DixonSearle Partnership

Sturt Road, Frimley Green – DSP21330AF – Summary of viability
Planning reference 20/1048/FFU
23 September 2021

1. Dixon Searle Partnership (DSP) was commissioned by Surrey Heath BC to carry out an independent review of the Viability Report supplied to the Council by the applicant, Berkeley Homes in December 2020 in relation to 22-30 Sturt Road, Frimley Green, GU16 6HY and the planning application (reference 20/1048/FFU) for 160 dwellings. DSP conducts this type of review work exclusively for Local Authorities on a day-to day basis, both in Surrey and surrounding areas, and nationally. We draw upon this mix of local and wider experience in conducting rigorous reviews of applicant submitted viability positions.

2. Viability assessment considers the total revenues for a scheme, deducts the total costs, and compares the remaining value (hence 'residual land value' – 'RLV') with a suitable 'Benchmark Land Value' ('BLV'). As per the national Planning Practice Guidance (PPG) the BLV should be based on existing use value ('EUV') plus a suitable premium for the landowner (although in some cases this may be based on a suitably assessed alternative use value). The principles are such that the RLV resulting from the scheme proposal appraisal should meet or exceed the assessed in order to indicate scheme viability.

3. BLV is *not* based on market value or on the price paid for the site; in the terms of the PPG it is not reflecting any development or 'hope value', or similar.

4. In all cases where viability is under consideration, assumptions are necessarily (and appropriately used) based on the information available at the time. The consideration of these assumptions involves judgments and it is usually the case that opinions on at least some of these vary between the parties.

5. The applicant's submitted position was that after allowing for the stated BLV of £8.9 million the scheme generated a residual profit of £6.1 million which was £5.9 million below the stated profit target of £12 million, resulting in a presented negative outcome before any contribution to affordable had been considered within the submitted appraisal.

6. In carrying out our original review we identified a number of assumptions made by Berkeley where we formed a different view. The areas we picked up on included:

7. <u>Benchmark Land Value (BLV):</u> The applicant's submission considered the site was worth £8.9 million (including premium) based on its existing use as a scaffolding yard and separate offices (which were almost completely unoccupied at the time of assessment). An alternative use valuation of the site was also considered, based on an assumption that the whole site could be used as a scaffolding yard. The applicant's opinion was that this would lead to a similar BLV as the EUV plus route (EUV+ premium) discussed above. For background information, although (appropriately) not relied upon, it was noted that the applicant paid a considerably higher figure than their proposed BLV for the site.

8. Within our review DSP agreed with the submitted valuation of the existing operational scaffolding yard, but disagreed with the opinion on the existing use value of the office element of the site, which was considered to be based on an unrealistic scenario and therefore set at

too high a level. DSP considered a suitable BLV (including premium) for the whole site to be £5.7 million (i.e., £3.2 million less than submitted).

9. Build costs: DSP considered the submitted build costs to be high when benchmarked against the RICS Building Cost Information Service (BCIS) database. A third party cost consultant was therefore commissioned to review the estimated scheme costs on behalf of the Council. The cost consultant concluded that the costs were likely to be overstated by £1.8 million in their view.

10. Sales and marketing costs: It was DSP's view that the submitted costs exceeded typical allowances and those agreed on other schemes locally. Accordingly, these assumptions were reduced within the DSP review.

11. Development timings: DSP considered the assumed construction period to be excessive compared to other schemes of this size and type and therefore reduced the overall assumed development programme compared to that submitted for Berkeley Homes.

12. Developer's profit. DSP considered a 17.5% on gross development value (GDV)developer return allowance to be suitable. The applicant considered a 20% allowance to be necessary.

13. Applying the DSP assumptions to the submitted development appraisal indicated a shift from the stated position of a £5.9 million deficit to a significant surplus (after allowing for 17.5% profit) It was therefore concluded that the nil affordable housing contribution proposed by Berkeley Homes was not appropriate.

REBUTTAL, FURTHER REVIEW AND NEGOTIATED POSITION

14. Following the issue of DSP's review, the applicant team provided a rebuttal in April 2021, setting aside some matters and challenging DSP's alternative assumptions on build cost, BLV and profit.

15. Consistent with the nature of this process, as above, the BLV, build costs and profit are all assumptions that are often the source of significant debate within viability assessments and we acknowledge that there are both divergent opinions and decisions on Appeal; it follows that there is not necessarily a 'right' answer in many cases. In order to explore the negotiation scope and seek to find a suitable and fair balance in the particular circumstances, and in doing so aim to move the case forward without further cost and time, DSP proposed the following (summarised):

    a) A build cost mid-way between the opinion of the third party cost consultant (ERMC Surveyors) and that of Berkeley's surveyors (Artelia UK). This added around £900,000 to the build cost used within the DSP appraisal, but was still £900,000 below the submitted build cost.

    b) On further consideration of various methods of arriving at a suitable BLV, following the initial pressure-testing DSP suggested a higher BLV than included within our initial review. This included considering the site in an alternative use which would involve the demolition of the offices and use of the space for open storage. Alternatively, we considered that an appropriate view on site value (BLV) could assume an existing use value (EUV) but based only on the remaining income from the office rentals up to the point of the lease break clause in 2021 which DSP considered that the tenant should reasonably have exercised. Therefore, a BLV of £6.7 million was put forward (still £2.2 million lower than the applicant's suggested BLV of £8.9 million).

c) Bearing in mind the acknowledged range of potentially suitable profits (reflecting an assessment of risk reward for the developer) DSP also suggested a position of 18.5% GDV (adding £600,000 in profit to the initial DSP trial testing position).

16. Applying the above adjustments to DSP's appraisal indicated a surplus of £304,697. However DSP were also informed that the education contributions (as previously included in both the applicant and DSP appraisal) were likely to be around £600,000 lower than anticipated. Therefore, this sum (anticipated development cost saving) was added to the amount considered to be available for AH contributions. On this basis DSP suggested that an affordable contribution to the value of at least £900,000 should be made in order to avoid further delay and impasse. It was also recommended that a review mechanism should be considered in order to revisit the sales values at a suitable point (later stage review). This again is a usual consideration in our experience, where it is found after extensive review that the affordable housing viability scope at the point of application needs to be acknowledged as well below the policy level in the particular circumstances.

17. Using this position, the Council indicated that rather than a financial contribution, an on-site provision of affordable housing in the form of First Homes (a form of Discounted Market Sale) would be preferred. DSP therefore indicatively tested the effect of including First Homes on site, concluding that the subsidy required to provide these equated to approximately £70,000 per 1 bed flat, £95,000 per 2 bed flat and £140,000 per 2 bed house. Therefore, based on the potential £900,000 contribution it was considered that up to 12 units of affordable housing on this (First Homes) basis could be provided, depending on the housing mix selected by the Council for agreement with the applicant.

18. At this stage there was also still uncertainty around the cost of a pumping station/flood relief scheme required as part of the development. Although DSP were not involved beyond the above and so not with the discussions at this point, it is our understanding that officers' further negotiations and liaison with the applicant team reached an agreement to provide of 15 affordable housing dwellings as Discounted Market Sale in addition to the CIL cost and other S106 contributions. The resulting net position is summarised in the table below.

Item	Cost in DSP appraisal (Based on original estimates)	Actual contribution agreed (Heads of Terms for S106)
Community Infrastructure Levy (CIL)	£ 637,152	£ 498,520
Suitable Alternative natural Greenspace (SANG)	£ 1,932,554	£ 1,971,293
Strategic Access Management and Monitoring (SAMM)	£ 88,962	£ 103,922
Flood Relief Scheme		£ 195,000
Education Contribution (SCC)	£ 682,523	£ -
	£ 3,341,191	£ 2,768,735
Education contribution was then indicated to be overestimated by £600,000, so the surplus identified for AH was increased by £600,000		
	DSP appraisal cost	Actual contributions offered
Therefore assumed contributions = £3,341,191 - £600,000 =	**£ 2,741,191**	**£ 2,768,735**
		(A difference of +£27,544)
Suggested minimum AH contribution based on DSP compromise position	£ 304,697	
Additional £600,000 assumed due to overestimated education contributions	£ 600,000	
Minimum AH contribution based on DSP compromise position	**£ 904,697**	
DSP suggested on-site equivalent (First Homes)	**£70,000 per 1 bed flat, £95,000 per 2 bed flat, £140,000 per 2 bed house. Therefore on site provision of affordable housing as First Homes, of up to 12 units depending on the housing mix agreed. (7.5% affordable housing provision)**	**15 units of affordable housing (Discount Market Sales) (9.4% affordable housing provision)**

19. All in all, after this extensive assessment, rigorous review and further review process, supported by the applicant team, we consider the offer now made to be fair and suitable in the circumstances. The outcome reflects the high value of the site, whether viewed in existing or appropriate potential alternative use terms, along with the high development costs involved. The above outlined process is considered to have appropriately turned around the initially presented position to one which now in our view reflects a positive viability scenario consistent with the intended progression of the scheme; and now with a meaningful affordable housing element included (albeit necessarily well beneath policy levels) along with significant infrastructure contributions supported.

Dixon Searle Partnership, 22 September 2021