Fareham Borough Council

Viability Report

Land at Corner of Station Road/A27
Portchester – 15 Retirement Flats

December 2014

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Introduction

Jenkins Duval have been instructed by Fareham Borough Council to advise on the viability of the potential development of 15 retirement apartments following the demolition of the existing building on the site.

Jenkins Duval have a considerable track record of assessing viability of planning gain requirements both for Local Authorities and for developers. This expertise runs to several years work for numerous Local Authorities and for a range of national, regional and local developers.

The members of the team include:

Simon Jenkins BSc (Hons), MSc, DipTP, Dip MS, Dip Hsg, MRTPI, CIHCM
Simon is project lead for Fareham Borough Council. Simon project manages local authority CIL viability studies, experienced in planning and development, from local authority and private sector experience.

Role: Team Planning and Housing advisor, Policy options evaluation. Reporting of results. Presentations and follow up Examination support where necessary.

David Coate BSc (Hons) ACIOH ICIOB
David has over 27 years experience in the development industry working for Local Authorities and developers as well as RPs and consultancy. He is experienced in considering viability analysis.

Role:
Using land acquisition, disposal and development experience to lead on the exploration of viability issues - principally through residual valuation techniques - and the evaluation of appraisal results. Running appraisal modelling. Verification of results. Presentation of results. Presentation support where needed.

James Sinclair BSc MRICS
James is a chartered surveyor with over 25 years' experience of residential development throughout England.

James has worked in land acquisition with a number of house building companies, from the volume market to more bespoke styles.

James is now working mainly in the area of development viability. This would typically involve residential sites of varying sizes including an element of commercial use.

Role: Sales Valuations, Reviewing, summarising and checking information provided. Policy evaluation. Running appraisal modelling. Verification of results. Presentation of results.

Site Description

The site comprises a grass verge and open grassed space owned by Fareham Borough Council and an industrial unit occupied by Merjen Engineering at the corner of the A27 and Station Road in Portchester, close to the town centre.

Due to the proximity to the roundabout there may be services and other easements that run over the grass verge area that need investigating as this may limit the developable area of the site. In addition, the Environment Agency has confirmed that the site is located within Flood Zone 3 (the highest probability of flooding) and recommends raising the ground level or finished floor levels by half a metre. With such a small site, raising the ground to construct houses doesn't appear to be feasible. Therefore, a flatted scheme is the best opportunity for any development on the site.

The site includes Merjen Engineering and historic land records indicate that there may be some contamination on site.

Methodology

In addition to the report we are attaching Appendix 1 which is a financial appraisal, using the HCA DAT toolkit which calculates the residual land value of the scheme.

This is then compared to the existing use value for the land to establish whether the scheme is viable and, therefore, likely to go ahead.

Viability Guidance

In advising the Council in respect of viability, we need to have regard to published guidance. In this respect, we are considering in particular the National Planning Policy Framework (NPPF) March 2012, the RICS publication "Financial Viability in Planning" July 2012 and the latest National Planning Practice Guidance.

With regard to NPPF, we believe that paragraphs 173 and 205 are particularly relevant. In paragraph 173 it states:

"To ensure viability, the costs of any requirement likely to be applied to development…….should provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable."

The latest National Planning Practice Guidance states that a site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken.

The RICS publication is, effectively, a practitioner's guide to viability assessments, offering guidance in the way that they should be carried out.

The latest National Planning Practice Guidance states that viability assessment in decision-taking should be based on current costs and values.

With regard to the appraisal inputs, we will discuss these below under the individual appraisal headings.

Appraisal Inputs

We have considered the main inputs into the development appraisal as follows:

Size of units
We have extensive experience of assessing viability reports which deal with retirement living and for the purposes of this report we have assumed the following floor areas for the flats
1 x 1 bed flats @ 46 m^2
14 x 2 bed flats @ 60 m^2

We have allowed 25% for communal areas and circulation space which is typical for a development such as this.

Sales Values
We have looked at sales evidence for this area and have taken advice from Estate Agents who have a good local knowledge of the housing market in this area. Typical selling prices for the new retirement apartments show sales values as follows:
1 bed flats @ 46 m^2 - £145,000
2 bed flats @ 60 m^2 - £175,000

Affordable Housing Values
We have assumed 40% affordable housing and in terms of tenure, we have adopted the Council's current affordable housing policy position, which is 65% affordable rent and 35% shared ownership.

We have assumed the following values:
Affordable Rent = £125 per sq.ft. (£1,345 per m2); and
Shared Ownership = £165 per sq.ft. (£1,776) per m2).

Ground rents
We have used ground rents of £400 per annum capitalised at a yield of 6%.

Build Costs
We have used a base build cost of £1,150 per m^2 which our own research using BCIS figures shows is a reasonable assumption.

CIL
We have included CIL at £105 per m2 as per Fareham's CIL charging schedule.

Professional Fees
We have included fees at 8%.

Marketing costs
We have included fees of 3% for marketing fees plus legal fees at £1,000 per unit which for a development such as this is a reasonable assumption.

Contingencies
We have included contingencies at 5% which is in line with the HCA DAT guidelines.

Interest
HCA DAT recognises that finance costs would include an arrangement fee payable to a bank for arranging finance for the scheme, interest payable on the loan typically around 3-5% above 3 month LIBOR rate and miscellaneous fees such as monitoring surveyors.

This would suggest a total overall figure 6.5% which is in line with current lending rates. This is the figure we have used in our appraisal.

Profit
We have used a profit level of 18% on GDV for the private units
We have represented numerous clients in both Appeal and Local Planning Inquiry context. At those forums the level of profit a scheme should make has been the subject of debate with expert witnesses and Inspectors coming to the view that, if at all possible, schemes should make between 17.5% and 20% profit on GDV.

We have used a figure of 18% which in our opinion is a reasonable approach for a development such as this.

Existing Use Value (EUV)
The Residual Land Value needs to be compared to a benchmark value which is market value in the existing use or an alternative use that might reasonably be granted planning consent. In essence, the question to answer is*: "What is the*

market value a willing vendor would require to bring this opportunity to the market, and a willing, purchaser be prepared to pay?".

There has been much debate (and some recent consensus) with regard to establishing what level of land value should be assumed in order to be reasonably certain that a landowner will be enticed to make his or her land available for development.

The Knight Frank report (August 2013) is correct in its statement regarding brownfield land values. We have assumed £250,000 to £500,000 per acre for brownfield land.

In this case the gross area of this brownfield site is 0.5 acres which would suggest a "benchmark" land value (EUV) of £125,000 based on the lower end of this range.

It is our opinion that this is a reasonable assumption.

Conclusions

We have attached the appraisal at Appendix 1 which shows the scheme with 40% affordable housing and CIL at £105 per m^2.

The appraisal shows a residual land value (RLV) of **£162,000**

It is our opinion, that this shows that when the RLV is compared to the EUV the site is viable for a retirement living development of 15 flats.

End of Report
Jenkins Duval
December 2014

Appendix 1 – HCA DAT Appraisal

Residual Land Valuation @ 11/12/2014 -£6

HCA DEVELOPMENT APPRAISAL TOOL

SUMMARY DETAIL

SCHEME

Site Address	Station Road / A27	Date of appraisal	11/12/2014
Site Reference		Net Residential Site Area	0.2
File Source		Author & Organisation	Jenkins Duval
Scheme Description	35 No retirement flats	Registered Provider (whe	0

CAPITAL VALUE OF OPEN MARKET HOUSING			**£1,545,000**	£ 2,203 psqm
BUILD COST OF OPEN MARKET HOUSING inc Contingency		**£846,860**	£ 1,208 psqm	
CONTRIBUTION TO SCHEME COSTS FROM OPEN MARKET HOUSING				**£698,140**
CAPITAL VALUE OF ALL AFFORDABLE HOUSING (EXCLUDING OTHER FUNDING)			**£582,000**	
OTHER SOURCES OF AFFORDABLE HOUSING FUNDING			**£0**	
CAPITAL VALUE OF ALL AFFORDABLE HOUSING (INCLUDING OTHER FUNDING)			**£582,000**	
BUILD COST OF AFFORDABLE HOUSING inc Contingency		**£579,600**	£ 1,208 psqm	
CONTRIBUTION TO SCHEME COSTS FROM AFFORDABLE HOUSING				**£2,400**
Value of Residential Car Parking			**£0**	
Car Parking Build Costs		£0		
Capitalised Annual Ground Rents			**£72,000**	
TOTAL CAPITAL VALUE OF RESIDENTIAL SCHEME			**£2,199,000**	
TOTAL BUILD COST OF RESIDENTIAL SCHEME		**£1,426,460**		
TOTAL CONTRIBUTION OF RESIDENTIAL SCHEME				**£772,540**
CAPITAL VALUE OF NON-RESIDENTIAL SCHEME			**£0**	
COSTS OF NON-RESIDENTIAL SCHEME		**£0**		
CONTRIBUTION TO SCHEME COSTS FROM NON-RESIDENTIAL				**£0**
GROSS DEVELOPMENT VALUE OF SCHEME			**£2,199,000**	
TOTAL BUILD COSTS		**£1,426,460**		
TOTAL CONTRIBUTION TO SCHEME COSTS				**£772,540**

External Works & Infrastructure Costs (£)		Per unit
Site Preparation/Demolition	£0	
Roads and Sewers	£0	
Services (Power, Water, Gas, Telco and IT)	£0	
Strategic Landscaping	£0	
Off Site Works	£0	
Public Open Space	£0	
Site Specific Sustainability Initiatives	£0	
Plot specific external works	£0	
Other 1	£0	
Other 2	£0	
	£0	

Other site costs			
Fees and certification	8.0%	£108,683	7,246
Other Acquisition Costs (£)		£0	

Site Abnormals (£)	
De-canting tenants	£0
Decontamination	£0
Other	£0
Other 2	£0
Other 3	£0
Other 4	£0
Other 5	£0
	£0

Total Site Costs inc Fees	**£108,683**	7,246
Statutory 106 costs	**£55,230**	3,682
Total Marketing Costs	**£55,350**	
Total Direct Costs		**£1,645,723**

Finance and acquisition costs				
Land Payment	£162,022	18,002	per OM home	10,801 per home
Arrangement Fee	£0	0.0%	of interest	
Misc Fees (Surveyors etc)	£0	0.00%	of scheme value	
Agents Fees	£1,620			
Legal Fees	£0			
Stamp Duty	£0			
Total Interest Paid	£83,942			

Total Finance and Acquisition Costs	**£247,585**
Total Operating Profit	**£305,700**

(i.e. profit after deducting sales and site specific finance costs but before deducting developer overheads and taxation)

TOTAL COST	**£2,199,008**

Surplus/(Deficit) at completion 1/6/2017	**(£8)**
Present Value of Surplus (Deficit) at 11/12/2014	**(£6)**

Scheme Investment IRR **8.1%** (before Developer's returns and interest to avoid double counting returns)

Site Value as a Percentage of Total Scheme Value	7.4%	Peak Cash Requirement	-£1,155,140
Site Value per hectare	-£38 per hectare	-£15 per acre	