

From: Amanda Scholes on behalf of Planning.Responses
Sent: 05 February 2021 08:48
To: Planning Scanning
Subject: FW: DSP20419M LU/238/20/OUT - Land west of Bridge Road Roundabout, Littlehampton
Attachments: Arun DC Viability Review - Land West of Bridge Road Roundabout - DSP20419M - client.pdf

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From: Raymond Cole <Raymond.Cole@arun.gov.uk>
Sent: 04 February 2021 16:28
To: Planning.Responses <Planning.Responses@arun.gov.uk>
Subject: FW: DSP20419M LU/238/20/OUT - Land west of Bridge Road Roundabout, Littlehampton

Please could you upload the following e-mail and attachment to the application folder LU/238/20/OUT as a consultation response from Dixon Searle Partnership?

Thank you

Raymond Cole
Principal Planning Officer
Directorate of Place

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E: raymond.cole@arun.gov.uk



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From: Emily Hatch [REDACTED]
Sent: 21 December 2020 14:11
To: Raymond Cole <Raymond.Cole@arun.gov.uk>
Cc: helena [REDACTED] Tallulah Hyde [REDACTED] Richard Dixon

Rob [REDACTED] Nick Molyneux [REDACTED]

Subject: RE: DSP20419M LU/238/20/OUT - Land west of Bridge Road Roundabout, Littlehampton

Dear Raymond

Please find attached DSP's review of viability at the above site.

At this stage, there is insufficient evidence for us to agree to a reduced affordable housing quantum. There appears to be a significant gap in the information submitted in relation to the pontoons and leisure moorings. In addition to this, the level of CIL submitted for the policy compliant scheme does not appear to be correct and is having a significant impact on the scheme's viability.

I am on leave now for Christmas until the new year and will be happy to look at any additional information relating to this case when I return. However, depending on the level of additional information produced by the applicant and the time it will take to review, we may need to consider whether our inclusive 4 hour allowance will cover any additional time required.

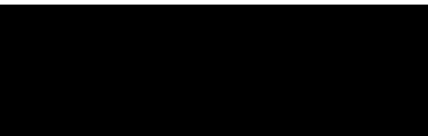
Kind regards
Emily

Emily Hatch LLB (Hons) – Consultant
Working days – Monday to Thursday



☆ 🌲 We wish you all the best for the festive season. Our offices will close at 5.30pm on Tuesday 22nd December 2020 and we will be returning on Monday 4th January 2021. 🌲 ☆

Local Plan Viability | CIL Economic Viability | Affordable Housing Viability | Strategic & Site Specific Viability



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**For: Arun District Council
Review of Submit Applicant
Submitted Viability Position**

**Land west of Bridge Road Roundabout
Littlehampton
BN17 5DF**

**December 2020
(DSP20419M)**

Contents

Notes and Limitations	1
Introduction	3
Review of Submitted Viability Assumptions	7
Summary - Overview	20

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 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. Dixon Searle Partnership 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 14th August 2020 and supplied to the Council on behalf of the applicant by S106 Affordable Housing (S106AH). This is in relation to the proposed redevelopment of Land West of Bridge Road Roundabout (described as Hampton Quay in the VR), Littlehampton, BN17 5RA.

2.1.2 The VR has been submitted in support of an outline planning application (ref. LU/238/20/OUT) which seeks permission for the *"demolition of existing treatment works and redevelopment of a former camp site on the edge of the River Arun to provide up to 105 homes, 100sqm of A1 Shops use, 220sqm of A3 Restaurant use and 420m of pontoons to provide approximately 32 leisure moorings along with associated landscaping, sluice gate, flood defence works, car parking and highways works, including access. This application also lies within the parish of Climping, may affect a Public Footpath and is a Departure from the Development Plan."*

2.1.3 The Development Plan for the area currently comprises the Arun Local Plan 2011-2031 which was adopted on 18th July 2018. Policy AH SP2 relates to affordable housing and states:

"For all developments of 11 residential units or more the Council will require a minimum 30% of the total number of units proposed on site to be provided as affordable housing on the same site in the first instance.

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

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

- 2.1.4 In presenting their viability position, the applicant has supplied to the Council the aforementioned Viability Report (VR) together with an electronic and a PDF version of their development appraisal carried out utilising the (former) HCA Development Appraisal Tool (DAT), BCIS data and Rightmove data. DSP has also had sight of the documents contained within the Council's online planning application file.
- 2.1.5 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 residential viability assumptions and therefore the outcomes (scope to generate land value) associated with that aspect of the overall proposals.
- 2.1.6 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'*³. 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).
- 2.1.7 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 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 the applicant's view, the maximum supportable financial contribution for affordable housing.
- 2.1.8 The VR states that a 100% market scheme on the site produces a deficit of -£723,014 and when the deficit is deducted from the target profit produces an actual profit of 15% GDV.
- 2.1.9 The VR has provided a further policy compliant development appraisal. The VR notes that the proposed scheme would be required to provide 31.5no. dwellings as affordable

³ Financial viability in planning – RICS Guidance note (August 2012)

housing which has been rounded down to 31no. dwellings. The VR assumes that 23no. dwellings would be provided as affordable rent and 8no. dwellings as shared ownership. For the policy compliant scheme, the VR adopts the following affordable housing allocation.

Type	Floor area (m ²)	No Affordable Rent	No shared ownership
1b2p	55	6	2
2b3p	85	4	2
2b4p	72	4	2
3b5p	93	9	2

2.1.10 The policy compliant scheme is stated to produce a deficit of -£3,243,138 (an actual loss when the deficit is deducted from the target profit). However, the VR confirms that: *'the applicants are prepared to take a commercial view to accept a lower level of return and can offer 6no. one-bedroom apartments for shared ownership'*.

2.1.11 The VR includes a summary of appraisal results which we have included below, which indicates that the scheme when providing 6no. shared ownership dwellings produces a profit of 14.77% GDV.

Scenario	Residual land value with 17.5% profit (£)	Benchmark land value (£)	Surplus/deficit (£)	Actual profit to achieve a neutral outcome (% of GDV)
Open market	-678,014	45,000	-723,014	15%
Policy compliant	-3,198,138	45,000	-3,243,138	Loss making
Open market with 6no shared ownership	-728,757	45,000	-773,757	14.77%

2.1.12 The VR concludes: *"The appraisals clearly show no surplus is generated to support any affordable housing but the applicants are able to take a commercial view to accept a slightly lower level of return to offer 6no. one-bedroom apartments for shared ownership. This shows a return at 14.77% which is below the range set out in the Planning Practice Guidance so this would be the maximum level of affordable housing that can be provided."*

2.1.13 This review does not seek to pre-determine any Council positions, but 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.

- 2.1.14 Arun District Council 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.
- 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 our above noted appraisal as a base.
- 2.1.16 This assessment has been carried out by Dixon Searle Partnership, a consultancy who have 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 assessing the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 17 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 the Council - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.
- 2.1.18 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g. sales value estimates) or any key cost estimates (e.g. build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

3.1.1 The following commentary reviews the applicant's submitted viability appraisal assumptions as explained within the DVR 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 regards 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 is based upon the price paid for the site - £45,000.

3.2.10 The VR states that the site is currently vacant and referring to Arun's Local Plan Viability Update prepared by HDH Planning and Development Ltd, the VR states that the most comparable land use is urban grazing land, which has a proposed value of £50,000/ha.

3.2.11 The site extends to 2.7ha, however, the VR notes that only 1.2ha is usable as it has the benefit of flood protection. Applying a value of £50,000/ha to the 1.2ha of usable land, the VR states would equate to a value of £60,000, which is noted by the VR to be higher than the price paid.

3.2.12 On this basis, the VR states that the price paid *"is the best market evidence as this was an unconditional purchase based on the current use value without the benefit of planning..."*.

3.2.13 Whilst we do not necessarily agree with the price paid approach to arriving at the BLV, we do not consider the assumed BLV to be unreasonable and therefore, we have not made any adjustments to this assumption.

Acquisition Costs

3.2.14 The submitted development appraisal includes acquisition costs including an agent's fee of 1% and a legal fee of 0.5%. We do not consider these assumptions to be unreasonable.

3.2.15 The BLV falls below the threshold for SDLT.

3.3 Gross Development Value

Private Residential

- 3.3.1 The proposed development is set out in a table within the VR, which we have included below.

Number of units	Type	Floor area (m ²)
26	1b2p	55
21	2b3p	65
19	2b4p	72
39	3b5p	93

- 3.3.2 The VR has looked at properties either sold or being marketed for sale, which in the opinion of S106AH are comparable to the proposed development. The VR identifies one new build development on St Martins Lane which indicates a value of £3,947/m² for a one-bedroom apartment and £3,629/m² for a two-bedroom apartment.
- 3.3.3 The VR notes that the Land Registry sold data is limited to former Local Authority properties which the VR states do not reflect the quality of the proposed development. Therefore, the VR looks at values of comparable sites beyond 0.5miles from the application site and identifies the following sales:

Flat 10 Wight Court, Surrey St 65m² sold November 2019 £281,000 (£4,323/m²)

Flat 23 Pharos Court, River Road 39m² sold January 2020 £134,000 (£3,421/m²)

Flat 3 Wight Court, Surrey St 65m² sold October 2019 £278,000 (£4,629/m²)

Flat 30 Pharos Quay 39m² sold Aug 2019 £135,000 (£3,506/m²)

- 3.3.4 Based upon the available evidence, the VR adopts the following values:

1-bedroom apartment - £3,850/m²

2-bedroom apartment - £4,730/m²

3-bedroom apartment - £4,730/m²

- 3.3.5 The total assumed GDV for the 100% market scheme is £35,588,300 and equates to a sales value of £4,568/m².

- 3.3.6 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; considering sold prices and current / recent asking prices with reference to available information for the locality.
- 3.3.7 Based upon our research, we are of the view that overall, whilst the assumed GDV is within the expected range for the riverside setting, it does not appear to reflect the proposal as outlined in the Design and Access Statement to *“create a landmark gateway development...with inclusive riverside walks, cycle paths, leisure moorings...”*. Such a development could potentially achieve a premium over and above the existing riverside developments in the locality. In addition, we note that the VR does not include any value for the 32 leisure moorings that are proposed within the development. For the purposes of our sensitivity testing, we have undertaken a further trial appraisal increasing the assumed sales values by 10% to demonstrate the potential impact on the scheme’s viability.
- 3.3.8 It is also worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the 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.

Gross Development Value

Affordable Housing

- 3.3.9 As noted in Section 2 above, the VR provides appraisals for both a policy compliant scheme and a scheme which includes 6no. shared ownership units.
- 3.3.10 The value of the affordable rented units has been based upon a rent of 80% market value subject to being no more than LHA rates. The VR therefore adopts the following rents based on the LHA rates:
- £143.84pw for 1-bedroom apartment
 - £184.11pw for 2-bedroom
 - £223.23pw – 3-bedroom

- 3.3.11 The value of the shared ownership units is based on initial sales of 40% of market value and a rent of 2.75% on the unsold equity.
- 3.3.12 For each tenure, deductions are made for management costs and voids. We have reviewed the assumptions with the development appraisals, and we do not consider them to be unreasonable.
- 3.3.13 The assumed values equate to 47% market value for the affordable rented units and 69% for the shared ownership units and are not unreasonable in our view.

Gross Development Value

Ground Rents

- 3.3.14 No allowance appears to have been made for the potential income receivable from ground rents. Whilst it is understood that the Government has indicated an intention to introduce legislation to deal with unfair practices, as yet no legislation has been enacted and it is not clear to what level allowable ground rents would be limited in any event. It is our view that as a viability assessment is undertaken at the current date, it should reflect the current position. In the majority of cases put to DSP, ground rental income is included in development appraisals and indeed it is currently still charged on new developments as far as we are aware. The intention to introduce legislation is not the same as actually legislating and as such it is our view that an allowance for revenue associated with ground rents should be included, particularly where a reduced or nil, as in this case, contribution towards affordable housing is being proposed.
- 3.3.15 We do, however, understand that at this stage some mortgage lenders are restricting lending on leasehold properties with a ground rent which is over 0.1% of the property value. Therefore, we have used a ground rent assumption of £305 p.a. per 1-bedroom apartment and £350 p.a. per 2- and 3-bedroom unit, capitalised at a yield of 5%, reflecting a current view and the regime under which the scheme is currently being considered and advanced for progression. This approach is consistent with other reviews currently conducted by DSP as well as with a range of submissions by others - that we are receiving for review.
- 3.3.16 In the 100% market scheme, this equates to a capital contribution of £711,600 and £783,300 in the 100% market scheme with a 10% increase in sales values.

Gross Development Value**Retail**

- 3.3.17 The scheme includes a retail unit with a gross floor area of 110m² and a restaurant with a gross floor area of 170m².
- 3.3.18 Looking at comparable retail properties currently being marketed for rent in Littlehampton. The VR adopts a rent of £12/sq ft for the retail and £15/sq ft for the restaurant. The rents are then capitalised at a yield of 6.5% and deductions of 5.75% are made for purchaser's costs.
- 3.3.19 We have carried out research using Co-Star and Knight Frank's recent guide on yields and based upon this, we consider that the not an unreasonable assumption for use in the appraisal.
- 3.3.20 Similar to the assumed values for the residential apartments, our view is that the assumed values are likely to be understated for the nature of the development i.e. a landmark riverside development. We have undertaken sensitivity testing also applying a 10% increase to the assumed rents.

3.4 Development Timings

- 3.4.1 The development timings set out in the include a 6-month pre-commencement period, a 20-month construction period and a 24-month sales period commencing at the end of construction. This is equivalent to a sales rate of circa 4 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 have not adjusted them.

3.5 Cost Assumptions**Build Costs & Fees – Private Residential**

- 3.5.1 Build costs are based upon the BCIS median rate for 3-5 storey apartments rebased to Arun, which at the time of the report was stated to be £1,520/m².
- 3.5.2 We have reviewed the latest BCIS data and we note that the median rate for 3-5 storey apartments rebased to Arun is currently £1,400/m² and we have therefore adopted this rate within our trial appraisals.

Results

> Rebased to Arun (107, sample 12) Edit

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims. 

Last updated: 05-Dec-2020 00:36

Maximum age of results: 5 years ▼

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
016. Flats (apartments)							
Generally (5)	1,515	948	1,252	1,411	1,712	3,315	240
1-2 storey (5)	1,518	1,098	1,225	1,388	1,779	2,484	59
3-5 storey (5)	1,494	948	1,246	1,400	1,883	3,315	153
6 storey or above (5)	1,638	1,165	1,389	1,628	1,834	2,341	28

- 3.5.3 The base build rate for the retail and restaurant units is also based on the BCIS median for shops, which at the time of the report was stated to be £1,098/m². Our review of BCIS indicates that this assumption is not unreasonable.
- 3.5.4 In addition to the base build rate, the VR adopts an allowance of 7.5% of the base build costs for external works. This assumption is not unreasonable in our view.
- 3.5.5 The development appraisals also include an allowance for the basement car parking and upper ground floor transfer slab. The allowance is based on the BCIS median rate for underground car parks at £843/m². The VR states that full basement excavation is not required and therefore the BCIS build cost has been reduced by 15% to provide a total cost of £4,118,250. With 206 car parking spaces allowed for, this equates to circa £20,000 per space and is within the usual ranges that we see. In this case, the cost also allows for ventilation, EV charging points and sheet piling adjacent the river.
- 3.5.6 The build cost estimate sets out a net/gross adjustment of 69% to the flatted element, meaning that the 31% of the overall floor area that is communal is not generating value directly but is being costed. This is high for a flatted scheme and the Council will be able to check the floor areas from the plans validated with the planning application.

- 3.5.7 Professional fees have also been included at 7% and contingency fees at 5%. Again, these assumptions are not unreasonable.

Abnormal Development Costs

- 3.5.8 An allowance of £197,000 has been included for the highways works to the Bridge Road roundabout. These are stated to be based on the 2010 cost at £140,000 uplifted by the BCIS Tender Price Index to Q2 2022.

CIL / Planning Obligations

- 3.5.9 The VR includes an allowance of £1,164,000 for CIL in the 100% market housing scheme and the 6no. shared ownership units. The CIL allowance increases to £1,702,800 within the policy compliant appraisal. We would expect the CIL to reduce in the policy compliant appraisal and the increase (£538,800) will have a significant impact on the outcome of the policy compliant scheme. We therefore recommend that ADC confirm these figures and/or provide alternatives that can be reflected within the appraisals.
- 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 CIL cost assumption would improve the viability outcome and an increase would pull it downwards (looking at the effect of this assumption only). In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

Development Finance

- 3.5.11 Finance costs have been included using a 6.5% interest rate assumption.
- 3.5.12 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.'*

3.5.13 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)*’.

3.5.14 We do not consider the submitted assumption to be unreasonable – it is consistent with our recent and current experience.

Agent’s, Marketing & Legal – Private Residential

3.5.15 Sales and marketing costs have been assumed at 2.75% plus an allowance of £1,000 per unit for legal costs on sale. We do not consider the legal costs assumption to be unreasonable, however, the sales and marketing costs are a little high and we have reduced these to 2.5% GDV.

3.5.16 Sales costs of 2% have been included within the development appraisal for the costs associated with the retail/restaurant units. We do not consider this assumption to be unreasonable.

3.5.17 An allowance of £15,000 has been included with the policy compliant scheme appraisal for the costs of sale to an RP. This represents circa 0.25% of the value of the affordable units as is not unreasonable in our view.

3.6 Developer’s Risk Reward – Profit

3.6.1 In this case, the level of profit has been included as a fixed input at 17.5% of gross development value (GDV) for the market residential units, 6% for the affordable housing and 15% for the commercial 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*

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

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 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 types"*.

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

- 3.6.5 The PPG, as above, although silent in terms of decision making, does set out a range of between 15% and 20% on GDV for market housing; lower for affordable housing in relation to plan making. Given that the NPPF and PPG expect planning applications to be consistent with the plan making stage, it is therefore also appropriate to assume that the range 15% - 20% on GDV (lower for affordable housing) may be considered applicable at the decision taking stage.
- 3.6.6 The 6no. shared ownership units scheme as presented is shown within the development appraisal to produce an actual profit of 14.77% GDV once the reported viability deficit is taken account of and yet as noted above, we must assume that the applicant is willing and able to proceed on the submitted basis.
- 3.6.7 Notwithstanding the above, we are of the view that the target profits as set out in paragraph 3.6.1 above are not unreasonable.

4. Summary - Overview

4.1.1 The overall approach to assessing the viability of the proposed development appears to be appropriate in terms of general principles and approach to the development appraisal.

4.1.2 We consider many of the assumptions to be within the range we would expect. However, a difference of opinion does exist in relation to the following assumptions:

- Gross Development Value – we have undertaken sensitivity testing increasing the assumed sales values of the apartments and the assumed commercial rents by 10%.
- Ground Rents – we have included a capital contribution from ground rents in the sum of £711,600 for the 100% market scheme and £783,300 for the 100% market scheme with 10% increase in values (as per 3.3.16 above).
- Build Costs – we have made a downward adjustment to the base build rate for the apartments from £1,520/m² to the current rate of £1,400/m².
- Sales and Marketing Costs – we have reduced the assumption down from 2.75% to 2.5%.

4.1.3 The 100% market scheme as presented produces a deficit of -£723,014 or an actual profit of 15%. The VR states that the scheme including 6no. shared ownership produces a deficit of -£773,757 or an actual profit of 14.77%. A summary table of the appraisal outcomes is included within the VR, which we have also included below.

Scenario	Residual land value with 17.5% profit (£)	Benchmark land value (£)	Surplus/deficit (£)	Actual profit to achieve a neutral outcome (% of GDV)
Open market	-678,014	45,000	-723,014	15%
Policy compliant	-3,198,138	45,000	-3,243,138	Loss making
Open market with 6no shared ownership	-728,757	45,000	-773,757	14.77%

4.1.4 As part of our audit style approach, we have carried out sensitivity testing based on making adjustments to assumptions as described within this report and referred to again at 4.1.2 above. When making the suggested adjustments, the 100% market housing scheme produces a residual land value of £1,498,390 after allowing for a developer's

profit of 17.5% GDV on the market housing, 6% on the affordable housing and 15% on the commercial units and when compared to the submitted BLV of £45,000 produces a surplus of £1,453,390.

- 4.1.5 When making the adjustments to the policy compliant scheme, the scheme produces a negative residual land value of -£1,170,563 after allowing for a developer's profit of 17.5% GDV on the market housing, 6% on the affordable housing and 15% on the commercial units and when compared to the submitted BLV of £45,000 produces a deficit of -£1,215,563.
- 4.1.6 When making the adjustments to the 6no. shared ownership unit scheme, the scheme produces a residual land value of £825,044 after allowing for a developer's profit of 17.5% GDV on the market housing, 6% on the affordable housing and 15% on the commercial units and when compared to the submitted BLV of £45,000 produces a surplus of £780,044.
- 4.1.7 However, when increasing the assumed values for the residential apartments and the commercial rent assumptions by 10%, the policy compliant scheme produces a residual land value of £641,630 and when compared to the submitted BLV of £45,000, produces a surplus of £596,630.

	Residual Land Value	BLV	Surplus/Deficit
100% Market Scheme	£1,498,390	£45,000	£1,453,390
Policy Compliant Scheme	-£1,170,563	£45,000	-£1,215,563
6no. Shared ownership unit scheme	£825,044	£45,000	£780,044
100% Market Scheme with 10% increase in values	£3,898,746	£45,000	£3,853,746
Policy Compliant Scheme with 10% increase in values	£641,630	£45,000	£596,630

- 4.1.8 In conclusion, there are some significant uncertainties over the assumptions – the submission does not include any information (values/costs) in relation to the pontoons and the proposed 32 leisure moorings and the level of CIL for the policy compliant scheme appears to be incorrect and having a substantial impact on the scheme's outcome. At this stage, there is insufficient evidence for us to agree to a reduced level of affordable housing, but this is subject to further information, which we recommend that the Council request from the applicant.
- 4.1.9 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.

- 4.1.10 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.
- 4.1.11 As regards the wider context including the 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 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.
- 4.1.12 DSP will be happy to advise further as required.

Review report ends

December 2020