ADAMS INTEGRA

Assessment of Viability Report

Botley Centre
Oxford

April 2016

Contents

Introduction	3
Viability Guidance	4
Appraisal inputs	5
Conclusions	10

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Introduction

Adams Integra has been instructed by The Vale of White Horse District Council to review evidence submitted in support of application no. P16/V0246/FUL which proposes:

"Demolition and redevelopment of existing shopping centre and adjacent buildings (but excluding Elms Parade) for new retail development (Use Classes A1-A5, circa 4,756 sq M Net Internal Area) at ground floor level with development above comprising:

- *149 residential units (C3) – circa 9,832 sq M Net Internal Area*
- *122 bedroom hotel (C1) – circa 3,439 sq M Net Internal Area*
- *262 units of academic residential accommodation for university staff and students (sui generis) – circa 2.673 sq M Net Internal Area*

plus a new community building (incorporating library) and replacement Baptist church (D1), small flexible office space (B1), associated car parking and landscaping and altered vehicular accesses from West Way, Westminster Way and Arthray Road."

and to provide the following:

- A review of the submitted viability information.
- Advice as to whether the applicant's viability assessment is reasonable and if not, what are the shortcomings and what additional information should be provided.
- Provide conclusions and recommendations regarding the viability of the scheme to the Council

We have been provided with Savills 'Viability Submission- March 2016', on behalf of the applicant, the MACE Group, which maintains that that the proposed scheme is not viable in its present format without a material reduction in the level of planning contributions and affordable housing.

The Savills report concludes that the applicants would only be willing to provide 10% of the residential units as starter homes (as promoted by the emerging Housing Bill).

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 Professional Guidance Note-Financial Viability in Planning[1] and the latest National Planning Practice Guidance.

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[1] RICS- GN94/2012-1st Edition

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."

Paragraph 205 states:

"local planning authorities should take account of changes in market conditions over time and, wherever appropriate, be sufficiently flexible to prevent planned development being stalled."

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 guidance note is a practitioner's guide to viability assessments, offering best practice in the way that they should be carried out.

Between NPPF and RICS, the guidance presents the case for requiring flexibility in the face of changing market conditions, whilst affirming that development will entail an element of risk for the developer. A viability assessment needs to take both of these positions into account.

The main issues to address in this report are firstly whether the methodology is appropriate and that the inputs used in the Applicant's appraisal are reasonable and secondly whether the land value assumed for the site is reasonable.

The latest National Planning Practice Guidance states that viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today's circumstances.

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

The first section of this report deals with assessing the residential inputs, the second section deal with all of the non-residential elements of the scheme.

Residential Element - Appraisal Inputs

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

Sales Values

The Savills report shows an average sales value for the open market units of ██████ per ft^2.

We have read the market research that has been carried out in the Savills report that was submitted with the viability report at Appendix 6.

We have carried out our own research. It is our opinion that the proposed sales values are a fair and reasonable assumption.

We have also included ground rents at ████ per annum capitalised at ██% as per the Savills report and the excess car parking spaces at ██████ per space.

Affordable Housing Values

Savills have also made the assumption that if 40% of the units were for affordable housing then the value of these units would be 65% of open market value. It is our opinion that this is a fair and reasonable assumption.

Build Costs

The Savills appraisal shows a build cost for the residential units of ████████ for block A and ███████ for Block E giving an average build cost of █████ per m^2. These cost include 5% contingency and 3% design costs.

We have read the Cost Plan, provided by RLF. BCIS figures for this type of development shows a mean build cost of £1,710 per m2 for 6-storey flatted development and £1,740 per m2 for "housing with shops offices and the like". We would normally add an allowance to these costs for contingencies and design fees.

It is our opinion that the costs in the Savills report are a fair and reasonable assumption of the build costs for the residential element.

Section 106 costs / CIL

We have not included any S106 or CIL payments in our appraisal.

Professional Fees

The Savills appraisal includes planning fees at ███████. It is our opinion that this is a fair and reasonable assumption. It equates to approximately 12% of the build costs.

Marketing costs

The Savills report shows a figure of 2% which in our opinion is a fair and reasonable assumption.

Interest

We have noted the debit and credit rates used by Savills and accept that their colleague's advice would be appropriate to a scheme of this nature. Therefore, we have adopted the figures used in the Savills appraisal which in our opinion are fair and reasonable.

Profit

The states that a developer would require a profit level of 20% on GDV for a complex scheme such as this.

In considering the appropriate return for risk and profit we have considered the HCA EAT, RICS GN and market practice. It is usual practice in a development appraisal to assume a required return in terms of a capital sum, and to include it in the cash flow on the assumption that the development will be sold on completion and a capital profit received. The return for a scheme of this nature would be calculated as a percentage of the Gross Development Value (GDV).

Our experience over the last 5 to 10 years is that a typical allowance would currently be between 15% and 20% on GDV. This is a large and complex scheme and as such carries a higher level of risk. We agree that a profit level of 20% is a fair and reasonable assumption to use for a development such as this.

However, the "profit" level of any affordable units should be assessed at 6% due to the much reduced risk involved in this tenure type.

This needs to be taken into account when looking at the "blended" profit rate that results from the Argus appraisal.

Existing Use Value

With regard to the "benchmark land value" there are two general publications which assist surveyors on viability appraisals, being:

"Financial viability in planning" August 2012 by the Royal Institution of Chartered Surveyors (RICS), and "Viability Testing Local Plans" June 2012 by the Local Housing Delivery Group (LHDG).

More recently the Government as also introduced the "Section 106 affordable housing requirements – Review and appeal" procedure, which originates from the Growth and Infrastructure Act 2013. This provides some further guidance on undertaking viability assessments, and seems to concur with RICS and LHDG guidance papers.

In terms of key points to consider, the RICS guidance states:

- Pg 5 Paragraph 2, "In undertaking scheme-specific viability assessments, the nature of the applicant should normally be disregarded, as should benefits or disbenefits that are unique to the applicant. The aim should be to reflect industry benchmarks in both development management and plan making viability testing".

- Paragraph 2.3.2, Box 7, "Site value should equate to the market value subject to the following assumption: that the value has regard to the development plan policies and all other material planning considerations and disregards that which is contrary to the development plan."

- Paragraph 2.1.2 "It follows, for example, that the land value is flexible and not a fixed figure to the extent that Site Value has to be determined as part of the viability assessment."

- The flexibility in land value cannot result in the value going below the Current Use Value (CUV).

To arrive at the level of value a typical owner will sell for, the RICS does not favour taking the CUV and adding something on in a formulaic way to incentivise the owner to release the site – see paragraph 3.4.1. However, 3.4.4. says "The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based on set percentages." It is recognised therefore that the CUV forms some sort of benchmark but how (or whether) it needs to be adjusted is not really very well explained in the RICS document in our view.

The LHDG guidance states:

- At Step 2 in the document, "Existing models and methodologies", the guidance says "We recommend that the residual land value approach is taken…"

- At "Treatment of Threshold Land Value", the comment is "This Threshold Land Value should represent the value at which a typical willing landowner is likely to release land for development." "We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use value (noting the exceptions below)"

For viability assessments, the site value is therefore usually assessed by means of a residual development appraisal, i.e. the land value is generally determined last, and is not a fixed input at a level unrelated to the cost of abnormals and the planning gain (S106 obligations, CIL, planning conditions).

The valuation process therefore involves the surveyor judging where the value of the site would be if the respective costs of applying all the Council's planning policies and undertaking abnormal works (if applicable) were fully reflected. This is then viewed alongside the price at which a reasonable, hypothetical, commercially-minded landowner would dispose of the land having regard to the site's Current Use Value ("CUV") or any Alternative Use Value ("AUV"), should one be available. This is often referred to as the "benchmark land value" or "threshold land value".

The Savills report says the following:

"The land is held predominantly by three key landowners – Vale of White Horse District Council who own the West Way Shopping Centre and West Way House, Willow Partners who own Elms Court and Siemens who own the Grant Thornton Building. The remaining freeholder is the Botley Baptist Church, whilst Development Securities own a long leasehold interest in West Way House. A number of occupying tenants hold tenancies which are inside the Landlord and Tenant Act 1954 in terms of security of tenure."……………."In this instance, the purchase price of land controlled by the three key landowners has been fixed following a marketing exercise, with the presence of a number of strong under bidders confirming that the price payable is reflective of the prevailing market conditions which would have driven the landowners' expectation of price."……………."the appraisal allows for the fixed price purchase of land from the three key landowners, being [redacted], with appropriate stamp duty, agent and legal fees applied."

Non-Residential Element - Appraisal Inputs

In addition to the residential element of the scheme there are 6 non-residential uses that form part of the proposed development. These are:

1. Retail- Block A-14,094 sqft; Block C-6,661 sqft; Block D-9,767 sqft; Block E- 7,637 sqft
2. Food store- Block B- 13,036 sqft
3. Hotel- 38,625 sqft
4. Purpose built student accommodation- Block B-27,957 sqft; Block C-22,046 sqft; Block D- 22,641 sqft
5. Library- Block F- 3,000 sqft
6. Offices/Business Space- Block F- 3,000 sqft

Savills methodology for the non-residential uses is similar to the residential assessment and uses a residual appraisal to deduce the profits generated by the proposed uses after valuing the completed scheme and deducting all of the usual development costs, including the fixed value for the land.

The level of profit for the policy compliant scheme is then assessed as to whether it is reasonable or not.

We have reviewed the various inputs and comment as follows:

Retail

No evidence is provided to justify the rates used although they are qualified in that the applicants retained retail agent, Latham High had carried out extensive

consultations. From their website Latham High appear to be a small London based practice and the partners appear to have extensive retail property experience appropriate for this task.

Two levels of rent have been used being ███ per ft^2 for Block A and ███ per ft^2 for Blocks C, D & E. The ███ rate is justified as being higher as it is expected a 'restaurant or similar user' will be found who would be able to support a higher rent.

The ███ rate is described as a 'blended' rate which is a normal approach rather than assessing in the usual 20' zones used for valuing retail property. This 'blended' approach being simpler to input in to the appraisal software.

The Estimated Rental Values [ERV] have been capitalised using an All Risks Yield of ███%. Again no evidence is provided other than the advice from the agents. However, this rate appears reasonable taking into account the location and overall scheme being developed.

The rates proposed are stated to be higher than those being currently paid by tenants in the existing scheme. This is justified by the expectation of the new scheme attracting a new set of tenants willing to pay higher rates for representation in the modern development where there is a greater critical mass and business to be drawn from the residential, hotel and student accommodation.

From our experience of retail rents, investment yields and capital values used do not appear unreasonable.

Food Store

The proposed food store is 13,036 ft^2 which is larger than a convenience store and smaller than a traditional supermarket. Food retailers have been challenged with higher costs, more competitive pricing and consequently pressure on their margins. Coupled with changes in shopping habits has caused retailers to reassess their store sizes. So this is not an unreasonable assumption for a food store in this situation.

Again the rental rate of ███ per ft^2 and yield of ███% have not been robustly evidenced but they appear reasonable and in line with other available market evidence reports. Indeed, they appear to be on the generous side and are described as being 'significantly in excess of the existing rates currently being secured'.

Hotel

A 38,625 ft^2 hotel is proposed which would be pre-let to a nationally branded company with a strong covenant. The rent would be based on ████ per room per annum. The application description is that the hotel would have 122 bedrooms. This makes the ERV to be █████ per annum which is capitalised at an All Risks Yield of ███%

Again this is not evidenced other than it is justified by the research from Latham High. From Adams Integra’s experience these are rates that could be attributed to the likes of a Premier Inn or Travelodge type operator that are frequently seen as part of similar developments in a strong, affluent location.

The room rental rates and yield used are not unreasonable.

Student Accommodation

The inputs for the student accommodation have been provided by Savills local ‘specialist Student Accommodation team who are very active in the Oxford market’. Three examples are given and the rates stated are consistent with those advertised on the websites of the respective halls.

The application description is for 262 rooms with a net internal area of 2,673 ft^2 being 10.2 ft^2 or 110 ft^2 per room. The text of the report states that the majority of the rooms have been assessed as being ‘standard 30 ft^2 en-suites’ being 323 ft^2. It is recognised that there will be a range of room sizes and rents applicable.

Using the general rate of ███ per month produces an annual rate of ███ per ft^2 based on the larger room size. The appraisal has used three rates of ███, ███ and ███ per ft^2.

The total annual ERV of ███ used equates to an average of ███ per room after allowing for a reasonable 5% void and £1900 management costs. Capitalised using an All Risks Yield of ███% produces an average of ███ per room. No detailed evidence is provided but this value appears to be at the upper end of the range of investment sales values stated of ███ to ███.

Consequently, we do not think that the vales used and assumptions made for the student accommodation element of the scheme are unreasonable.

Library

A 3,000 s ft^2 library is proposed and the report indicates that this would be pre-let to the County Council. A rent of ███ per sqft is used reflecting ‘the current agreement’. This has been capitalised at 6.0% to produce a capital value of ███. This is a relatively minor part of the overall development and small changes in these inputs would have a negligible effect of the overall outcome.

Nevertheless, the inputs appear reasonable.

Business Space

Similarly, the Business Space is a relatively minor part of the scheme. The rental rate and yield used are consistent with the local market rates based on our high level research. A £1.00-£2.00 per ft^2 change in the rental rate of 0.25% change in the investment yield would have a relatively modest effect of the overall outcome.

Therefore, we find these inputs for the Business Space to be reasonable.

Construction costs
The overall construction costs have been commented on above. These having been compared to the industry standard BCIS rates rebased to Oxford.

The BCIS rates are not inconsistent with those provided in the Savills report by the applicants cost consultants.

Other costs
We have no adverse comments to make on the other costs of the development. There is no detail as to the compensation allowed for, to relocate the existing tenants, but the assumed figures do not appear unreasonable.

Stamp Duty Land Tax on the acquisition land cost has changed since the budget which would increase this element by 1%, but overall this would not have a significant effect. The finance costs and cash flow for the whole scheme have been commented on and are considered reasonable.

Conclusions

We have reviewed the Argus appraisal provided by Savills which shows the policy compliant scheme with 40% affordable housing.

We agree with the appraisal outcome that shows that when the land value is inputted at [redacted], a blended profit of [redacted] is produced. At [redacted]% of the total development costs, we accept that this is below the normal target rates a developer would consider acceptable.

It is our opinion, that this demonstrates that the scheme is not financially viable and is unlikely to be brought forward by a competent developer.

We have also reviewed Savills further Argus appraisal with 10% of the units being offered as Starter Homes with no affordable residential units. The Starter Homes chosen are, as in the Savills report, limited to 1-bed units. These units would be sold at 80% of open market value.

This appraisal shows a blended profit of [redacted] or [redacted]% of the total development costs or [redacted]% of the GDV.

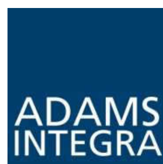
This demonstrates that in this scenario the scheme is more financially viable than the policy compliant version. It does not quite achieve the normal developers profit targets usually expected, being 20% of the GDV.

Overall we have found that the assumptions and inputs used in appraising the financial viability of the proposed development to be fair and reasonable.

We are not in a position to make recommendations on planning policy. However, on financial viability grounds we recommend that the applicants justification for replacing the affordable housing requirement with Starter Homes has been appropriately and robustly justified.

This scheme has been looked at in terms of its particular financial characteristics and it represents no precedent for any sustainable approach on the Council's policy base.

End of Report
Adams Integra
April 2016



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