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Development Enabling & Monitoring Officer  
East Devon District Council

**By email – PRIVATE & CONFIDENTIAL**

6<sup>th</sup> October 2017

Dear Rachel

**The Knowle, Sidmouth – Response to Viability Review undertaken by Plymouth City Council**

Thank you for providing a copy of the draft viability review of our FVA as undertaken by Plymouth City Council (PCC). We have now had a chance to review their assessment and respond as follows.

In general terms there are a number of assumptions (including the Gross Development Value) which are accepted by PCC as well as the methodology itself. We have, therefore, only commented where we a difference lies.

*Development Costs*

The applicant's construction cost plan, as undertaken by PMP Consultants, has been reviewed by Mace who consider that a reduced build cost of approximately [REDACTED] is appropriate. PMP have undertaken a detailed review of Mace's report and we attach their response. This results in a reduced construction cost of [REDACTED]

*Construction Contingency*

GL Hearn (GLH) adopted a 5% contingency which has been removed by PCC on the basis that this was included in the cost plan. This is incorrect. A Design & Build allowance was included. This is the contractor's own risk allowance under a Design & Build contract, to cover post-contract design development on the basis that at the time of agreeing a contract sum, the technical design will not be fully complete. This is a perfectly standard allowance in Design & Build contracts. It is not, therefore, a contingency / risk item.

Furthermore, notwithstanding the point above, a contingency of only 2% is not sufficient to guard against the unknown additional costs that are likely to arise out of a complex project of this nature. We consider a 5% contingency to be a standard assumption for large flatted residential developments (retirement and/or non-age restricted) and have agreed this on multiple assessments of schemes of this nature.

*Professional Fees*

PCC accept a provision of 10% professional fees in relation to the main build cost but consider a reduced cost of 8% to be applied to the external works. While we do not recognise this approach or understand the basis for it we have adopted this assumption in our revised appraisal on a without prejudice basis in order to progress discussions.

*Disposal Costs*

GLH applied a combined marketing and sale fees of 5% plus 0.5% legal fees to the retirement apartments. PCC have stated that as 'developers for these types of units have previously advised us that their disposal costs are approximately 3.8% of GDV.'

It is not clear if PCC's comments are specifically referring to the costs of retirement schemes rather than non-age restricted flatted developments. As previously explained these properties take significantly longer to sell than traditional residential developments due to their target market, resulting in a higher total cost, and require greater intensity (e.g. house visits) given the nature of the target market who do not have a pressing

need to move immediately and often have to engage with their wider family before committing to purchasing a retirement unit.

It is worth noting that the adopted costs have been accepted on this basis by the following viability consultants and planning authorities:

Scheme	LPA	Consultant
Brockenhurst	National Forest Park Authority	Bruton Knowles
Hampstead (Scheme 1)	LB of Camden	BPS
Hampstead (Scheme 2)	LB of Camden	BPS
Cobham	Elmbridge Borough Council	Dixon Searle
Weybridge	Elmbridge Borough Council	Dixon Searle
Tunbridge Wells	Tunbridge Wells Council	Dixon Searle
Guildford	Guildford Borough Council	Dixon Searle
Seaford	Lewes District Council	DVS
Chigwell	Epping Forest District Council	Kift
Ampthill	Central Bedfordshire	GL Hearn*

*\*Public Sector Consultancy team*

As such we consider our original assumption to be reasonable. We have, however, reflected on the legal costs and reduced these to 0.25%.

#### *Finance*

PCC have applied a reduced debit rate of 5.5% in comparison to 6.5% adopted in our report. However, no explanation for this amendment has been stated. A 6.5% rate reflects an all in cost of interest, in and out fees, surveys, valuation and monitoring costs. In addition to main proprietary bank facilities debt is also obtained through mezzanine and equity funding at a high rate. As such we consider the rate adopted to be a reasonable assumption and in line with other developments (both retirement and non-age restricted) as well that transacted in the market.

#### *Development Viability*

Based on the above we have revised our viability appraisal which results in a Residual Land Value of approximately £1.77m. In comparison to the Benchmark Land Value of £5,820,000 we are still of the opinion that a financial contribution cannot be viably provided at this time.

Yours sincerely



**Edmund Couldrey**  
Associate Director

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## **APPENDIX I**

### **PMP CONSULTANTS COST RESPONSE**

**PEGASUS LIFE  
THE KNOWLE, SIDMOUTH**

**REPORT ON MACE VIABILITY ASSESSMENT COST REVIEW**

**OCTOBER 2017**



REPORT ON MACE VIABILITY ASSESSMENT COST REVIEW

Rev	Originator	Approved	Date
0	S Smith	P Hayman	06/10/17
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## REPORT ON MACE VIABILITY ASSESSMENT COST REVIEW

### 1.0 INTRODUCTION

- 1.1 PMP Consultants Limited has been instructed to provide a response to the MACE document **“Plymouth City Council - Viability Assessment Cost Review – East Devon District Council – 16/0872/MFUL”** dated August 2017.
- 1.2 This report includes a response to the section entitled **“Cost Plan Review – Proposed Development”** only.
- 1.3 The scope of this report is limited to the documents referred to in Section 2.0 and is limited to the contents within.

### 2.0 DOCUMENTS USED

- 2.1 The following documents have been used in the creation of this report:
  - 2.1.1 MACE – Viability Assessment Cost Review 16/0872/MFUL
  - 2.1.2 MACE – Development Appraisal – Planning Reference
  - 2.1.3 PMP Consultants Limited – Elemental Order of Cost Estimate No.9
  - 2.1.4 The drawings and documents referred to in these documents have been included unless otherwise stated.

### 3.0 ABBREVIATIONS USED

- PCC Plymouth City Council
- PL Pegasus Life
- PLK Pegasus Life Knowle
- PMP PMP Consultants Limited

### 4.0 REVIEW OF MACE DOCUMENT

#### 4.1 Benchmarking

- 4.1.1 MACE's benchmarking exercise has not explained what the comparable projects are or given the BCIS reference number to allow PMP to examine the projects. Care should be taken in comparing PLK to the BCIS projects as parity cannot be guaranteed. The rates used by PMP are as far as reasonably practicable based on those realised on previous high quality retirement projects and as such the reliability of this data is arguably somewhat higher than that of BCIS.
- 4.1.2 The projects used as comparison, MACE's "Projects 1, 2 & 3", are claimed to be of similar scope to PLK, having used projects that have gym and retail/catering facilities within the residential development. This comparison prompts two observations:
  - 4.1.2.1 It is unclear as to the nature of the comparable projects. PLK is a multi-unit project with works taking place in two discrete areas on the same site, which has a significant effect on the overall costs. This

## REPORT ON MACE VIABILITY ASSESSMENT COST REVIEW

can be attributed to increased preliminaries and potential reduced buying power for the main contractor. The project has a constrained access (there is a pinch point between the Dell and Plateau areas of the site) and the topography of the site requires significant retaining walls to be constructed. The ground investigation report has shown that there are variable ground conditions across the site, which is likely to incur additional costs when undertaking the project.

4.1.2.2 The comparable project undertaken in Devon (project 3) is significantly higher than projects 1 & 2 (Wiltshire and Hampshire) with the cost per m<sup>2</sup> being almost the same as PLK. MACE Figure 1 suggests that the cost of construction projects in Devon may be exponentially higher than the BCIS factors suggests, as following rebasing for location the Devon projects are substantially higher than comparable projects 1 & 2. Forming benchmarking recommendations from this data may be inaccurate. MACE attributed the higher costs for project 3 to the complex groundworks. However, PMP believe that site constraints, topography and the inconsistent ground quality across the site at PLK should also be considered to add complexity, and therefore increase construction costs.

4.1.3 Fit out costs were reported as being high. It should be noted that the fit-out allowance is based on market tested supply rates for the level of finish consistent with a high quality retirement development. This data has been obtained from realised costs from previous projects therefore providing market tested rates, from tender returns and/or negotiated rates from suppliers.

### 4.2 Detailed Estimate Review

4.2.1 M & E: Proposed increase of [REDACTED] – M&E works are included in both the MEP 1<sup>st</sup> fix (section 6) and apartment fit out costs (section 7) and we therefore disregard this item.

4.2.2 Item 2.5 (Soakaways): This item was based on the consulting civil engineer's advice for the potential required site drainage. The details of this item are still in abeyance and therefore we cannot validate the proposed reduction.

4.2.3 Item 3.12 and 3.14 (Pad foundations): The reported inconsistency in rates is due to a typographical error for item 3.14 of the PMP cost estimate. Item 3.14 should read "2700 x 2700 x 1800" and therefore explains the differing rates.

4.2.4 Item 3.19 (Extra over ground conditions): This item is based on advice provided by the Structural Engineer, we therefore deem it to be a relevant cost. The MACE comment on the site not being challenging is disputed due to the sloping nature of the site, the pinch point between the Dell and Plateau blocks and the inconsistent ground conditions. We would contest the [REDACTED] risk figure stated in the MACE report. Prelims are calculated as a weekly rate so are not relevant to the calculation, and OH&P and risk allowances are applied only to the value of the line item, not the whole cost of the foundations, therefore the gross risk allowance is actually [REDACTED]. We are prepared to accept a reduction to 20% gross, i.e. [REDACTED].

4.2.5 Item 4.16 to 4.19 (Stairs): We accept a reduction in the rates but not to the level proposed by MACE, as an appropriate specification is required for a high quality retirement development. We would therefore propose a reduction to [REDACTED] per flight, i.e. [REDACTED].

REPORT ON MACE VIABILITY ASSESSMENT COST REVIEW

- 4.2.6 Item 7.1 to 7.3 (Fit out): See item 4.1.3 above.
- 4.2.7 Item 10.1.13 & 14 (Enabling works): See item 4.2.16 below.
- 4.2.8 Item 10.6.2 (Allowance for alternative distribution route): This allowance is for the internal distribution from the point at which the external distribution duct (cost plan item 10.6.1) enters the building, and internal secondary plant room locations. Whilst we do not agree with MACE comment that this is a risk allowance, we are prepared to accept that this item is contained within M&E allowances elsewhere. Agree proposed reduction of [REDACTED].
- 4.2.9 Item 10.9.6 (Camlins offsite works): This item is no longer included in the proposed scope of works and may be omitted.
- 4.2.10 Item 3.7 and 3.17 (Extra over for ground conditions): This item requires clarification as the text suggests that an additional contingency be added, but then proposes a saving.
- 4.2.11 Item 3.21 (Foundations to staircases): Whilst we believe it is good practice to separate this item, we accept the comment. Agree proposed reduction of [REDACTED].
- 4.2.12 Item 4.14 and 4.15 (Lift shaft & overrun allowance): The works required to construct the overrun are deemed to be similar to that of the lift shaft (albeit a reduced height shaft) with the added activity of construction of a concrete "lid". In order to close this item we propose a compromise position of [REDACTED] per overrun. Proposed reduction [REDACTED].
- 4.2.13 Item 5.2 and 5.12 (External walls): This item queried the differing rates between external walls to the Dell and the Plateau. The quantities differ substantially (1,205m<sup>2</sup> and 3,475m<sup>2</sup>) and have differing rates ([REDACTED] and [REDACTED] respectively). This can be explained by the following:
- 4.2.13.1 The project will most likely be let as separate work packages for the two discrete areas of the site based in the sequence of works. The higher rate is for significantly smaller work package (1,205m<sup>2</sup>) and the rates will alter to reflect this smaller quantity.
- 4.2.13.2 We have recently procured a similar product at a rate of [REDACTED]. We therefore believe that careful product selection will be required to achieve the rates within the cost estimate, and on this basis no reduction is proposed.
- 4.2.14 Item 6.30 to 6.33 (Lifts): This item is based on the requirement for a 13 person lift to accommodate mobility aids of the end users, etc and is fundamental to the specification of a high quality retirement development. The Kone framework agreement provides the required specification and features. We therefore reject MACE's comments for the lifts to be value engineered to a lesser specification.
- 4.2.15 Items 10.1.6, 10.1.10 and 10.1.11 (Enabling works): These items don't all refer to works relating to bats:
- 4.2.15.1 Item 10.1.6 – This item is for works to the site generally as well as an allowance for the works required to provide a suitable environment for bats in Buildings B and E. Proposed reduction is rejected.
- 4.2.15.2 Item 10.1.10 – This item relates to the refurbishment of the existing building for use as staff and guest accommodation. The scope of



## REPORT ON MACE VIABILITY ASSESSMENT COST REVIEW

works is as yet undefined and so a lump sum allowance is included.  
Proposed reduction is rejected

- 4.2.15.3 Item 10.1.11 – It is accepted that this item could be interpreted as a duplication of the works in the items above, and the omission of this cost is therefore accepted.
- 4.2.16 Items 10.1.12 to 10.1.16 (Enabling works): This item was queried as including duplication and had been included within the quotation from Allen Block. It is also important to note that these items are high level cost items whilst the details and finalised specification are in abeyance. See also **Appendix B**.
  - 4.2.16.1 Item 10.1.12 – the retaining wall to perimeter boundary at Knowle Drive. As Allen Block quote (i.e. for a specialist retaining system required to suit special constraints, in lieu of traditional RC retaining wall construction).
  - 4.2.16.2 Item 10.1.13 – This is an additional cost for the additional works to the retaining structure not included within the Allen Block quotation.
  - 4.2.16.3 Item 10.1.14 – This is a separate item for the works to the pedestrian ramp from the lower level car park within the development, to the higher level Knowle Drive footpath.
  - 4.2.16.4 Item 10.1.15 – This item is not included within the Allen Block quotation as suggested by MACE, but is a built up rate based on a typical RC retaining wall construction in a totally separate location to the Allen Block wall between Buildings D & E.
  - 4.2.16.5 Item 10.1.16 – See item 4.2.17 below.
- 4.2.17 Item 10.1.16 (Stone facing): This item is included to improve the overall appearance of the site, particularly as this is an area in view of the general public using the park. This item is deemed to be of strategic importance for stakeholder management and local planning. As such we feel it cannot be removed/value engineered at this stage.
- 4.2.18 Item 10.6.4, 10.6.5 and 10.7 (Sprinkler systems): The requirement for sprinklers to apartments is identified in the fire strategy based on proposed layouts. These layouts are fundamental to the marketability of a high quality retirement development and we therefore reject MACE's proposal to value engineer this item to a reduced specification.
- 4.2.19 Item 10.8.2 (Pre-Opening Procurement FF&E; Post-Opening Operational FF&E): It is accepted that these items are PL specific costs and can be omitted for appraisal comparison purposes.
- 4.2.20 Item 10.9.1 (Relocation of the Gingko tree): This item was based on a quotation with a risk allowance added to the quoted fee. This quotation is now over 12 months old and is most likely set to increase in line with inflation. The large risk allowance has also been included due to the significance of the tree with local residents and is therefore considered appropriate.
  - 4.2.20.1 Automated Watering System – this item was specified by the consulting horticulturalist for the maintenance of the Ginkgo tree. It is therefore deemed a necessary item and should not be omitted from the cost plan.

## REPORT ON MACE VIABILITY ASSESSMENT COST REVIEW

- 4.2.21 Item 11.2 (Main Contractors Preliminaries): A monthly cost has been applied for preliminaries as we believe that it more accurately reflects the costs associated with managing construction activities than a percentage uplift on the cost of construction works. It is likely that this project will be split into two work areas based on the site layout and constraints, and so a figure of [REDACTED] is considered reasonable for the value, duration, buildability challenges and quality requirements of a high quality retirement project. The typical OH&P mark-up on projects of this type is [REDACTED], but we have assumed a slightly lower rate here [REDACTED] to reflect the larger project value. We would therefore propose no change to the current allowances.

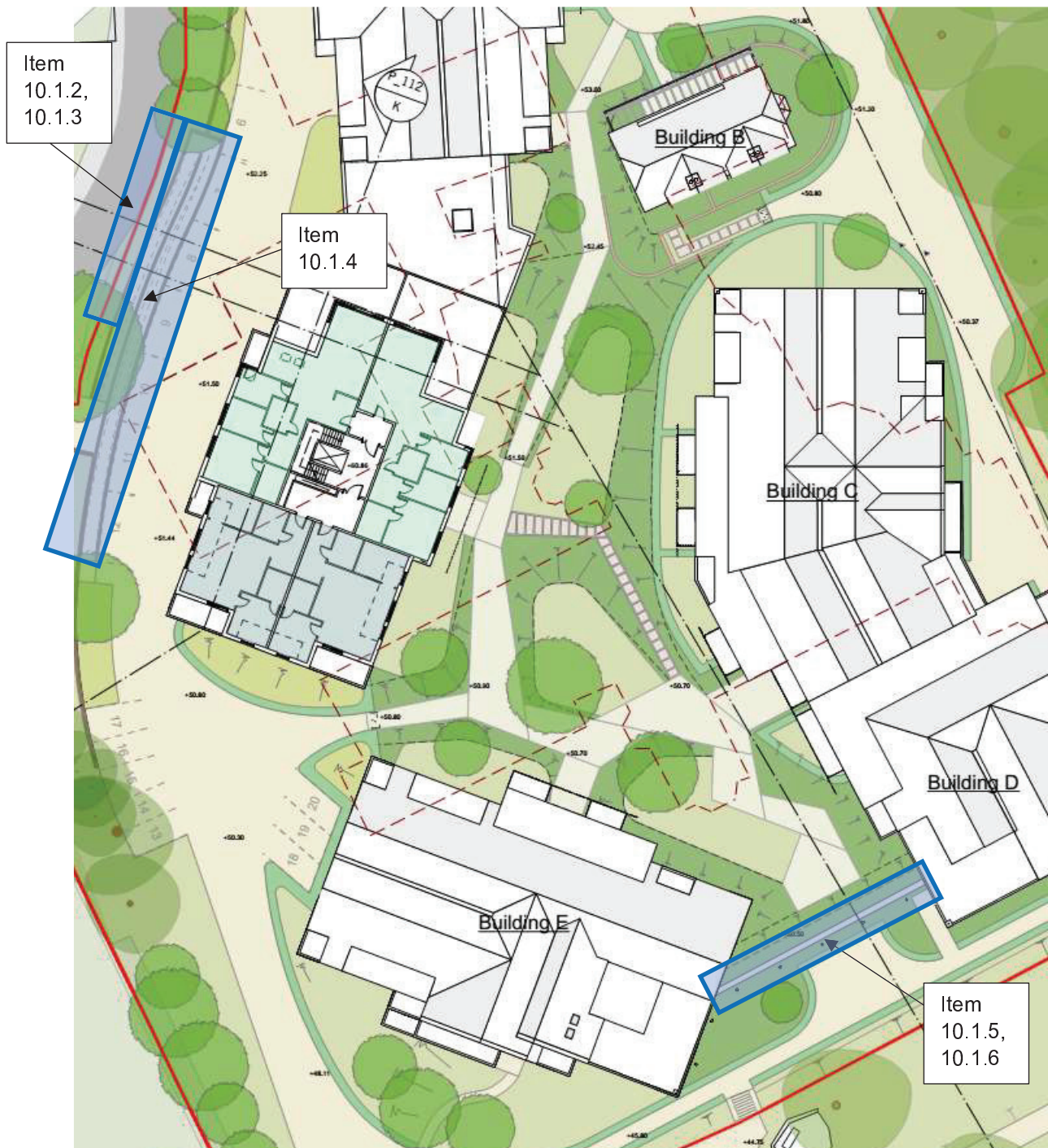
The following levels of Prelims and OH&P have been observed on residential apartment projects of a similar complexity to PLK, procured by PMP in 2017:

Project	Contract Sum	Prelims %	OH&P %
Bristol	£27.817m	18.9%	5.5%
Birmingham	£18.387m	19.6%	6.4%
Falmouth	£8.165m	21.2%	5.5%

## 5.0 CONCLUSIONS & RECOMMENDATIONS

- 5.1 Based on the above it is not clear whether the proposals by MACE are consistent with the design and finish levels that are associated with PL projects. Should the cost advice proposals of MACE be followed it would leave a cash short fall when the final build cost is calculated by tender/negotiation.
- 5.2 It is accepted that some of the items identified by MACE require adjustment to the PMP Cost Estimate Nr 9. These adjustments are summarised in **Appendix A**.

## RETAINING WALLS



**APPENDIX II**

**REVISED VIABILITY APPRAISAL**

The Knowle, Sidmouth, EX10 8HL  
Revised Viability Appraisal

Development Appraisal  
Prepared by GL Hearn  
GL Hearn  
06 October 2017

**APPRAISAL SUMMARY****GL HEARN**

The Knowle, Sidmouth, EX10 8HL  
Revised Viability Appraisal

**Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

Sales Valuation	Units	ft <sup>2</sup>	Rate ft <sup>2</sup>	Unit Price
Retirement Flats	113	101,146	491.29	439,757

**Rental Area Summary**

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rents	113	450	50,850	50,850

**Investment Valuation****Ground Rents**

Current Rent	50,850	YP @	5.5000%	18.1818
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**GROSS DEVELOPMENT VALUE****50,617,045**

Purchaser's Costs

Effective Purchaser's Costs Rate	0.10%	(50,374)	(50,374)
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**NET DEVELOPMENT VALUE****50,566,672****NET REALISATION****50,566,672****OUTLAY****ACQUISITION COSTS**

Residualised Price		1,772,825	1,772,825
Stamp Duty		78,141	
Agent Fee	1.00%	17,728	
Legal Fee	0.50%	8,864	
			104,734

**CONSTRUCTION COSTS**

Construction	ft <sup>2</sup>	Rate ft <sup>2</sup>	Cost
Retirement Flats	137,950 ft <sup>2</sup>		
Contingency		5.00%	
Externals/Abnormals			
Local CIL			636,750
s106 Contributions			85,000

**PROFESSIONAL FEES**

Professional Fees (Main)	10.00%		
Professional Fees (Ex/Ab)	8.00%		

**DISPOSAL FEES**

Effective Purchaser's Costs Rate	0.10%	8,742	
Agents + Marketing Fee (Flats)	5.00%	2,484,625	
Sales Legal Fee	0.25%	126,417	
			2,619,783

**FINANCE**

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)			
Land		316,651	

**APPRAISAL SUMMARY****GL HEARN****The Knowle, Sidmouth, EX10 8HL****Revised Viability Appraisal**

Construction	1,809,815	
Other	908,127	
Total Finance Cost		3,034,593

**TOTAL COSTS****40,443,263****PROFIT****10,123,409****Performance Measures**

Profit on Cost%	
Profit on GDV%	20.00%
Profit on NDV%	20.02%
Development Yield% (on Rent)	0.13%
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%

IRR 20.15%

Rent Cover 199 yrs 1 mth

Profit Erosion (finance rate 6.500%) 3 yrs 6 mths

## APPRAISAL SUMMARY

GL HEARN

The Knowle, Sidmouth, EX10 8HL  
Revised Viability Appraisal

### Gross Sales

49,692,500

924,545



The Knowle, Sidmouth, EX10 8HL  
Revised Viability Appraisal