Land Allocation Viability Appraisal

The Dean
Alresford

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Vail Williams

Land Allocation Viability Appraisal

INSTRUCTIONS

Vail Williams has been instructed by Winchester City Council's planning department to provide a desktop review the viability of a number of sites allocated within their local plan. The role of the assessment is to inform policy decisions made by elected members; it does not form part of site specific planning applications or negotiations due to the broad nature of the assessment.

GUIDANCE

This is not a formal market valuation as prescribed by the RICS Valuation – Professional Standards (Red Book); but we have had regard to the RICS Guidance Note 'Financial Viability in Planning' published August 2012 which provides a framework of principles and methodology; defining viability for planning purposes as follows:-

'An objective financial viability test of the development project to meet its costs, including the costs of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering the project.'

We have had regard to the National Planning Policy Framework (NPPF) that states (paragraph 19) that 'the Government is committed to ensuring that the planning system does everything it can to support sustainable economic growth' and goes on to state that (paragraph 173) 'to ensure viability, the costs of any requirements likely to be applied to development such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking in to account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.'

METHODOLOGY

We have prepared an open book assessment by reviewing the Residual Land Value of the sites on the assumption that planning consent has been granted for a scheme that complies with Winchester City Council's current planning policies and obligations (as attached with this report). We have then compared this with a broad assessment of the Existing Use Value in order to comment on the financial viability of the proposed land allocation and likelihood of the site coming forward for development.

Residual Land Value is a valuation technique that assesses a project's land value by deducting all development costs, plus profit and finance from the anticipated gross development value (GDV) upon completion. The land value is a 'residue' that remains from the GDV having made such deductions.

Existing Use Value is an assessment of current uses on the site. We have not been instructed to liaise with landowners and inspect the sites in detail and have therefore undertaken a 'drive by' inspection and utilised Ordnance Survey mapping to make broad assumptions of existing site areas and building floor areas. It is paramount that a more comprehensive assessment of EUV is undertaken when assessing viability associated with site specific planning applications, which would also include an assessment of alternative use value where appropriate.

We have concluded with a calculation of the potential uplift that results from deducting the Existing Use Value from the Residual Land Value. The percentage uplift is stated and on general terms reflects a return to the landowner (where positive). The level of uplift to constitute a 'competitive return' varies considerably per site but would typically fall with the range of 20-50%. This produces a Benchmark Site Value and should reflect the level at which the landowner is duly incentivised to release the land for development.

DEVELOPMENT ASSUMPTIONS

We have set out below the broad assumptions inputted in to our residual appraisals based upon our experience of advising both the private and public sectors:-

- Sale values have been estimated from market knowledge and on-line websites;
- Build costs and programmes have been derived from the Building Information Cost Tables (BCIS) adopting median prices with some variances depending on scale;
- It is assumed that construction complies with Level 4 of the Code for Sustainable Homes for residential properties;
- External and landscaping costs are unknown on individual sites and a general 10% additional allowance has therefore been included;
- Finance has been assessed at 6% on an all inclusive basis including set up fees , applied to 100% of development costs including the land price over a period that includes 3 months site set up and build and sales periods varying depending on the scale of the development;
- Profit has been assessed at 20% of development costs;
- It is agreed with WCC that a sum of £5,000/ dwelling be applied as a Section 106 Education contribution accepting that this is likely to vary depending on site specific educational requirements;
- Where an on-site affordable housing obligation persists we have assumed 40% with a split of 25% shared ownership and 75% affordable rent;
- Affordable Housing Units have been included within the residual land appraisals based upon an investment value equivalent to 60% of Market Value for Affordable Rent Units and 75% of Market Value for Shared Ownership Units;
- We have applied the Community Infrastructure Levy (CIL) on the net residential accommodation at a rate of £80/ sq m given the location of the sites being assessed (excluding vacant building credits);

- Site acquisition costs comprise SDLT, agent fees of 1% and legal fees of 0.5%;
- A contingency of 5% has been included;
- Professional fees have been included at 8% for residential schemes and 11% for commercial schemes;
- Sales and marketing costs have been included at between 2.5%-3% depending on scale and the anticipated level of marketing costs (a higher rate of 5% has been allowed for retirement schemes);
- Affordable Housing Units have been included within the residual land appraisals based upon an investment value equivalent to 60% of Market Value for Affordable Rent Units and 75% of Market Value for Shared Ownership Units;
- The commercial residual appraisal assumes it is developed speculatively, let and sold as an investment, whereas in practice the delivery of employment sites is often predicated on pre-lets and owner occupier demand.
- No costs have been included in respect of contamination or environmental remediation.

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NA2 – The Dean, Alresford (2.1 ha)

Site A (Retirement Housing with affordable housing financial contribution)

0.40 ha providing 30 apartments over 3 floors (2,050 sq m net/ 2,562 sq m gross)

Retirement Housing – 10 x 1 bed flats @ 55 sq m each & 20 x 2 bed flats @ 75 sq m each

BCIS Median Sheltered Housing Cost £1,300/ sq m

GDV £5,250/ sq m + Ground Rent Investment (£14,150 pa cap. @ 5%)

Other costs

CIL nil on Sheltered Housing

Education Contribution assumed nil as it is providing retirement accommodation

AH financial contribution £1,644,000 (£54,800/unit)

Site B (Residential x 35 units with 40% affordable housing on-site)

0.90 ha based on 40 plots/ ha (given town centre location) to provide remaining 35 units (3500 sq m accommodation)

Market Housing x 21 (2,310 sq m – 66% of accommodation)

BCIS Upper Quartile Estate Housing Cost £1,249/ sq m

GDV £5,000/ sq m

Affordable Housing x 14 (1,190 sq m – 3% of accommodation)

BCIS Upper Quartile Cost Estate Housing £1,249/ sq m

EUV:SH - 4 (25%) x Shared Ownership Units (340 sq m @ 75% of £5,000/ sq m)

EUV:SH - 10 (75%) x Affordable Rent Units (850 sq m @ 60% of £5,000/ sq m)

Other costs

CIL assumed nil due to existing floor-space of 10,000 sq m

Education Contribution £175,000 (£5,000/ plot)

Site C (Commercial)

Remaining gross site of 0.5 ha gross

Office accommodation @ 40% density 4,000 sq m gross/ 3,400 sq m net @ 85% over 2 floors

BCIS Median Build Cost £1,672/ sq m

GDV £172/ sq m rent @ 7% (£2,457/ sq m cap val)

18 onth void/9 month rent free

Site D (100 space car park)

0.3 ha based upon 30 sq m/ space required including circulation

Assumed land gift to Local Authority – nil cost/ value

RESIDUAL APPRAISAL

Site A £1,940,000

Site B £5,960,000

Site C (£2,900,000)

Total £5,000,000 (£2,380,952/ ha)

EXISTING USE VALUE

Estimate from combination of external inspection and Promap analysis

Existing employment space estimate 10,000 sq m @ £40/ sq m cap. 10% = £4,000,000

Total £4,000,000 (£1,904,762/ ha)

VIABILITY COMMENTS

Uplift calculation:

RLV – EUV = £1,000,000 (25%)

A positive uplift represents an incentive for the land to be released for development.

GENERAL COMMENTS

It is assumed that part of the site identified for a 100 space public car park would be 'gifted' to the local authority at no cost to the developer but essentially forms part of the planning obligations.

An affordable housing financial contribution has been included for the retirement scheme in lieu of on-site provision at a rate of £54,800/ unit as advised by WCC.

No allowance has been included within the calculation for remediation of contaminated land and therefore if such a cost is proven necessary this would impact on the viability conclusions.

An increase in the employment provision accentuates the loss due to the demand risk against cost.

The various land ownerships is likely to lead to additional costs and time delays that could prejudice the delivery of the land for redevelopment.

NA2: The Dean: 2.1Ha