DVS Property Specialists for the Public Sector

Private and Confidential

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By Email

Oxford Valuation Office
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Oxford
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Our Reference: TW/1697876
Your Reference: S.18/1947/OUT

[redacted]

Date : 5 August 2019

Dear [redacted]

REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
PROPOSED SCHEME: Land at Quadrant Distribution Centre, Quadrant Way, Hardwicke, Gloucestershire

I refer to our terms of engagement letter dated 26 September 2018 and your formal instructions to carry out a review of the viability assessment submitted in respect of the above proposed development. You have forwarded the applicants assessment to review which has been undertaken by Cushman & Wakefield. We have now undertaken our own research and assessment and would report as follows:

This report is not a formal valuation.

The date of the initial assessment is 26 March 2019 and of the viable scheme is 31 August 2019.

We have reviewed the assessment undertaken by Cushman & Wakefield dated 11 July 2018 and the additional information provided including their latest viable appraisal dated 31 July 2019.

My assessment has been made by comparing the residual value of the proposed scheme with an appropriate Benchmark Land Value (BLV) figure having regarding to the National Planning Policy Framework and the published RICS Guidance Note into Financial Viability in Planning.

The principal objective of our Brief and the subject of this report are to establish whether there is financial justification for any affordable housing and section 106 contributions.

General Information

It is confirmed that the viability assessment has been carried out by [redacted] a RICS Registered Valuer, acting in the capacity of an external valuer, who iate knowledge and skills and understanding necessary to undertake the assessment competently, and is in a position to provide an objective and unbiased assessment.[redacted]

[redacted] graduate surveyor, has assisted in respect of sales values and benchmark land values.

Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. DVS has had no other previous material involvement with the property save for the assessment carried out for the Council in 2015.

The client will neither make available to any third party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

You may wish to consider whether this report contains Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006.

Our assessment is provided for your benefit alone and solely for the purposes of the instruction to which it relates. Our assessment may not, without our specific written consent, be used or relied upon by any third party, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our report. If we do provide written consent to a third party relying on our assessment, any such third party is deemed to have accepted the terms of our engagement.

None of our employees individually has a contract with you or owes you a duty of care or personal responsibility. You agree that you will not bring any claim against any such individuals personally in connection with our services.

This report remains valid for 3 (three) months from its date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

Background:

I understand that this viability assessment is required following a planning application and the contention that the scheme as assessed shows a deficit against the benchmark land value and is not commercially viable in development viability terms when supplying policy level of affordable housing on site.

The proposed scheme is Ref S.18/1947/OUT – application for construction of 160 dwellings. We are advised that the local authority seek 48 on site affordable dwellings (30%).

The site totals approx 8.09 hectares (20 acres) and is located on the outskirts of Quedgeley, approx 3.8 miles from central Gloucester to the north. The site has access from Davy Way leading on to either the B4008 or Waterwells Drive, both connecting to the A38. Junction 12 of the M5 motorway is located less than one mile to the south, via the A38.

The site consists of a plot of brownfield land which was previously occupied by the Ministry of Defence and demolition works have taken place removing the previous MOD units. The area surrounding the site is dominated by industrial use through the development of the Quadrant Business Centre but with agricultural land bordering the site to the south but comprises Hunts Grove which was granted consent for up to 1,750 homes and 5.75 hectares of employment development in 2008 and the first phase of approx 350 homes is being completed by Crest Nicholson.

We understand that the site sits within a Key Employment Area, but that an appraisal carried out by Cushman & Wakefield utilising the site for industrial use has shown such a scheme to be undeliverable.

Cushman & Wakefield have undertaken a residual appraisal of the proposed industrial development which shows a negative land value of - £571,000. In June 2017 we undertook a review of the employment potential of this site and concluded that viability was a major issue in order to bring the site forward for development incorporating employment uses.

The Scheme:

We have been provided with the assessment undertaken by Cushman & Wakefield on behalf of the applicant. Their assessment has been based on a 100% private scheme and a schemes with 30%, 22%, and 20% affordable housing however I have initially modelled a policy compliant scheme with 30% affordable housing. I have based our assessment upon the floor areas provided which I presume are based on the scheme plans as prepared. For the purpose of this assessment review I assume the areas indicated below are correct.

The scheme with 48 affordable units is as follows:

30% Affordable Scheme:

House Type	Number of Beds	Number of Open Market Units	Number of Affordable Units	Unit Size Sq m	Total Sq m
A – Detached House	4	4	1	237	1,183
B – Detached House	4	5	2	140	980
C – Detached House	3	2	1	131	393
F – Semi-detached House	3	34	14	107	5,137
G – Terrace House	2	6	2	81	648
H – Semi-detached House	2	31	14	74	3,332
I (a) - Apartment	1	4	2	39 (NIA)	234
I (b) - Apartment	1	4	2	42 (NIA)	255
J – Corner House	3	13	6	106	2,014
K – Corner House	3	9	4	104	1,352
Total Houses		**104**	**44**		**15,039**
Total Flats		**8**	**4**		**489**
Total Scheme		**112**	**48**		**15,528 sq m** **167,140 sq ft**

Viability Assessment:

This report deals with each major input into the viability assessment of the scheme. This assessment has been undertaken following our own research into both current sales values and current costs. I have used figures put forward by Cushman & Wakefield if we believe them to be reasonable.

I have used a bespoke excel based toolkit with cash flow to assess a 160 Policy compliant scheme which is attached as Appendix 1 whilst Cushman & Wakefield have used Argus.

I would summarise our assessment of the Scheme as follows:

1) Development Value -

a) Private Residential:

Cushman & Wakefield has completed an overview of the local new build market, drawing on comparables from the local area by developers, including, Bovis, Crest Nicholson, and Bellway amongst others to arrive at their proposed value. They have adopted an average rate of £280 per sq ft (£3,014 per sq m) for the development.

From our research and analysis for the sales of new build homes in the locality I have found that an average sale price for 4 bed detached houses is £341,952 (£2,740/ sq m) and for 3 bed detached houses, £268,749 (£2,986/ sq m). Semi-detached 3 bed house average at £224,651 (£2,830/ sq m) for 2 bed semi-detached houses the average is £190,416 (£3,212/ sq m). For terraced two bed houses the average in the locality is £159,250 (£2,266/sq m) and for 1 bed apartments the average is £175,250 (£3,470/ sq m).

The average of these figures being £226,711 per unit, or £2,917/sq m (£271/sq ft). On this basis we are prepared to accept £280 per sq ft adopted by Cushman & Wakefield as being not understated.

b) Ground Rents:

Without a suggested figure from the agent on ground rents, consideration of the locality and the proposed apartments has been considered when analysing evidence form the locality. New build 2 bedroom apartments have ground rents of £250 per unit. For 1 bed apartments both secondary and new rents start at £15 and go up to £250. As such setting the ground rents at £250 per unit is not unreasonable, and we have adopted this rate at a yield of 5%.

Cushman & Wakefield initially did not include any ground rents however in their latest viable appraisal they are agreed

However the government announced last year that they would crackdown on unfair leasehold practices in respect of ground rents. However since no legislation has been enacted the policy of DVS is to include ground rents at this stage. If this changes it could affect this assessment.

c) Affordable:

I understand that policy requirement is for 30% affordable housing with 50% as affordable rented and 50% as shared ownership.

For the affordable homes Cushman & Wakefield have adopted a blended rate per sq m at 50% of OMV of £3,014 this being £1,507 per sq m (£140 per sq ft).

However from our research in the area, knowledge of affordable values from similar viability assessment and my discussion with yourself, I would normally adopt approx 50% for rented units 60% to 65% for shared ownership with a blended average of approx 55% of market value or £1,658 per sq m (£154 per sq ft).

In their latest viable appraisal 55% of market value is agreed by Cushman & Wakefield.

d) Gross Development Value:

The following GDV has been adopted compared to Cushman & Wakefield for the Policy Compliant Scheme:

Initial Policy Compliant 30% Affordable Scheme:

Use	DVS	Cushman & Wakefield
Private Units	£33,057,356	£33,057,416
Affordable Units	£7,558,011	£6,870,934
Ground Rent	£39,280	-
Total	**£40,654,647**	**£39,928,350**

Following various discussions Cushman and Wakefield have now provided a viable appraisal with 39 affordable units which is compared as follows:

Use	DVS	Cushman & Wakefield
Private Units	£35,250,595	£35,250,670
Affordable Units	£6,351,729	£6,351,738
Ground Rent	£50,000	£49,100
Total	**£41,651,424**	**£41,651,508**

2) Development Costs -

a) Build Cost:

In Cushman & Wakefield's 30% affordable appraisal dated 10 July 2018 they have included construction costs totalling £23,313,177.

Description	Costs - £
Construction	£15,569,474
Site Works and Abnormals	£6,563,435
Contingency – 5%	£1,095,268
Garages x 12	£85,000
Total	**£23,313,177**

Cushman & Wakefield's Viability report dated 11 July 2018 clarifies the basis of the building cost as being the default period "estate housing – generally" lower quartile rate for the South West from BCIS. This being at an average of £1,017, per sq m. For the flats they use the default period "Flats (apartments) – generally" lower quartile rate for the South West. This being at an average of £1,173, per sq m. For any affordable housing they have used the same rates respectively.

Having consulted BCIS the proposed rate is acceptable as not overstated however I believe there is a slight error in the Argus appraisal in respect of the build cost calculation.

We have also sought further clarification in respect of Site works and abnormals and detailed below the breakdown as provided by Alium Group:

	Site Works Cost (£)	Abnormal Cost (£)	Total (£)
Site Preparation Works	572,672.64	143,636.36	**716,309.00**
External Drainage	229,892.45	57,454.55	**287,347.00**
External Services	683,255.20	126,400.00	**809,655.20**
E.O for connections	491,200.00		**491,200.00**
External Works	1,871,819.50		**1,871,819.50**
Tree Protection works		50,000.00	**50,000.00**
Four retention ponds		320,000.00	**320,000.00**
Environmental Improvements		510,000.00	**510,000.00**
Sub Total	***3,848,748.79***	***1,207,490.91***	***4,728,748.79***
Prelims	577,312.32	181,123.64	**758,435.96**
OH&P	331,954.58	104,146.09	**436,100.67**
Design Contingency/Risk	237,900.78	74,638.03	**312,538.82**
Sub Total	**4,995,916.48**	**1,567,398.67**	**6,563,433.27**

Although not a lot of back up has been provided at this stage we have included as reasonable but this can be reviewed by a QS if required but considerably more detail would be required.

Overall we have adopted the following costs as compared to Cushman & Wakefield in our latest viable appraisals:

Description	DVS £	Cushman& Wakefield £
Construction	£15,969,190	£15,569,125
Site Works/Externals	£4,995,916	£4,995,916
Site Abnormals	£1,567,519	£1,567,519
Garages x 12	£85,000	£85,000
Total	**£22,617,625**	**£22,217,909**

b) Build Contingency:

Cushman & Wakefield have included a contingency of 5% of the full construction cost including Site Works and abnormals which already include a 5% design contingency /risk so there could be an element of double counting.

I have included a 5% contingency on just the build cost plus garages with a total of £802,709 whilst Cushman & Wakefield have included £1,095,268.

Following various discussions and additional detail from Cushman & Wakefield I have accepted a 5% contingency on all costs as reasonable.

c) Professional Fees:

Cushman & Wakefield have included an allowance of 8% calculated against all construction costs less construction contingency. I have adopted the same percentage as reasonable.

d) CIL/Section 106:

Cushman Wakefield have included CIL at £84.34 per sq m calculated against the private dwellings for any appraisals with affordable housing. No section 106 contributions have been included. The total included is £925,608 for the policy compliant scheme.

I have done the same but please advise if these figures are correct.

e) Sales and Marketing Fees:

I have adopted marketing fees of 1.5% of the private GDV and 1.5% of the private GDV for agent’s fees as reasonable in the current market. In addition I have used £500 per unit in legal costs. I have adopted a transfer costs of £10,000 for affordable units to a RSL.

Cushman & Wakefield have included 3% for a combined sales and marketing cost. In addition they have included £500 per unit for legal fees. For the transaction of affordable units to a RSL they have also placed costs at £10,000

f) Finance costs:

Cushman & Wakefield have adopted a finance rate of 6% with a nil credit rate. This finance rate is achievable and reasonable in the current market and is agreed. I have however also used a nominal credit rate of 0.5% as is standard practice.

g) Developers Profit:

I have adopted a profit level of 20% of private GDV based upon our expectations for a scheme of this nature and agreed on other similar schemes.

Cushman & Wakefield have also adopted a profit level of 20% of private GDV and on any affordable units they have utilised a 6% on GDV.

On the basis that affordable housing is included on site I would also adopt a profit level of 6% of affordable GDV on the basis of the reduced risk assuming an upfront sale to an RSL.

h) Development Programme:

Cushman & Wakefield did not initially provide a detailed cash flow. However for schemes with affordable housing their report states that the programme is based on a 9 month lead-in, construction of 40 months and a sales period of 28 months (4 units a month) starting 12 months into construction as well as affordable units to being sold over 12 months with 50% accounted for at 75% build completion and the remainder sold post practical completion.

I have adopted a very similar programme in accordance with the attached cash flow as part of appendix 1 and compares to the cash flow now provided.

i) Land Value:

Following various appeal cases, current NPPF guidance and RICS guidance it is well established that viability assessments are carried out in order to calculate the residual land value that the scheme can afford which is then compared to the benchmark value of the site.

The current NPPF/NPPG suggests that the benchmark land value (BLV) should be based on the existing use value (EUV), excluding hope value, plus a premium (EUV+) to provide a reasonable incentive for a land owner to bring the land forward for development. In addition an alternative use value may be informative in establishing the BLV but it must have an implementable permission for that use and no premium would then be included.

In evaluating the EUV of the site Cushman & Wakefield have analysed the value based on employment/industrial use, a use it is currently allocated for. Alder King have adopted a rate of £275,000 per acre. Further to this, abnormal costs quoted by Gleeds within the viability report of £3,400,000 have been deducted providing a EUV/CUV of £1,170,000

Cushman & Wakefield suggest this value sits in line with other commercial values and refer to land sales in the area around Gloucester and the South West within their market commentary. Having completed my own research and experience, I have found land sales at other business parks in the area achieving close to this value and I have therefore adopted the same CUV of £1,170,000 with the reduction for remediation as reasonable.

In assessing the premium required to release the land for development Cushman & Wakefield have utilised the Shenfield Principle, which suggest the premium payable for release of land sits at the midpoint between EUV/CUV and a upper parameter, in this case a fully open market residential scheme. In their appraisal of such a scheme Cushman & Wakefield have found the residual land value (RLV) to be £7,870,000 without planning obligations. From my own Appraisal of the same scheme I have found the RLV to be £7,862,304 and therefore the proposed upper parameter value is acceptable.

When applying the Shinfield principle this gives an enhancement value (the difference between CUV and Upper parameter value) of £6,700,000, the midway point of which is £3,350,000. Which when added to the CUV gives a benchmark land value of £4,520,000 or approx. £415,000 per developable acre.

However I'm of the opinion that the Shinfield approach is no longer a recommended methodology when referring to both NPPG and the RICS guidance note. I have therefore also considered the value of land for residential development. From my own research I have found sales of land for residential development in in the locality of the site with a range of £370,000-£900,000 an acre dependent on size and other factors however there would need to be a deduction in value to reflect the current planning position of the subject site.

I am of therefore of the opinion that the benchmark land value adopted by Cushman & Wakefield is reasonable on the basis that any landowner would require an uplift to sell for redevelopment over and above commercial value and the benchmark proposed equates to approx £226,000 per acre.

Overall I'm prepared to agree a Benchmark land value of £4,520,000 plus SDLT and fees of 1.8% which has been adopted in our appraisal.

Overall assessment:

The assessment undertaken by Cushman & Wakefield concluded the following:

1) The development of the site for commercial development taking into account the abnormals etc shows a negative land value of -£0.51m which is not viable or deliverable.

2) A residential policy compliant scheme shows a residual land value of £3,751,721 a deficit of some £768,279 against the BLV of £4,520,000 and is not viable.

3) A residential scheme with 20% affordable or 33 unit's shows a residual land value of £4,683,944 which is higher than the benchmark land value and is viable.

I have also assessed the scheme and would confirm the following as my initial assessment:

1) A residential policy compliant scheme shows a small deficit of some £121,402 when assessed against the BLV of £4,520,000 and is therefore deemed marginally viable. Appendix 1

On the basis of my initial assessment the policy compliant scheme is marginally viable. However Cushman and Wakefield have now provided further detail as to various inputs into the appraisal and following detailed discussions have provided an appraisal indicating that 39 affordable units are viable.

I have reviewed this latest proposal which is attached as appendix 2 and with 39 affordable units or approx 25% I also access that it is viable and would suggest that the Council should give it serious consideration when considering this application.

I trust this report deals with the issues as required but please do not hesitate to contact me if you have any queries or require any further assistance.

Yours sincerely

[redacted]

[redacted]
DVS South East

Appendix 1 – Initial Policy Compliant Scheme with 30% affordable.
Appendix 2 – Revised Viable scheme with 39 affordable units.