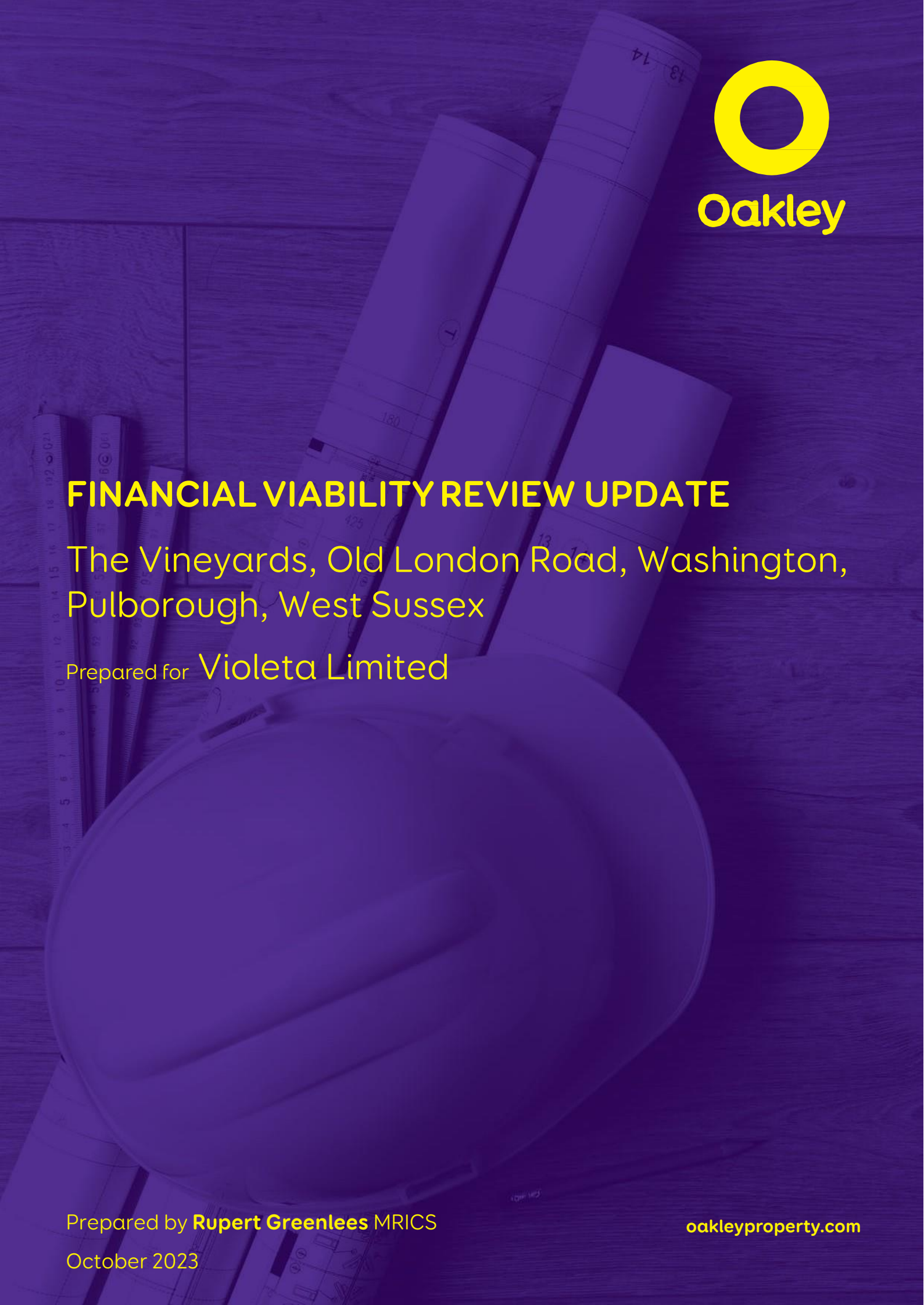

FINANCIAL VIABILITY REVIEW UPDATE

The Vineyards, Old London Road, Washington, Pulborough, West Sussex

Prepared for Violeta Limited

Prepared by **Rupert Greenlees** MRICS

October 2023

oakleyproperty.com

Post Development Viability Review Update

The Vineyards, Old London Road, Washington October 2023

instructions

Oakley are instructed by Violeta Limited ("the Applicant") to review our Financial Viability Assessment ("FVA") for the above, completed, development, in light of the actual revenues realised and costs incurred. This review considers our earlier findings and conclusions in terms of the economic viability of the project.

Introduction

These comments are prepared by Rupert Greenlees MRICS in in relation to the following documents : The Oakley FVA report dated November 2019, the BPC review of Viability Report dated 2nd March 2020, the Oakley responses March 2020 and the BPC updated review dated 26 June 2020.

The purpose of this review is to establish whether the net revenue produced by the completed development is considered to have been economically viable by reference to a Benchmark Land value and competitive 'market risk adjusted' return. In particular this review aims to determine whether the return has been sufficient to support an affordable housing payment.

Our FVA remains under continual review as additional development-related information is made available. We are in receipt of financial accounts and associated documents and correspondence setting out the actual revenue and costs accrued to date in respect of the completed development. We rely upon this information in good faith.

Background

Oakley produced a financial viability assessment in November 2019 within which an existing use value of £750,000 was assessed. When uplifted by a premium of 20% this indicated a Benchmark Land Balue of £900,000 for the site. Oakley's initial appraisal provided a GDV of £6,355,000 with a build cost estimate of £3,990,938. This appraisal was made on the basis of 35% of total units comprising a social and shared housing contribution Oakley's financial viability assessment went on to conclude that the development was not viable under these assumptions. Oakley's calculations indicated a substantially negative land value of -£180,000 (£1,080,000 below the £900,000 assessed BLV) on a policy compliant basis.

Oakley further concluded that, on the basis of a non-compliant planning policy (with a notional assumption of Nil affordable housing provision). the land valuation indicated would be £215,000. While this represented a positive land value, the figure fell substantially short of the BLV estimate of £900,000. Accordingly Oakley took the view that the proposed scheme was unable to support

an affordable housing contribution while also satisfying the policy requirement to pay a Cil contribution in the region of £250,000.

In March 2020 BPC made an initial review of Oakley's appraisal. BPC estimated GDV at £6,430,000 with lower build costs of £3,273,778. The BPC review additionally arrived at lower sales and marketing fees. BLV applied a 17.5% premium to the EUV estimate (20% is generally considered more conventional), the BLV proposed by BPC was therefore a little lower than Oakley at £881,250. In aggregate these departures from Oakley's assessment amounted to an increase in the non policy compliant land value to £1,021,257. This amount would be sufficiently in excess of the viability benchmark to justify an affordable housing pot. BPC assessed the viability on a policy compliant basis, arriving at a figure close to the BLV (£21,126 below). The conclusion was therefore that an affordable housing pot was viable albeit the policy level requirement would represent a maximum level.

Following a further response from Oakley (March 2020), BPC provided an updated viability assessment in June 2020. Ultimately BPC reviewed their position and their revised appraisal contained the following inputs : GDV : £6,565,000 (increased slightly) build cost: £3,742,401 (increased substantially) BLV : £881,250 (unchanged from BPC's March assessment).

The additional cost inputs as set out by BPC within their review of June 2020 remained for the most part unchanged and Oakley and BPC were broadly in agreement over these additional cost inputs which include the following : Professional fees at 9% of GDV : £337,070, Sales agency fees plus associated Legal fees : £176,125, Sales agency fees on Land plus Legal fees : £11,369, Finance costs : £236,773.

Oakley and BPC were also in agreement that to consider the development commercially viable it should attract a 'market risk adjusted return' of 17.5% of GDV in line with established expectations of a 'competitive return'.

After allowing for Stamp Duty on the land cost and CIL, the residual land valuation as set out by the updated BPC review of June 2020 was : **£631,638**. This land value is below the Benchmark Land Value of £881,250 by **£249,612**. Oakley and BPC were therefore ultimately in agreement that the proposed scheme was unable to support an affordable housing contribution whilst remaining economically viable. In summary, the valuation assessments provided by both firms indicated a land value well below the Benchmark Land Value.

Despite both Oakley and BPC taking the view that the development could not viably support an affordable housing contribution, it is understood that a S106 agreement was signed including provision for securing payment of affordable housing in the amount of : £79,500.

Executive Summary

We have been provided with the applicant's accounts outlining the full cost of development and have re-assessed whether the development scheme reflects a competitive market return given actual costs incurred along with Cil and S106 costs. In summary the residual land valuation is as follows :

	BPC	Actual Costs / Revenue
GDV	£6,565,000	£7,022,000
Build Cost	£3,742,401	£3,536,821
Fees	£337,070 (9% BC)	£303,915
Cil	£249,166	£266,127
Marketing / Agency	£176,125	£246,632
SDLT	£31,882	£47,500 (on BLV £881,250)
Finance	£236,773	£641,285
Marketing on Land Agents and Legal	£11,369	£13,200
Profit 17.5% GDV	£1,148,875	£1,228,850
RLV	£631,638	£737,670
Relative to BLV	-£248,362	-£142,330¤

An analysis of the actual costs paid demonstrates that while the individual inputs have varied somewhat from the expected levels some have been more costly and others less costly than expected. It is our contention that overall the RLV is broadly in line with expectations. The development could not support an affordable housing contribution on the basis of the Oakley and BPC viability appraisals. We would contend that, in the event, the return derived from the scheme is broadly in line with the expectations set out by earlier appraisals and does not, in our view, support a contribution.

Analysis of Development Costs Accrued

While attempting to establish viability the more contentious factors had been the expected build cost and revenue level (GDV). In the event, it was not these factors that rendered the scheme non viable by comparison with the benchmark. The input that, in fact, appears to have escalated most unexpectedly was the finance cost. This is not entirely surprising and reflects well publicised interest rate rises over the term and an extended development period.

The revenue derived from the development is higher than expected, however, so too are the costs and risks associated with the development. As the costs and risks increased over the period the expectations of a 'competitive return' rose in nominal terms also. We continue to assess a 'competitive return' at 17.5% albeit this percentage applies to the increased GDV.

Base Build Costs

We have had sight of the build cost certificate and accounts at £3,536,821 The build costs are slightly lower than established upon assessment but is broadly within the expected range.

Benchmark Land Value (BLV)

In terms of land value for any viability assessment, the PPG makes it clear that a BLV should be calculated based on the existing use value of the land, plus a premium for the landowner (EUV+). This was the approach taken by the High Court in the recent *Parkhurst* case. In terms of the premium, this '*... should reflect the minimum price at which it is considered a rational landowner would be willing to sell their land*'.

The assessment should assume a return of 15 to 20 per cent of gross development value for the developer in appropriate circumstances. However, it should be noted that the draft PPG referred to 20 per cent and this has been the accepted level of return in the industry. We contend that this rate is generally accepted as being the benchmark for most local authorities and the DVS service and we can see no reason why this site should be an exception to the norm.

In the subject case Oakley and BPC were in agreement as to the approach to assessing the Existing Use Value of the property, but Oakley and BPC applied different percentages to reflect the uplift in land value representing the 'landowner premium'. Oakley applied a figure of 20%, BPC used 17.5%. While we continue to assert that 20% is appropriate we have applied 17.5% for the purposes of this exercise and have therefore assessed the RLV against a benchmark value of £881,250.

GDV

We have been provided with a schedule of sales revenue. We understand that all of the properties save plot 8 and 9 have been sold. The total revenue, inclusive of the expected sale price of the two outstanding houses amounts to £7,022,000.

The gross development value has therefore exceeded expectation, however, this is in large part due to the longer timescale (initially estimated at 60 weeks) during a period of modest but steady house price inflation. Inevitably the benefits accrued as a consequence of a more labour intensive build over a longer than expected timeframe are counter balanced by higher costs especially interest costs and expectations of return on investment in time and resources.

Finance Costs

The cost of finance has risen substantially over the period of the scheme. It is widely known that over the past 12 months, the Bank of England has raised its policy interest rate 12 times from an historic low of 0.1% in December 2021. This represents the fastest growing interest rate since 1989 and is a product amongst other things of the war in Ukraine, rising energy costs and associated inflation. This has inevitably had a substantial impact on the cost of funding the development especially over the somewhat longer than expected timeframe. The estimated finance costs in 2020 was £236,773. In the event the cost to the developer was £641,285.

Marketing : Agency and legal fees

Agency and legal fees accrued amount to £246,632, this is somewhat higher than the expectation indicated by BPC of £176,125.

Market Risk Adjusted Return

In the context of achieving sustainable development the NPPF (paragraphs 173 to 177) refers to ensuring viability and deliverability and states:

The costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into 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".

Competitive Return" is defined in the RICS Guidance Note on Financial Viability in Planning (GN94/2012) as follows:

"A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project."

Oakley and BPC agree that to consider a development commercially viable it should attract a 'market risk adjusted return' of 17.5% of GDV in line with established expectations of a 'competitive return'.

At 17.5% of the realised GDV the appropriate deduction representing a competitive return is : £1,228,850. This is somewhat higher than the expectation of £1,148,875 reflecting developments in build timeframe and resources expended.

Other inputs

Professional fees accrued amount to £303,915, this is somewhat lower than the expectation indicated by BPC of £337,070.

The Cil payment was marginally higher at £266,127 than the expected amount of £249,166.

We have assessed the stamp duty at £47,500 based on the basis that this would be the amount payable if the land were to be purchased at the benchmark level.

The costs representing marketing costs on land £13,200 have been assessed at 1.5% of the BLV.

Summary

Prior to development, the subject scheme was assessed for viability. Oakley and BPC both came to the view that the development could not sustain an 'affordable housing pot' whilst remaining viable by reference to a Benchmark Land Value and competitive market return (taking into account the costs of development). In summary it was agreed that a S106 planning obligation to make an affordable housing contribution payable would render an already un-viable development more so.

The agreed RLV was assessed by BPC in June 2020 at £249,612 below the Benchmark Land Value. In the event the RLV after deduction of costs and a market risk adjusted return was £143,580 below the benchmark land value.

We are therefore of the view that just as the development appraisal did not support a S106 contribution in lieu of affordable housing, it does not support a contribution today in view of the actual costs incurred and market risk adjusted return.

Your Sussex Property Expert

Head Office - Commercial Property, Land & Development, Block Management & Professional Services
The Property Works
30–31 Foundry Street
Brighton BN1 4AT
T 01273 688882
E info@oakleyproperty.com

Brighton & Hove - New Homes
The Property Works
30–31 Foundry Street
Brighton BN1 4AT
T 01273 688881
E brighton@oakleyproperty.com

Brighton & Hove - Residential Lettings
The Property Works
30–31 Foundry Street
Brighton BN1 4AT
T 01273 688884
E lettings@oakleyproperty.com

Brighton & Hove - Residential Sales
3-6 North Road
Brighton
BN1 1YA
T 01273 688881
E brighton@oakleyproperty.com

Shoreham Property Hub - Residential Sales & Lettings, Commercial Property, New Homes
6 Brunswick Road
Shoreham-by-Sea BN43 5WB
T 01273 661577
E shoreham@oakleyproperty.com

Lewes Property Hub - Residential Sales & Lettings, Commercial Property, New Homes
14a High Street
Lewes BN7 2LN
T 01273 487444
E lewes@oakleyproperty.com

The London Office - Residential Sales
40 St James's Place
London
SW1A 1NS
T 0207 839 0888
E enquiries@tlo.co.uk

oakleyproperty.com

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