precise number, mix and size of units will be dependent on negotiations however, as a starting point 30% affordable housing will be sought on all suitable sites taking account of local housing need, site and market conditions.

Policy DEV 27 permits retail development outside of the Principal Shopping Areas provided it would not adversely affect the vitality and viability of the existing shopping areas; is accessible by car, public transport, bike and foot; and the need for the additional facilities can be demonstrated.

A separate Supplementary Planning Guidance on Parking Standards identifies the Council's maximum parking standards which for Estate Development of 16 or more dwellings is as follows:

- (i) smaller house size (1, 2, 3 bedroom dwellings not exceeding 120 sq.m gross floor area excluding internal garage) @ 2.2 spaces per dwelling.\*
- (ii) larger house size (4 or more bedrooms, or each dwelling exceeding 120 sq.m gross floor area) @ 3.2 spaces per dwelling.\*

\*an additional 0.2 spaces per dwelling required for visitors and service vehicles.

#### **4.0 Viability**

At the date of this report there is no RICS approved definition of viability. This means that each development where viability is an issue has to be assessed on its merits. With this planning application there are two viability issues:

1. What uplift in value above the existing use must be generated before the Applicant will consider a sale of the Property for redevelopment, allowing for the costs of relocation to a replacement site.
2. Assuming a land value is generated that will facilitate a sale of the Property, is a level of profit achievable which will be acceptable to a commercial house builder.

These issues are explored in greater detail below.

#### **4.1 Issue 1 – The Applicant's Position**

Leaving aside the cost of relocating the Applicant's business in the first instance, when selling their property for redevelopment, landowners normally seek to gain a premium over the existing value. We believe that this premium should be 20% over and above the existing value.

The Property extends to 5.87 acres, the majority of which is open storage, however, two bungalows are located within the site boundary. Our investigations have led us to believe that industrial land in the area has recently sold at a level of approximately £300,000 per acre and that the bungalows are each worth in the region of £220,000. This would suggest an existing use value for the site in the region of £2,200,000. Therefore, for a sale of the Property for residential development to take place, a minimum value of £2,640,000 must be achieved.

For the Applicant to relocate his business he must at least cover the relocation costs by selling the Property for a price that is greater than the sum of the existing value (plus a premium for redevelopment) and the costs of relocation.

In relocating his business, the Applicant must purchase a replacement property. Terms have been agreed to purchase a replacement site, which is located within Arun, at a price of £1,200,000. At this stage, the exact costs of the relocation are unknown, and are unlikely to be fully accounted for until the business has been moved. We estimate that the cost will be in the region of £50,000 - £100,000 to include the cost of securing planning permission, providing new loading bays and moving plant and machinery from the Property. Therefore, for a relocation to this site to occur, the Applicant must be

able to sell the Property at a value which is greater than the sum of the existing use value, including the premium for redevelopment (£2,640,000) and the cost relocating to the replacement property (£50,000 - £100,000). This creates a minimum sale price of between £2,690,000 and £2,740,000.

#### 4.2 Issue 2 – Developer Profit

The minimum level of profit required from any development is dependant upon the risks associated with it. In a strong market, competition can drive the acceptable level of profit down. This was particularly the case in the boom period of the market where shortages of supply and high demand for development sites reduced the percentage of profit on cost which a developer would accept. Conversely in the current uncertain market, the percentage of profit on cost developers will be seeking has increased to reflect the greater risks of delivering a residential development.

Developer's profit is expressed as a percentage of costs incurred in delivering the development. Developers have differing performance criteria based on their individual corporate structure and target rates of return for capital employed and acceptable degree of risk.

It is accepted market practice that the benchmark when undertaking development appraisals is to employ a minimum return of 20% on costs incurred.

In support of this assumption we have had regard to Appeal reference APP/P0119/A/08/2069226 (67-73 Bath Road, Longwell Green, Bristol BS30 9DF: McCarthy and Stone against South Gloucestershire Council) dated 21<sup>st</sup> August 2008. A copy is attached at **Appendix 2**. This Appeal was at the time that the current financial downturn was starting to significantly affect the property market. In this case the Inspector stated that it was not necessary to rigidly adhere to the Homes and Communities Agency Economic Assessment Toolkit (HCEAT) (for assessing development viability) guide figure of 15% profit on GDV (equivalent to 17.5% profit on cost) adopted before the current economic downturn. The Inspector went on to say that the appellant's figure of 17% profit on GDV (equivalent to 20% profit on cost) was not unreasonable to adopt. The Inspector confirmed the principle that profit levels are directly related to risk, and that in current housing market conditions risks are greater and therefore profit levels should be correspondingly higher.

In prime locations and with strong underlying fiscal and property markets the rate of return of profit on cost may reduce by as much as 5% to 15%. Similarly, in secondary or tertiary locations and with more uncertain economic conditions, or on larger sites where the rate of sale may be slow, this may increase by a similar amount to a profit on cost of 25%.



From our own experience of the market and speaking to other developers, we are of the opinion that an appropriate target profit on cost to be realised within the viability appraisal is currently 20%. This reflects the additional risks associated with a site of this size, such as a protracted sales rate and the threat of price volatility during the marketing period.

## 5.0 Proposed Development

We have been provided with drawings and a schedule of accommodation (see **Appendix 3**) for a 91 unit scheme.

When considering the scheme it is important to note Arun District Council's affordable housing policy which states that as a starting point 30% affordable housing will be sought on all suitable sites taking account of local housing need, site and market conditions

In order to improve the viability of the scheme this planning application is submitted on the basis of the provision of 30% affordable housing. To illustrate the impact of the delivery of more affordable housing we have run appraisals on the basis of the provision of both 30% and 40% affordable housing.

## 6.0 Indicative Financial Appraisal

In appraising the scheme we have undertaken research into the local market for residential property, and have spoken with local agents. We have paid particular regard to the prices being achieved by Taylor Wimpey on the adjoining development. As the following table shows, generally, the average prices being achieved by Taylor Wimpey this year are lower than in 2009.

| Unit                          | Average Sale Price 2009 | Average Sale Price 2010 |
|-------------------------------|-------------------------|-------------------------|
| 2 bedroom flat                | £160,000                | £157,000                |
| 3 bedroom semi detached house | N/A                     | £200,000                |
| 3 bedroom town house          | £190,000                | £184,000                |
| 4 bedroom link-detached house | £270,000                | £275,000                |

We have considered the price that could be achieved for the Property on the basis that residential consent is forthcoming for a 91 unit scheme. As stated in the previous section we have looked at this on the basis of both 30% and 40% affordable housing provision. We have assumed that 70% of the affordable units will be for general needs and that 30% will be for shared ownership.

In our appraisal, the price that could be achieved through the sale of the land is calculated by assessing the value of the completed development, the Gross Development Value (GDV), and subtracting from this the costs of construction and finance, and an allowance for profit for the developer.

Within our appraisal we have applied a number of industry standard assumptions and 'rules of thumb'. We have assumed an 18 month build period within which to construct the housing, followed by an 18 month period within which to sell the open market units. For a scheme such as this, we believe that housebuilders would seek to achieve a return of at least 20% profit on the cost of development and we have adopted this figure within our appraisals. Within our appraisals we have applied a discounted profit allowance to the affordable housing, to reflect the reduced risk when selling to a housing association.

We have arrived at indicative Gross Development Values within our appraisals of £16,527,000 with an allowance of 30% affordable housing and £15,969,368 with 40% affordable housing. These numbers are achieved by adopting the following indicative unit prices for house within the scheme;

| Unit                          | Price    |
|-------------------------------|----------|
| 1 bedroom apartment           | £110,000 |
| 2 bedroom apartment           | £160,000 |
| 2 bedroom house               | £175,000 |
| 3 bedroom terraced house      | £200,000 |
| 3 bedroom semi detached house | £225,000 |
| 3 bedroom town house          | £225,000 |
| 4 bedroom house               | £270,000 |

Affordable housing numbers are exclusive of grant funding at a level of £40,000 per general needs unit and £25,000 per shared ownership unit. Any decrease in grant funding will impact upon the viability of the scheme.

Please note that our views on price are not intended as a formal valuation and should not be relied upon as such. They are given in the course of our estate agency role. No liability is given to any third party and the figures suggested are given purely as guidance.

Within our appraisals for the open market units we have accounted for build costs of £97 per sq ft, professional fees at 8% of build costs and preliminary costs of 5% of the build costs. For the affordable housing we have assumed an 'all-in' build cost of £120 per sq ft, which is inclusive of all professional fees. We have made an allowance for demolition costs of £65,000 and an allowance for S106 contributions of £600,000

For the 30% affordable housing scheme these assumptions produce a residual land price of approximately £2,450,000. For a scheme which includes 40% affordable housing the land price is £2,085,000. We note immediately that in both scenarios, the residual land price is below what we have identified to be the minimum sale price.

Copies of our appraisals can be found at **Appendix 4**.

## 6.1 Summary

In assessing the above options we have calculated the land value that would be forthcoming to the applicant if the Property was sold to a developer who wished to receive a profit of 20% on costs. Within our appraisals we have applied a discounted profit allowance to the affordable housing, to reflect the reduced risk when selling to a housing association.

In making our assessment of values we have considered comparable evidence from the neighbouring Taylor Wimpey scheme.

Both scenarios produce a residual land value which is less than the minimum sale price that we have identified within this report. Notwithstanding this, the Applicant intends to pursue the purchase of the alternative site, and the Property must be sold to fund this. The provision of 30% affordable housing, rather than 40% affordable housing, mitigates the difference between the value of the Property and what we have identified to be a minimum sale price.

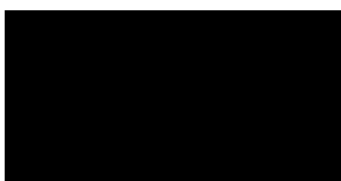
We acknowledge that there is a desire from Council members to see 40% affordable housing within the redevelopment the Property. To this end, we believe that within a S106, a cascade mechanism can be agreed whereby more affordable housing can be delivered should this become viable during the lifetime of the development. To do this, we would envisage the residual value of the Property being calculated at different stages of the development, by a third party. Should the residual value be greater than the minimum sale price we have identified, more affordable housing can be provided.

## 7.0 Conclusions

The downturn in the economy has impacted heavily on house prices, both locally and nationally. Within the locality of the Property, Taylor Wimpey have sold newly built properties, which represent good comparable evidence.

At current prices the redevelopment of the Property does return a positive site value, however, this is less than what we consider to be the minimum sale price, sufficient to encourage the Applicant to dispose of the Property for redevelopment. The provision of 30%, rather than 40% affordable housing mitigates this deficit. Should house prices recover to an extent that 40% affordable housing can be delivered, we would consider that a cascade mechanism can ensure additional units are provided on site.

Yours faithfully

A large black rectangular redaction box covering the signature of Jonathan Kiddle.

**Jonathan Kiddle MSc MRICS**

**Development Consultancy**

**For and on behalf of Savills (L&P) Limited**