

Hannah Riddle

From: Claire Potts
Sent: 01 March 2022 12:26
To: Planning.Responses
Subject: LU/238/20/OUT - Land west of Bridge Road Roundabout, Littlehampton
Attachments: Hampton Quay 8 sown median 5 year build cost March 21.xlsm; Hampton Quay 8 sown median default build cost March 21.xlsm; Hampton Quay 8 sown UQ 5 year build cost March 21.xlsm; Hampton Quay 8 sown UQ default build cost March 21.xlsm

Follow Up Flag: Follow up
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Claire Potts MRTPI, BSc, MSc, MSc
Strategic Development Team Leader



T: 01903 737698
E: claire.potts@arun.gov.uk

Arun District Council, Civic Centre, Maltravers Rd, Littlehampton, West Sussex, BN17 5LF
www.arun.gov.uk

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[REDACTED]

From: Emily Hatch [REDACTED]
Sent: 14 June 2021 14:21
To: Raymond Cole <Raymond.Cole@arun.gov.uk>
Cc: Rob [REDACTED]; Richard Dixon [REDACTED] helena [REDACTED]
[REDACTED] Nick Molyneux <nick@dixonsearle.co.uk>; Tallulah Hyde [REDACTED]
Subject: RE: DSP20419M LU/238/20/OUT - Land west of Bridge Road Roundabout, Littlehampton

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Dear Raymond

We have reviewed the additional comments submitted by S106 Affordable Housing and our comments follow.

Build Costs

RICS' BCIS provides an appropriate basis for build costs assumptions for this purpose – it is very often used. The BCIS dataset includes a range of categories, however, which can result in quite variable figures being drawn out, depending on the selection of the sub-set to use.

We consider the 5-year data figure to be the most appropriate rate to use. This is an approach we have taken consistently across our recent viability reviews, and was in fact originally suggested by developers/applicants (at a time when this position resulted in higher BCIS rates relative to the 'default' period figures and therefore contributed to a reduced viability position). Many appraisals put to our clients by planning applicants use the 5-year figures.

BCIS allows for different cut off points for its data sets. The 'default period' setting (as used in the assessment for the applicant) draws upon tender price evidence submitted to RICS over the previous 15 years, but this can be cut at 5-year intervals from a minimum of 5 up to 45 years in order to provide details of tender pricing over a specific period.

The residential construction data sets are considered to have reasonable samples in all period setting categories (i.e. from 5 years upwards), and sample size is therefore deemed robust. Hence RICS publish BCIS with a minimum 5-year period setting.

The primary potential deficiency with using the 'default period' BCIS data set is the projects captured will have been delivered under a different regulatory regime to the present Building Regulations. Consequently, the 'default period', which reflects schemes constructed over the period 2006 to 2021 will include many schemes that do not reflect current Building Regulations.

Projects tendered and constructed from 2016 to 2021 (i.e. max. 5 years old) are most representative of the cost of delivering to the current regulatory and best practice regime; rather than projects tendered over the longer 15 year 'default period'.

We note that S106AH have now provided sensitivity testing based upon the median rate and the upper quartile rate. DSP have reviewed the latest BCIS rates (using the 5 year data set as noted above) and the information is included below for reference.

Results

> Returned to Arun : 107 sample 12 : 8 of

£/m2 study

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

Last updated: 08 May 2021 00:40

Maximum age of results: 5 years 

Building function (Maximum age of projects)	Mean	Lowest	Lower quartile	Median	Upper quartile	Highest	Sample
New build							
£16. Flats (apartments)							
Generally (5)	1,513	893	1,257	1,418	1,718	3,335	238
1-2 storey (5)	1,456	1,093	1,218	1,393	1,708	2,153	98
3-5 storey (5)	1,496	893	1,258	1,498	1,882	3,335	143
6 storey or above (5)	1,838	1,572	1,586	1,838	1,893	2,348	27

Applying an allowance of 7.5% (for external works) to the median rates as highlighted above, would produce a build rate of £1,514/m² (compared to the submitted £1,617/m²) for the 3-5 storey buildings and £1,752/m² (compared to the submitted £1,912/m²) for the 6+ storey Bridge Reach.

Applying an allowance of 7.5% to the upper quartile rates as highlighted above, would produce a build rate of £1,808/m² (compared to the submitted £1,912/m²) for the 3-5 storey buildings and £1,936/m² (compared to the submitted £2,221/m²) for the 6+ storey Bridge Reach.

We note that S106AH have undertaken sensitivity testing applying the various sets of BCIS data.

Gross Development Value

S106AH state that it is unrealistic to assume very high values but very low build costs. DSP's view is that the submitted values are within the expected range (not above the normal range) for a riverside setting. DSP have not made any adjustments to the sales values assumptions. However, our view remains unchanged that the assumptions are potentially cautious for a development of the stated nature. On this basis, we remain of the view that the BCIS median cost rate provides an appropriate basis in the circumstances. Clearly this remains a debated aspect, with the overall viability indications highly sensitive to this.

Ground Rents

S106AH, correctly in our view, include a capital contribution from ground rents within the appraisals. However, they state that the inclusion of the capital contribution "*poses an added burden on the GDV*" because of the "*impending change to the law to remove ground rents*". The Government has indicated its intention to bring forward the relevant legislation, but as yet no legislation has been enacted. The latest available information published indicates that the proposed changes are not imminent by any means. If the development is restricted from charging ground rents due to future legislation then this would have the effect of reducing any identified surplus.

Mooring Income

S106AH state that they have compiled information about all the mooring rates in the area and that the information is attached. However, we have not had sight of this information.

Our comments on the assumptions included within the submitted appraisal are as follows.

		DSP Comments
Rent	£190/lm	S106AH state that a net mooring rate of £220.43 is realistic. A rent of £190/lm is included within the appraisal which is capitalised at a yield of 6% to produce a capital contribution of £1,326,833. This assumption is equivalent to a deduction for management costs at £100/lm or £698,000.
Yield	6%	
Build Costs	£1,919/m ²	We recommend seeking further evidence from the applicant.
Professional fees	7%	not unreasonable
Contingency	5%	not unreasonable
Letting fees	10%	not unreasonable
Profit	15%	not unreasonable

We have not made any adjustments to these assumptions and we suggest that in order to continue this mode of dialogue the Council would need to request the evidence of moorings rates and further evidence regarding the submitted build costs related to this aspect.

CIL

CIL is included at £724,400. We recommend that the Council confirms the CIL liability. This is no change from our review. Again, as noted in our original review, 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).

Highways

An allowance of £350,000 has been included within the appraisals. No breakdown of these costs has been provided and as above the Council may wish to request additional evidence. With no verification or information to the contrary, we have not made any adjustments to the assumed costs at this stage.

Conclusion

We have provided a results table below setting out the latest (28th April) appraisal outcomes as provided by S106AH. As noted above, the results include a capital contribution from ground rents.

	Surplus/deficit when compared to the assumed BLV of £45,000	
	5 year	default
BCIS Median	£1,351,879	-£215,336
BCIS Upper Quartile	-£1,918,580	-£3,717,677

S106AH state that: "Only one, the median 5 year, shows a surplus the other 3 all show a negative.

This shows the sensitivity testing to the appropriate choice of BCIS rates. We believe that it is important that a balanced view on the build cost / risk needs to be adopted, if this development is to ever migrate from paper to the built environment and to provided much needed homes in the area."

S106AH do provide results with the ground rent income removed and the outcome remains the same – only when the BCIS median 5 year rate is adopted does the scheme produce a surplus.

As above, this cannot in itself be entirely conclusive at this point. There are a number of matters that would need to be clarified and / or considered further in order to meaningfully progress this further.

In our view the onus is on the applicant to prove that a departure from policy is appropriate. There are a number of matters as yet not clarified (including on CIL/s.106 /moorings and other uncertainties (differences of opinion that may not be readily resolved) but in our view we do not have a situation whereby the applicant has satisfactorily justified the 8 proposed affordable (shared ownership) homes as being the most that can be accommodated.

Our evaluation of the scheme still indicates the potential for a significant surplus (indicating scope to do more towards meeting AH needs). S106AH have provided sensitivity testing utilising additional BCIS build rates but it is not unusual for differences of opinion to exist. S106AH have confirmed that if the build costs cannot be agreed then they suggest that the best solution is to obtain a cost plan. There is an option for the Council to request the additional evidence of a cost plan and to have the costs reviewed by a third party, although this would add time and cost.

Whatever level of affordable housing is finally agreed (if below a policy compliant level) it remains an option for the Council to include a late stage review mechanism (within the s.106). If undertaken based on development values and build costs as those pan out (compared with current viability assumptions) this could be a way forward, perhaps – to capture any positive movement in the relationship between the development costs and values.

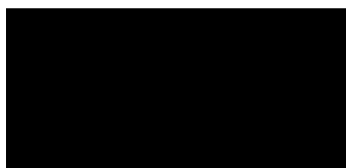
Should you have any queries, please do not hesitate to contact me.

Kind regards
Emily

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



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Ash House | Tanshire Park | Shackleford Road | Elstead | Surrey | GU8 6LB

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