Bailey Venning Associates

Confidential and for feasibility purposes only

Scoping opinion on viability

Former Register Office, 49 Lockyer Street, Plymouth, PL1 2QD

by

Bailey Venning Associates Limited on behalf of

Hoe Neighbourhood Forum

March 2022

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1.0 Introduction

1.1 Bailey Venning Associates Limited (BVA) is instructed by Hoe Neighbourhood Forum through Locality, to undertake a scoping viability assessment and to prepare this report to review the development potential of the Former Register Office, 49 Lockyer Street, Plymouth, PL1 2QD.

1.2 *The contents of this report are for feasibility assessment purposes only and are conducted on current values and costs specific to the planning application as at the date of report and do not constitute a valuation, in accordance with Valuation Standards of the RICS Valuation – Professional Standards – Global Standards 2020, and should not be relied upon as such.*

1.3 *In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.*

1.4 *This report is addressed to our client only and its contents should not be reproduced in part or in full without our prior consent. No duty of care can be extended to any other party other than our client.*

1.5 *In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate, available, sources of information. We are not aware of any conflicts of interest in relation to this assessment.*

1.6 This report has been prepared in accordance with the Royal Institution of Chartered Surveyors (RICS) "Professional Statement on Financial Viability in Planning: conduct and reporting" (1st Edition, May 2019). The report has been prepared by Richard Bailey and in line with the requirements of this guidance I can confirm the following is true.

- The author of this report has acted with objectivity, impartially, without interference and references all appropriate sources of information.
- Terms of Engagement were set out clearly and included in all reports and comply with the RICS statement 'Conflicts of Interest'.
- No performance-related or contingent fees have been agreed.
- Information used is market led and not client driven.
- Inputs to the Financial Viability Appraisal (FVA) are reasonably justified and based upon industry benchmarks and the Local Plan Evidence Base.

The Impact of the novel Coronavirus (COVID 19)

1.7 The impact of the Coronavirus pandemic continues to be felt. The initial impacts starting in March 2020 limited the number of transactions taking place in the housing market. Whilst restrictions were subsequently lifted, measures remained in place to safeguard the public for a considerable period of time.

1.8 At the time of writing, England has taken steps to lift all restrictions. Temporary interventions in the housing market have been in place including relief on Stamp Duty up to £500,000 however this has been phased out ending 30 September 2021. These interventions may have an influence over value which is difficult to determine at this stage.

Information

1.9 This report has been completed taking additional information from:

- Feasibility Study and Appendices, by lhc design and Form Design Group, March 2021
- Pre-Application Design Statement, by lhc design and Form Design Group, May 2021
- Heritage Statement, RIBA Stage 2, by lhc design, May 2021
- The Hoe Housing Needs Assessment, by AECOM, October 2020
- Plymouth Hoe Design Guide, AECOM and Locality, September 2018
- Evidence Base and Policy Development, The Hoe Neighbourhood Forum, Plymouth, by AECOM, May 2021
- Plymouth Register Office Site, The Hoe Site Planning Statement, Plymouth City Council, undated
- The Plymouth and South West Devon Joint Local Plan adopted by Plymouth City Council on 26 March 2019
- Plymouth and South West Devon Joint Local Plan Viability Study, Final Report, Peter Brett Associates, February 2017

2.0 Methodology

2.1 Economic Viability is established as a material consideration in the establishment of planning policy and determination of planning applications. The NPPF considers development viability to be a central consideration in delivering sustainable development.

2.2 It is therefore important to assess whether the local plan's requirements for planning gain and affordable housing can be delivered as part of a financially viable development.

2.3 Traditionally, the principles underlying economic viability rely on the assumption that land will be used in the form that secures an appropriate site value for the land owner. Therefore, unless the Residual Land Value (RLV) of a proposed development exceeds the market value in existing use or Alternative Use Value for the land, then the land owner will not release or sell the land and it will not be brought forward for development. The threshold to test the viability of the proposed scheme against other alternatives is referred to as the Benchmark Land Value.

2.4 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 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.

2.5 The methodology to assess viability described in the PPG is the commonly used Residual Land Value (RLV) appraisal. This method is one which is used industry wide in land purchase and that has been established as the pre-eminent method through various development plan examinations and planning appeals.

2.6 An RLV appraisal treats the land value as the output of a calculation which compares the costs of development with the revenue generated by it. Since the revenues from housing and the costs of development are relatively inelastic and outside the developer's control the one element of the appraisal that can vary is the land value. Therefore, where planning gain and affordable housing is required, the cost of it must be deducted from the land value where possible.

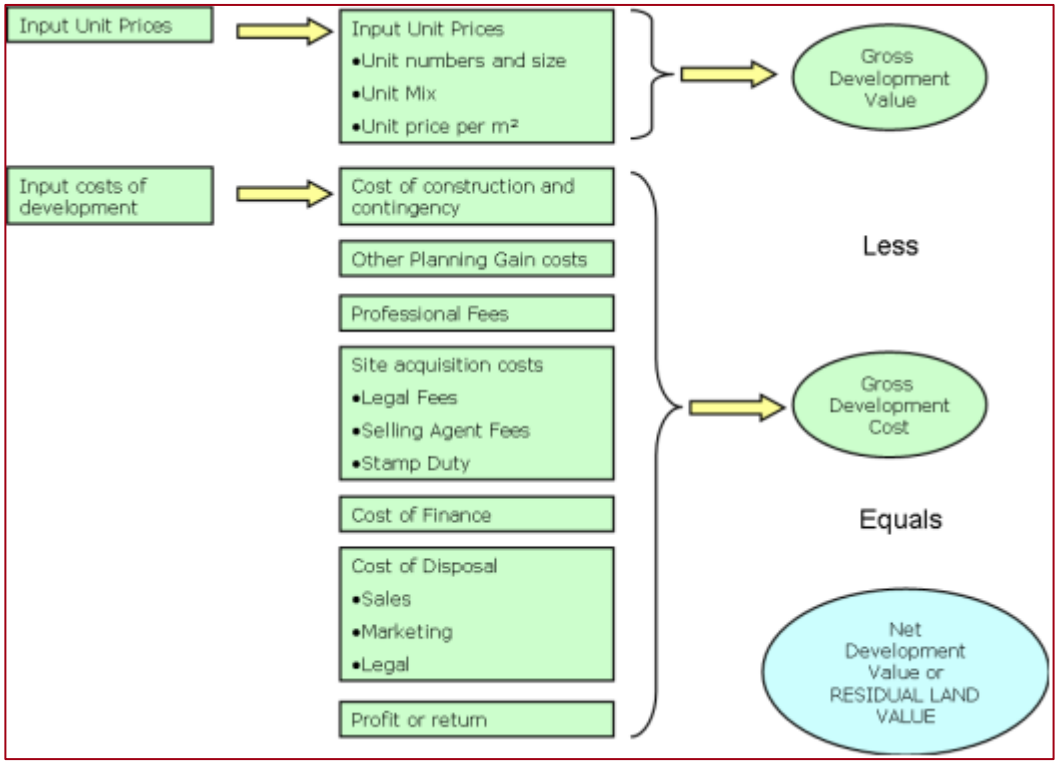
2.7 The residual amount contained within the appraisal is assessed using the following formula:

Gross Development Value LESS Gross Development Cost

=

Residual Land Value

2.8 This is represented by the following figure:



2.9 For this scoping opinion we are seeking to determine whether the site would generate a profit or surplus when comparing the value of development against the costs of achieving it, firstly for 100% open market housing, and then the impact of the introduction of affordable housing.

3.0 The site

3.1 The Hoe Neighbourhood Forum and Neighbourhood Area were designated by Plymouth City Council on 10 July 2017. The designated Neighbourhood Area lies within the ward of St Peter and the Waterfront. The area is a focal point for social, civil and historical interest in Plymouth, both for the local community and also tourism.

3.2 The site of the Former Plymouth Register Office is owned by Plymouth City Council and is allocated within the Joint Local Plan under Policy PLY27 Register Office, Lockyer Street, The Hoe. The land is allocated for mixed use development, including a quality hotel and housing, with provision made in the plan for in the order of 52 homes together with other uses.



3.3 The existing building extends to approximately 574m^2 according to records held by The Valuation Office Agency for business rates purposes. A notional rent recorded by VOA is £60,500 per annum, representing an average of £105 per m^2.

4.0 Main appraisal assumptions

4.1 In order to conduct an appraisal, underlying assumptions need to be made across a range of areas. In the main these assumptions are based upon those derived in the February 2017 Local Plan Viability Assessment report. Construction cost and value assessments have been rebased to account for temporal adjustments.

Benchmark land value

4.2 A benchmark land value is conferred on the site by virtue of its existing use. Where appropriate a premium may be applied to encourage the land to come forward for development.

4.3 Taking the gross rent indicated by VOA as a proxy for market rent and applying a yield of say 8.5%, and allowing for purchaser costs, arrives at an existing use value in the region of £600,000 to £650,000. It is not known if the building would meet the increased environmental performance standards required for commercial lettings from April 2022, however for the purposes of this assessment it is assumed that it does and no significant refurbishment work is necessary.

Mix and unit sizes

4.4 Apartment sizing is taken from the Nationally Described Space Standards and interpolated from the Pre-Application Design Statement. In terms of housing management, generally 2B3P and 3B4P are the least favourable options given occupancy restrictions and allocation policies in affordable housing. Apartment sizes are modelled on the basis of 2B4P and 3B5P to give more flexibility in housing management. The initial assumptions are therefore:

Market	no beds	unit size	North west block	North east block	South block
1B2P Flat	1	51	6	6	
2B4P Flat	2	70			20
3B5P Flat	3	86			6

4.5 It is noted that the step back in building line at fifth floor level in the southern block may compromise the mix and reduce the number of two bedroom homes in favour of one bedroom apartments. Initial modelling is undertaken on the basis of the above unit numbers, though it is noted that this may alter following refinement and examination of floor by floor indicative layouts.

Open market values of homes

4.6 In order to determine open market values, sales of new build homes within the neighbourhood area are considered, limited to apartments and uplifted in line with the movement in the market over time given the lack of recent comparable data. These are attached at Appendix 1.

4.7 From this, the relationship between price per square foot and floor area for each, together with consideration of the overall sales value to identify any anomalies.

4.8 Apartment sizing is taken from the Nationally Described Space Standards and interpolated from the Pre-Application Design Statement. In terms of housing management, generally 2B3P and 3B4P are the least favourable options given occupancy restrictions. Apartment sizes are modelled on the basis of 2B4P and 3B5P to give more flexibility in housing management. The initial overall pricing assumptions are therefore:

Market	no beds	unit size	Value £ per m^2	Value per unit £
1B2P Flat	1	51	3,333.33	170,000
2B4P Flat	2	70	2964.29	207,500
3B5P Flat	3	86	2732.56	235,000

4.9 This pricing will need to be verified with local agents. It is noted that apartments with sea views, or on upper floors of medium rise developments are being marketed for substantially higher values. Transaction data for these is not yet publicly available.

Affordable housing values

4.10 In line with the local plan viability assessment, values for affordable housing are determined on the basis of affordable rent only in this initial scoping opinion.

4.11 Local Housing Allowance rates, which act as an indicative cap on rents, for the Plymouth BRMA are:

- 1 bed home £103.56 per week
- 2 bed home £134.63 per week
- 3 bed home £159.95 per week

4.12 Following a review of NROSH+ data on affordable rents being charged by Registered Providers, the following affordable rents are assumed:

- 1 bed home £94 per week
- 2 bed home £120 per week

- 3 bed home £135 per week

4.13 These rents are then modelled on a 60 year basis, allowing for annual costs for management of £650, maintenance of £650, major sinking fund of £1,500 from year 10 (assumes the first ten years will be covered by building warranty), and voids and bad debt of 2.5%. The future cashflow is discounted at 5%.

4.14 Values of affordable rent used in modelling are therefore:

- 1 bed home £77,288
- 2 bed home £111,311
- 3 bed home £130,940

4.15 It should be noted that the values for affordable rent may be an underestimate as they will be based on a nil grant scenario where Homes England (or other bodies) may be willing to provide additional funding to support the delivery of affordable housing where it can be demonstrated that the funding will bring forward development for affordable housing that may not otherwise occur (additionality). It is recommended then that there is early engagement with Registered Providers with a view to enhancing information on the value of affordable rented housing.

Community space

4.16 It is assumed that the undefined community space estimated to be 320m^2 split over two floors can command a rent of £90 per m^2 (£8.35 per sq ft) on the basis of being let to a significant organisation like the City Council which is reflected in the yield of 7.5% applied. In the event that a lesser organisation takes on the space, or no or lower rental income needs to be reflected in the appraisals, this will reduce the value of the community space.

Costs of construction

4.17 In order to determine build costs, data from the RICS BCIS tables is extracted, as attached to this scoping report at Appendix 2. Build costs relevant to the apartments of 3-5 storeys is selected, rebased to the location, using median based on the default sample. Base build costs applied are therefore £1,386 per m^2.

4.18 It should be noted that an additional multiplier is applied at this stage to build costs which is justifiable in the context of achieving low carbon development. It is understood that the Local Plan viability assessment applied an additional 2.5% associated with meeting the costs of DEV34. It is understood that the aim of the project is to further improve the carbon performance of the development. Accordingly, a rate of 5% is added to BCIS which is consistent with other studies. It is recommended that the exact nature of additional costs associated with carbon reduction performance is investigated, taking into account both energy in use performance standards (including the suitability of the feasibility design for solar generation which may need to encompass 70% of available roof area) and also embodied carbon employed in construction.

4.19 Lifetime Homes standards have now been incorporated into Part M of the Building Regulations. The majority of the standard reflects spatial standards which are incorporated into the unit sizes assumed for assessment. The Local Plan viability study also considered that as such standards have been adopted into policy requirements in Plymouth for some time it is considered that costs are already included within BCIS rates.

Other assumptions

4.20 Other assumptions are:

- external works: 9% of build cost
- Contingency: 5.00% of build costs
- Professional fees: 10.00% of build cost
- Sales fees on market: 2.75% of market housing sales value
- Interest on development cost: 6.50% per annum, appraisals assume 18 month development period with affordable housing occupation on completion. Market housing sales over a period of 6 months on a straight-line basis.
- Profit on GDV: 20% of value of market housing + 6% of value of affordable housing
- Acquisition costs of : site agent fees at 1% of residual land value, legal fees on site acquisition at 0.75% of residual land value, stamp duty at 4% of residual land value. These costs do not appear where residual land value is below zero (negative land).

4.21 With regard to planning obligations, for the purposes of initial scoping testing, no planning obligations other than CIL are included. CIL is applied to market housing floorspace, adjusted for existing floorspace assumed to have been occupied for a qualifying period, at the rate of £44.46, relevant to open market residential development outside of the City Centre Zone and uplifted assuming consent granted in 2022. It is assumed that full relief from CIL is granted for affordable rented housing. It is also assumed that the community space does not attract a CIL charge.

5.0 Initial conclusions

5.1 For the purposes of conducting these models forming the scoping opinion, a residual profits appraisal is run. The model assumes that land is input at £1 only (a peppercorn). The output of the appraisal indicates the profit or loss (or surplus/deficit) that is determined from the gross development value less development costs. Any profit determined in such a way would need to provide sufficient monies to acquire the site as appropriate and deliver any required surplus to the developing organisation. If the appraisal indicates a loss then there is insufficient value in the proposed development when compared to the costs of developing it, even with land input at £1.

5.2 The first model considered is one with 100% market housing. The purpose of this is to separately identify if it is the form of development that may cause issues with viability or the tenure. The profit or surplus resulting from an appraisal conducted on the basis outlined above is £1,061,000 (rounded). In the normal course of events this would indicate that the development would not be viable for market housing as the surplus would need to be sufficient to offer a return to the land owner (benchmark land value determined from existing use value plus a premium) and a return to the developer for facing market risk. It is assessed that these in aggregate would be greater than the surplus derived from the modelled scheme.

5.3 A model with 100% affordable rented housing, modelled on the basis outlined above, generates a deficit or loss of £2,185,000 (rounded), again with land input at £1. The deficit or loss, even with land input at £1 value, indicates that development would not be viable on the basis of the assumptions modelled without additional funding input.

5.4 The above modelling is based on a series of assumptions. Greater clarity is sought over:

- Proposed floorspace and more detailed scaled drawings;
- Construction costs estimates as current modelling is based on BCIS with uplifts for low carbon and external works. These are generic and will need enhancement if a more detailed understanding of the pressures in achieving a viable scheme is to be sought;
- Has any value engineering been considered with regard to the overall layout? It is noted that there are four vertical circulation cores serving relatively few units each;
- It is noted that the community space appears to be accessed from common vertical circulation to the apartments. Consideration may need to be given to noise, privacy and security matters in such an arrangement;

- Clarification over role of Registered Providers and engagement with them;
- Review of housing management, particularly with regard to the two blocks solely comprising one bed apartments;
- Clarification that the affordable rents included in modelling are acceptable;
- Clarification over low carbon technologies to be employed, both in terms of fabric performance etc by also in embodied carbon and recycling potential of building materials used at end of life;
- It is estimated that at least 70% of roof area will need to be photo-voltaic generation to meet standards, has the design been reviewed for this particularly with shadowing of the lower northern blocks in winter;
- Early viability assessment indicates a need for external funding. What is available? Will this need to be balanced with some market housing development to generate profits to be recycled?
- What are the aspirations of the land owner with regard to land value?