ST AUBYN'S SCHOOL, ROTTINGDEAN
SUMMARY OF FINAL POSITION ON FINANCIAL VIABILITY

1. Introduction

This summary is provided in accordance with paragraphs 10-020 and 10-021 of the NPPG. It sets out the final position reached in respect of the viability appraisal of the proposed scheme for the St Aubyn's School site.

Whilst a number of different appraisal options have been considered by the applicant and the DVS on behalf of the Council, it is the proposed scheme with 93 residential units that is assessed here as that is the scheme upon which the Council is to decide.

The DVS carried out a final review and issued their non-technical executive summary dated 25 July 2018 and this summary should be read in conjunction with that document.

The proposed scheme as appraised is for 93 residential units including the provision of 29 affordable housing units (30%) and S.106 contributions totalling £1,443,158. However as noted below through negotiation with the Council the S.106 contributions have been reduced to £993,764 and the applicant has increased the affordable housing to 37 units (40%) and thus is policy-compliant.

2. Gross Development Value

2.1 The DVS has agreed that the selling prices used in our original were 'at the upper end of achievable values in the area'. It was agreed to run the updated appraisals with sales values in line with those proposed by Carter Jonas in their assessment of the Alternative Use Value, which was more in line with local evidence. In their final report the DVS has said these values are too low, but as they have been independently assessed we cannot agree with their conclusion.

2.2 Ground rents

Government is moving to ban ground rent charges on new build property and is currently consulting on this policy change. We have no guidance as to the timeline for that policy to take effect, therefore the value has been retained in the appraisal but this increases the risk to the developer that this capital value will be achieved, and thus could have a negative effect on viability. The amount included for the ground rent value is £196,364.

2.3 Affordable housing revenues

We amended the rents on the affordable rented units to deduct estimated service charge from the local housing allowance rates, as the latter is inclusive of this cost. This was not done by the DVS.

2.4 The GDV adopted in our appraisals is £34.1M assuming 30% affordable housing.

3. Development Timetable

We have agreed with the DVS an overall timescale of 48 months for the project.

4. Construction Costs

4.1 The base build costs have been left at the level used in our previous appraisals, which the DV noted as being below the BCIS levels at the date of their draft report. Thus, we are matching build costs and sales values as the latter have been reduced.

4.2 The total build cost adopted in our appraisals is £21.68M inclusive of infrastructure and abnormal costs. These costs have been accepted by the DVS.

5. Financial Planning Contributions

We understand the final position adopted by the Council is a requirement for £993,764 in capital contributions towards local infrastructure, this is less than the allowance of £1,443,158 adopted in our appraisal.

6. Disposal fees

The DVS has used a rate of 2.5% for the sales and marketing allowance. Having reduced the profit margin to 17.5% as noted below, and having reduced the sales values, we lowered the fee rate from 4% to 3% which is more normal and accords with the local plan testing assumption.

We have agreed with the DV the allowance for legal fees at £750 per unit which matches the local plan assumption.

7. Finance

We have agreed an all-in rate of 7% in respect of finance costs with the DV.

8. Developer's Profit

We have agreed a reduced profit on the open market element of the scheme with the DV of 17.5% of GDV. The affordable housing profit margin is also agreed at 6%. These allowances match the Local Plan testing assumptions.

It must continue to be borne in mind that the scheme involves the build cost risks associated with refurbishment and conversion of listed buildings in a conservation area, so a reduced profit margin is adding to the applicant's commercial risk.

9. Benchmark Site Value

9.1 We have supplied the Council with evidence of comparable D2 use establishments which have sold in the last 3 years and our conclusion is that the Benchmark land value should be set at £4M which is inclusive of landowner premium as allowed by para 10-016 of the NPPG.

9.2 The DVS has considered the evidence alongside their own research and concluded that the Benchmark Land Value inclusive of a land owner premium of 20% should equate to £3.63M.

10. Appraisal Results

10.1 In our opinion the proposed development with 30% affordable housing, £1,443,158 in S.106 contributions and retention and refurbishment of the heritage assets as well as a new pavilion on the retained open space achieves a residual land value of £2.663M and therefore this is unviable but can be said to be policy compliant in all respects save the reduction of 10% affordable housing.

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10.2 The applicant has subsequently offered 40% affordable housing assuming the reduction in S.106 contributions to £993,764, however we can confirm that this is non-viable against the benchmark land value set by the DV of £3.63M.

11. Local Plan viability Testing Assumptions

Para 10-020 of the NPPG requires that the assumptions used in a viability assessment should be compared to the Local Plan testing assumptions and any variance explained.

Development costs	**Local Plan**	**Applicant**	**Comment**
Residential building, marketing and S.106 costs			
Build costs flats (generally (£/m^2)	£1,195	£1,131	Current BCIS rate
Survey costs (£/unit)	£500	0	Inc in fees
Contingencies (% of build cost)	5%	5.73%	Reflects refurb element
Professional & other fees (% of build cost)	12.5%	12.0%	Budgeted cost
Sustainable design / construction standards (% of build cost) – Code Level ¾	5%	0	Inc in abnormal costs
Lifetime Homes / Other (£/unit)	£545	0	Inc in abnormal costs
Planning obligations / non CIL costs (£ per unit)	100/m^2	£166.53	Reduced to £114.66/m^2 by negotiation
Marketing & Sales costs (% of GDV)	3%	3%	
Legal fees on sale (£/unit)	£750	£750	
Developer's return for risk and profit			
Open market housing profit (% of GDV)	17.5%	17.5%	
Affordable housing profit (% of GDV)	6%	6%	
Finance & Acquisition costs			
Arrangement fee (% of loan)	1%	Inc	
Miscellaneous (surveyors etc) – per unit	0%	Inc	
Agents fees (% of site value)	1%	1%	
Legal fees (% of site value)	0.75%	0.75%	
Stamp Duty (% of site value)	0-5%	5%	HMRC defined level
Finance rate – build (%)	6%	7%	Includes arrangement and monitoring costs
Finance rate – land (%)	6%	7%	Includes arrangement and monitoring costs

12.0 Conclusion

12.1 This site is unusual in that it is a D2 use containing listed heritage assets in a conservation area which are in need to retention and refurbishment.

12.2 The ability to develop the areas of green space on the site is agreed in planning policy terms but the level of development in this area is a matter of planning judgement when weighing the loss of greenspace, the gain of public access to that greenspace, the retention of heritage assets, the payment of S.106 contributions to mitigate the effect of the development and to deliver the maximum reasonable level of affordable housing.

12.3 The DVS has set out in their report that the BLV is £3.63M. Whilst we do not accept this value, it is relatively close to our own view of the BLV (£4M) based on the EUV + premium methodology as required by the NPPG.

12.4 The proposed scheme with 40% affordable housing seeks to balance the competing financial demands of the policy requirements as noted at para 12.2 above and delivers a residual land value which is technically un-viable. However, the scheme is deliverable with a further reduction in profit margin to a blended rate (ie: Open Market and Affordable housing combined rate) of 10% which is a commercial decision for the applicant. Therefore, on balance the proposed scheme achieves policy objectives without developing more of the greenspace than is ultimately necessary from a financial perspective.

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September 2018