DSP23407AG Columbia House
Appendix 1 - DSP version of Addendum FVA appraisal
Summary

Development Appraisal
Prepared by NM
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04 July 2023

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Appraisal Summary for Phase 1

Currency in £

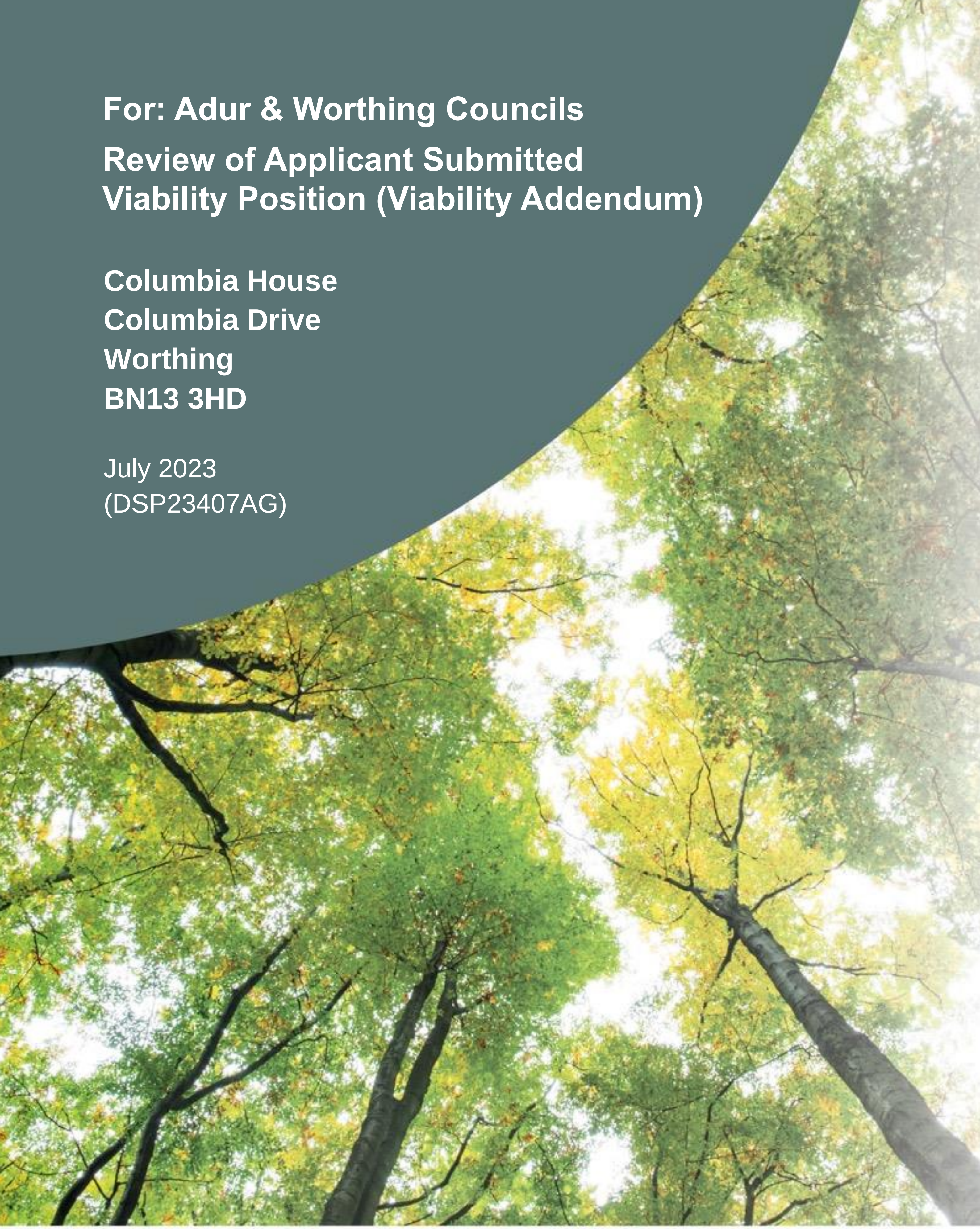
REVENUE				
Sales Valuation	**Units**	**Unit Price**	**Gross Sales**	
Market Residential	78	227,051	17,710,000	
NET REALISATION				**17,710,000**
OUTLAY				
ACQUISITION COSTS				
Residualised Price (Negative land)			-770,111	
				-770,111
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Market Residential	78 un	158,205	12,340,000	**12,340,000**
Developers Contingency		5.00%	617,000	
				617,000
Section 106 Costs				
CIL			105,150	
				105,150
PROFESSIONAL FEES				
Professional Fees		8.00%	987,200	
				987,200
MARKETING & LETTING				
Marketing		1.00%	177,100	
				177,100
DISPOSAL FEES				
Sales Agent Fee		1.50%	265,650	
Sales Legal Fee		0.50%	88,550	
				354,200
FINANCE				
Timescale	**Duration**	**Commences**		
Pre-Construction	3	Oct 2020		
Construction	15	Jan 2021		
Sale	12	Apr 2022		
Total Duration	30			
Debit Rate 7.500%, Credit Rate 4.500% (Nominal)				
Total Finance Cost				888,761
TOTAL COSTS				**14,699,300**
PROFIT				
				3,010,700
Performance Measures				
Profit on Cost%		20.48%		
Profit on GDV%		17.00%		
IRR% (without Interest)		27.29%		

For: Adur & Worthing Councils

Review of Applicant Submitted Viability Position (Viability Addendum)

Columbia House
Columbia Drive
Worthing
BN13 3HD

July 2023
(DSP23407AG)



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Contents

1. Notes and Limitations

1.1.1. The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing Adur and Worthing Councils (AWC) with an independent check of with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

1.1.2. This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.

1.1.3. We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material.

1.1.4. So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. Therefore, we suggest that the Council and prospective / current or subsequent planning applicant may wish to consider this aspect together. DSP confirms that we are content for our review information, as contained within this report, to be used as may be considered appropriate by the Council (we assume with the applicant's agreement if necessary). In looking at '*Accountability*', since July 2018 (para. 021 revised in May 2019), the published national Planning Practice Guidance (PPG) on viability says on this; '*Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'*

1.1.5. Dixon Searle Partnership conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have been and are involved in the review of other planning stage proposals within the AWC area, in addition to strategic level (development plan/planning policy) projects.

1.1.6. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. This is kept under review. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

2. Introduction

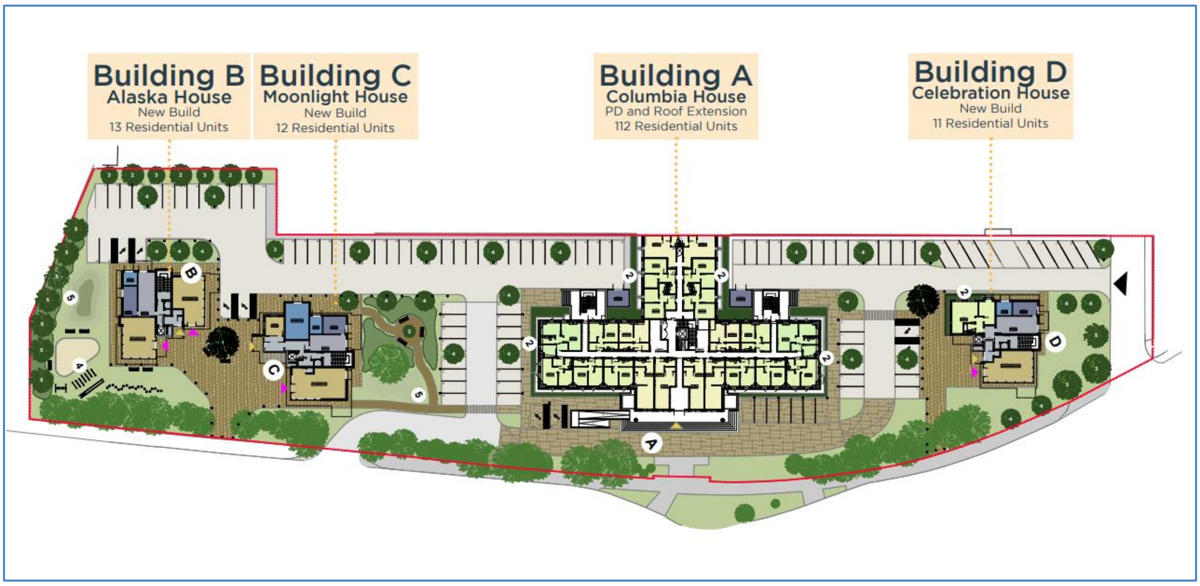
2.1.1 For context, previously Dixon Searle Partnership (DSP) was commissioned (July 2022) by Adur and Worthing Councils (AWC) to carry out an independent review of the applicant's submitted 'Financial Viability Assessment Report Addendum' (FVARA) dated March 2022. The FVARA was supplied to the Council on behalf of the applicant by Argent Blighton Associates Limited (ABAL), in relation to the proposed redevelopment of Columbia House (Block B), Columbia Drive, Worthing, BN13 3HD (also described as being located at 4 Romany Road) and a planning application (reference AWDM/0711/22) for '*Erection of a new block to provide 79 residential dwellings with associated secure cycle storage provision, vehicle parking, bin storage and landscaping'*.

2.1.2 Our review (reference 22407X) tested some alternative assumptions, and updated other assumptions to the date of review (August 2022). Our appraisal indicated a negative residual value of -£1,005,000 which when compared to the Benchmark Land Value of £100,000 indicated a deficit of -£1,105,000. Our review therefore concluded that *'whilst the viability is finely balanced with no AH included, this means that we are able to confirm the FVARA conclusion that the proposed scheme cannot support any affordable housing.'*

2.1.1 Since the August 2022 review was undertaken, some changes have been made to the scheme, including a reduction from 79 to 78 units. In addition there have been changes to the market, impacting on both build costs and sales values. Therefore, an updated viability report and appraisal has been submitted to AWC by Savills on behalf of the current applicant (Pullman Construction Ltd). This report reviews the 'Financial Viability Assessment Report Addendum' (FVARA) dated May 2023.

2.1.2 The proposals are for a new build block to be added to an existing permitted development conversion of an office block. Permission has already been granted for 'Blocks B, C and D' of the proposed conversion/new build project (with Block A recently completed) and the current (updated) application proposes merging Blocks B and C into one building with an additional storey and removing Block D, resulting in currently proposed 'Block B' and adding 32 units to the permitted 46 units.

Previous plans, showing permitted Blocks B, C and D (source: Levy Real Estate site brochure)



3-D view of proposed Block B (source: Design & Access statement)

2.1.3 Since the 2022 viability review was carried out, the updated Worthing Local Plan has been adopted and requires (through Policy DM3) 20% of flats built on previously developed land to be affordable housing (where 10 or more flats are proposed). A development of this scale (78 units) should, therefore, deliver 16 affordable homes. Worthing's policy requires (as a starting point) affordable housing to be split 75% Affordable Rented (AR) to 25% Shared Ownership (SO). This would therefore require 12 AR homes and 4 SO.

2.1.3 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Financial Viability Assessment Report Addendum' (FVARA) together with a PDF and an electronic version of their development appraisal carried out on 2 June 2023 using Argus Developer software. Appendices to the FVARA include an accommodation schedule/pricing schedule for the amended scheme, and a residential comparables. For further context DSP has also had sight of the documents contained within the Council's online planning application file.

2.1.4 We have considered the assumptions individually listed within the FVARA and provided our commentary based on those. This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted residential viability assumptions and therefore the outcomes (scope to generate land value) associated with that aspect of the overall proposals.

2.1.5 This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to support land value and profit) associated with that aspect of the overall proposals.

2.1.6 For general background, a viable development may be regarded as one which has the ability to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e., existing use value) for the landowner and a market risk adjusted return to the developer in delivering that project. The Government's Planning Practice Guidance (PPG) on Viability sets out the main principles for carrying out a viability assessment. It states:

'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return…Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making…In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in

terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission[1]' .

2.1.7 Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing use value plus a premium (referred to as a benchmark land value (BLV) in this case) then we usually have a positive viability scenario – i.e., the scheme is much more likely to proceed (on the basis that a reasonable developer profit margin is also reached).

2.1.8 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site and assesses the level of additional residual potentially available in excess of that after allowing for a fixed developer's profit. Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable financial contribution for affordable housing.

2.1.9 The FVARA states that the scheme (with 100% market housing) produces a deficit of -£2,308,861 when considering all costs including a developer's profit of 20.0% GDV on market housing. This is before consideration of a Benchmark Land Value (BLV) which in this case has been assumed at the previously agreed value of £100,000, (which was based on the site's potential use as 66 spaces of additional car parking for the existing blocks of flats). Therefore, the FVARA concludes that the overall deficit is -£2,400,000 and '*the scheme is technically unable to support additional planning obligations including in the form of affordable housing*'.

2.1.10 This review does not seek to pre-determine any Council positions and merely sets out our opinion on the submitted viability assumptions and outcomes in order to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.

2.1.11 DSP's remit is to review the submitted information to assess whether the stated viability scope available to support planning obligations (for affordable housing and/or other matters) is the most that can reasonably be expected at the time of the assessment. Our brief does not go as far as confirming what should be the outcome where schemes are stated or verified as being non-viable per se, based on a viability submission or any subsequent review. It is for the applicant to decide whether there is sufficient justification

[1] Paragraph: 010 Reference ID: 10-010-20180724.

to pursue a scheme, financially. While an absence of (or insufficient level of) planning obligations will be a material consideration, we are not aware that proof of positive viability is in itself a criterion for acceptable development under current national policy. The Council may wish to consider these matters further, however.

2.1.12 Accordingly, AWC requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views – information all provided below.

2.1.13 We have based our review on the submitted FVARA and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any) utilising in this case the supplied appraisal basis as a starting point.

2.1.14 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has over 40 years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 20 years or so.

2.1.15 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of AWC - taking into account the details as presented. It will then be for the Councils to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.

2.1.16 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g., sales value estimates) or any key cost estimates (e.g., build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

3.1.1 The following commentary reviews the applicant's submitted viability assumptions as explained within the FVARA.

3.1.2 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures provided, as below, and reviewed the impact of trial changes to particular submitted assumptions.

3.1.3 This type of audit / check is carried out so that we can give the Councils a feel for whether or not the result is approximately as expected – i.e., informed by a reasonable set of assumptions and appraisal approach.

3.1.4 Should there be further changes to the scheme proposals this would obviously impact on the appraisal outputs.

3.2 Benchmark Land Value

3.2.1 As noted above, for the purposes of this assessment, Savills have adopted the previously agreed BLV of £100,000, which was based on the value of the site as additional parking for the existing flats.

3.2.2 As per our previous report, although the existing use value of the site could be debated, in our view even if the area in question has little or no value, we consider that an overall BLV of £100,000 as proposed is again a reasonable assumption for a BLV based principally on landowner premium in this case (whereby even with nil or a very low EUV/AUV, in practice usually a landowner would be unlikely to release land for nil consideration).

3.2.3 Following Savills' approach, we have tested our appraisal RLV against the previously agreed BLV of £100,000.

3.2.4 We note that the submitted appraisal does not include any acquisition costs; however given the settled land value level (BLV) the inclusion of typical assumptions for this would make very little difference.

3.3 Gross Development Value

3.3.1 The current proposal is for 10 x 1 bed studio flats, 58 x 1 bed flats, 8 x 2 bed flats and 2 x 3 bed flats, with a total saleable area of 4,331 m² (46,614 ft²).

3.3.2 DSP's previous review found that the scheme proposal at that stage (which included a similar housing mix) was suitably valued at an average £361.50/ft², leading to a GDV of £16,742,045. Savills note that house prices in Worthing have decreased since the previous review, with Land Registry data over the intervening period indicating a reduction in the average price of properties of 1.6% and of flats of 1.4% as at March 2023. There is a lag in Land Registry reporting, and at the time of writing there is no more recent data than the March 2023 dataset.

3.3.3 Savills state that they have prepared an updated pricing schedule based on their assessment of the current market, and also taking account of HPI, and as a result have adopted an average value of £355/ft². The pricing schedule itself has not been provided, however Savills have provided an analysis of residential comparables as Appendix 2 to the FVARA.

3.3.4 The following table sets out the updated unit mix and Savills pricing (DSP's table summary):

Unit mix - based on updated Schedule RevF 22.09.22 (Savills Appendix 1)								
	Number of units	Ave size (m2)	Ave size (ft2)	Total Floor area (m2)	Total Floor area (ft2)	Value (£/ft2)	Unit value (£)	GDV (£)
Studios total	10	41.9	451	418.8	4508			
1 beds total	58	53.4	575	3098.5	33352			
2 beds total	8	78.8	849	630.7	6789			
3 beds total	2	91.5	985	183	1970			
TOTAL	**78**	**55.5**	**597.7**	**4331**	**46618**	**355**	**£ 212,174**	**£ 16,549,550**

3.3.5 We have reviewed the comparables in Savills' Appendix 2 and also cross-checked via our own research into values of resale and new build properties, using Land Registry data and property websites.

New build sales – Land Registry sold data

3.3.6 Land Registry records include the following sales of new build apartments at the first phase of Columbia House, averaging £422/ft². We note that the units sold were very small, which typically translates into higher values on a £/ft² basis. However, the sales in the first phase were within the converted offices, whereas the proposed block will be purpose-built, which typically translates to slightly higher values than for converted flats.

LR New Flat Dwellings - Columbia House - 7.2022													
Address lines 1+2	Street	Postcode	Town	Distance from site [miles]	Dwelling type	Sale price	Sale month	HPI index multiplier	Sale Price Adjusted for HPI	Floor area /m²	Floor area /ft²	Value /ft²	Value/m²
FLAT 42 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YR	WORTHING	0.1	Flat	£152,500	07/2022	0.9936	£151,519	30	323	£469.22	£5,051
FLAT 85 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YS	WORTHING	0.1	Flat	£167,500	07/2022	0.9936	£166,422	34	366	£454.74	£4,895
FLAT 66 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YR	WORTHING	0.1	Flat	£162,500	07/2022	0.9936	£161,455	35	377	£428.56	£4,613
FLAT 88 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YS	WORTHING	0.1	Flat	£167,500	07/2022	0.9936	£166,422	35	377	£441.75	£4,755
FLAT 26 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YR	WORTHING	0.1	Flat	£162,500	07/2022	0.9936	£161,455	36	388	£416.66	£4,485
FLAT 56 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YR	WORTHING	0.1	Flat	£175,000	07/2022	0.9936	£173,874	41	441	£393.99	£4,241
FLAT 31 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YR	WORTHING	0.1	Flat	£170,000	07/2022	0.9936	£168,906	42	452	£373.62	£4,022
FLAT 17 COLUMBIA HOUSE, 4	ROMANY ROAD	BN13 3YR	WORTHING	0.1	Flat	£200,000	07/2022	0.9936	£198,713	44	474	£419.57	£4,516
Average						**£169,688**			**£168,596**	**37.125**	**400**	**£421.90**	**£4,541.30**

3.3.7 The very small studios in the converted scheme achieved values of £150,000 to £200,000, averaging £400/ft².

Secondhand properties – Land Registry sold data (resales)

3.3.8 We have also reviewed sales of flats on the resale market in Worthing which based on 126 flats sold between January and April 2023 and adjusted for HPI showed average sales value of £365/ft². Typically, values of new build flats are c. 20% higher than resale values for similar properties. However, it should also be noted that the dataset covers the whole of Worthing including some higher value areas. We note that the average value of secondhand flats has fallen since our previous review which (at that stage) indicated c. £377/ft² overall.

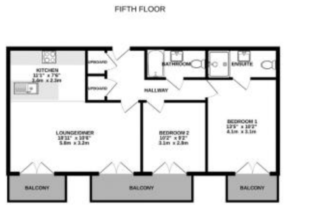
New Build properties advertised for sale locally

3.3.9 We have reviewed new build flats advertised within 3 miles of the site. Floor areas are not available for many of the examples. In summary, excluding those flats with a sea view (which are not comparable to the subject properties and achieve significantly higher prices), asking prices are as follows:

- 1-bed flats: ranging from £190,000 to £275,000.
- 2 and 3-bed flats: ranging from £205,000 to £350,000

Advertised prices at Columbia House (source: Rightmove)

3.3.10 Two newly converted flats are currently advertised at Columbia House (the subject location), both being 2-bed 5th floor apartments with an asking price of £325,000.

Advertised prices - All New 2 Bed Apartments - Columbia House - Source: Rightmove - Without floor area							
Image	Floor Plan	Address	Distance from site (miles)	Beds	Type	Advertised price	Floor area (m²)
		Columbia House, Worthing, BN13	0.5	2	5th Floor Apartment	£ 325,000	Not specified
		Columbia House, Worthing, BN13	0.5	2	5th Floor Apartment	£ 325,000	Not specified

3.3.11 The following flats are advertised for resale at the existing Columbia House block:

Advertised prices - Resale - 1& 2 Bed Apartments - Columbia House - Source: Rightmove - Without floor area										
Image	Floor Plan	Address	Distance from site (miles)	Beds	Type	Advertised price	Floor area (m²)	£/m²	Floor area (ft²)	£/ft²
		Columbia House, Worthing, BN13	0.5	1	Ground Floor Apartment	£ 180,000	Not specified	Not specified	Not specified	Not specified
		Columbia House, Worthing, BN13	0.5	1	Studio	£ 135,000	Not specified	Not specified	Not specified	Not specified
		Columbia House, Worthing, BN13	0.5	2	Ground Floor Apartment	£ 325,000	63.6	£ 5,110	685	£ 475

3.3.12 The following availability / prices are advertised currently on the website for Columbia house:

ColumbiaHouse
WORTHING

CURRENT AVAILABILITY – PHASE 3

Plot No.	Sq Ft	Sq M	Floor	Description	Price
111	695	64.6	Fifth	2 Bed	£325,000
112	665	61.8	Fifth	2 Bed	RESERVED
113	744	69.1	Fifth	2 Bed	RESERVED
114	781	72.6	Fifth	2 Bed	£350,000
115	751	69.8	Fifth	2 Bed	£350,000
116	735	68.3	Fifth	2 Bed	£335,000
117	662	61.5	Fifth	2 Bed	£325,000
118	698	64.8	Fifth	2 Bed	£325,000

Plus Plots 119 & 120 coming soon!

Prices correct as of 02.05.23

3.3.13 We note that the above are smaller flats on average than the proposed 2-beds. The average asking price above is £335,000 (£465/ft²), therefore even allowing substantial 10% discount to allow for potential sales incentives/reduction from asking price indicates values of c. £420/ft².

Advertised prices – Resale properties locally (within 2 miles)

3.3.14 The average advertised price for second hand 1-bed flats is c. £383/ft² however this average should be treated with caution because the range of advertised prices is wide, from c. £259/ft² to £617/ft².

3.3.15 Similarly for 2-bed flats, the average is £356/ft² however the range is fairly broad, from c. £299/ft² to c. £417/ft².

3.3.16 There are only 3 no. 3-bed flats advertised for resale, with an average asking price of c. £362/ft².

3.3.17 As previously, we note that the applicant's own market overview report submitted with the planning application discussed the high demand for the proposed development and the high level of off-plan reservations, resulting in a waiting list of potential buyers.

3.3.18 The scheme backs on to an industrial area which will temper values, and is 40 minutes walk from the sea therefore will not achieve the premium attached to properties within easy reach of the shore. Again, this indicates that the higher values realised in some locations within Worthing for flats will not be achieved here; however, as previously we note that the build costs are above average which should reflect a good quality specification which will support the submitted values.

3.3.19 Reviewing the above research and commentary we will test the viability of the current proposals using the following values, leading to an average of £380/ft² (increased from the submitted £355/ft²):

DSP assumed values for trial appraisal								
	Number of units	Ave size (m2)	Ave size (ft2)	Total Floor area (m2)	Total Floor area (ft2)	Value (£/ft2)	Average unit value (£)	GDV (£)
Studios total	10	41.9	451	418.8	4508	£ 388	£ 175,000	£ 1,750,000
1 beds total	58	53.4	575	3098.5	33352	£ 383	£ 220,000	£ 12,760,000
2 beds total	8	78.8	849	630.7	6789	£ 371	£ 315,000	£ 2,520,000
3 beds total	2	91.5	985	183	1970	£ 345	£ 340,000	£ 680,000
TOTAL	**78**	**55.5**	**597.7**	**4331**	**46618**	**£ 380**	**£ 227,051**	**£ 17,710,000**

Ground Rents

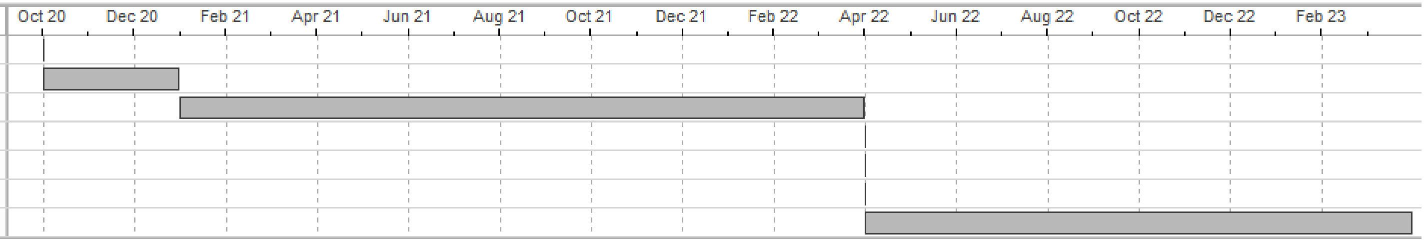
3.3.20 Ground rents have not been included for the apartments. The Leasehold Reform (Ground rent) Bill came into force on 30 June 2022. It restricts ground rents on the grant of new leases to a peppercorn. On this basis, it is appropriate not to include a capital contribution from ground rents within the appraisal.

3.4 Development Timings

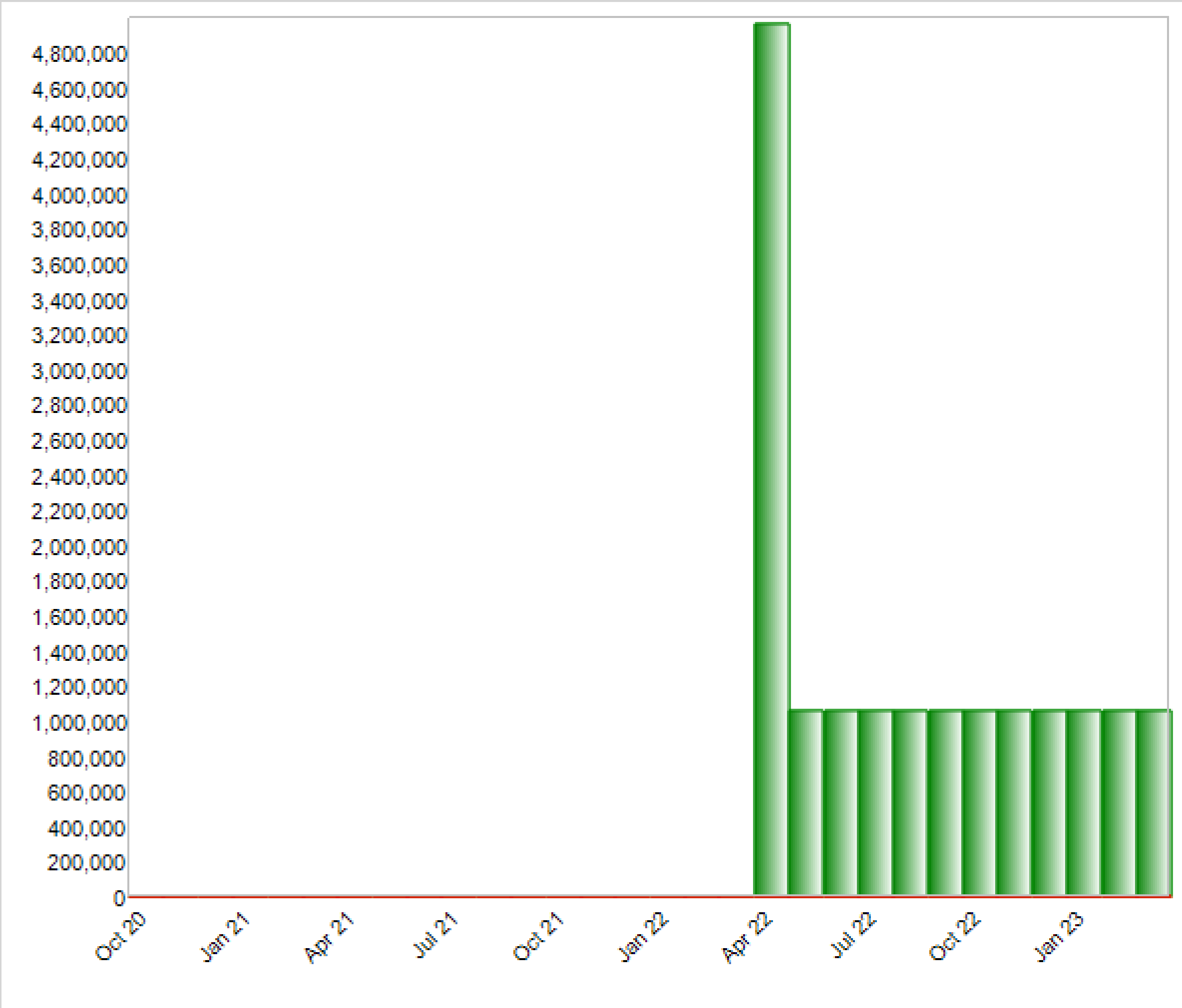
3.4.1 The submitted appraisal includes the following timings:

Scheme timings (extract from Argus appraisal)

No.	Development Stage	Duration (Mths)	Start Date	End Date
1	Purchase	0	Oct 2020	Oct 2020
2	Pre-Construction	3	Oct 2020	Dec 2020
3	Construction	15	Jan 2021	Mar 2022
4	Post Development	0	Apr 2022	Apr 2022
5	Letting	0	Apr 2022	Apr 2022
6	Income Flow	0	Apr 2022	Apr 2022
7	Sale	12	Apr 2022	Mar 2023



Sales timings (extract from Argus appraisal)



3.4.2 Overall, these timings are not considered unreasonable and reflect the stated waiting list which should lead to a high level of off-plan sales (as reflected in the spread of sales revenue shown above).

3.5 Build costs

3.5.1 Savills refer to the previous viability review, in which build costs were based on an Elemental Build Cost Estimate by ABAL, with a stated total cost of £11,950,000 or £2,490/m² based on GIFA (£2,723/m² based on NIA). This estimate excluded fees and contingency.

3.5.2 We have reviewed the costs indicated by BCIS for 6-storey flatted schemes. The rates suggested by BCIS include preliminaries, overheads and profit but do not include external/abnormal works or contingency.

3.5.3 Our previous review noted that the submitted build cost exceeded the Median and also the Upper Quartile rates, and this continues to be the case, indicating a high specification (and therefore feeding in to the sales values discussed above). The previous review also involved a check by an independent quantity surveyor of ABAL's estimate (commissioned by DSP for AWC), and it was agreed that the estimate of costs was not overstated. Savills have adopted the same costs, adjusting down the figure as a base point by £160,000 from £11,950,000 to £11,790,000 to allow for the scheme changes including the loss of one unit. Savills have then applied a 4.6% increase to costs, based on the BCIS All-in Tender Price Index up to the date of their appraisal (May 2023).

3.5.4 We consider the above approach to be reasonable in the circumstances, and we note that the BCIS median rate used in our July 2022 analysis is 5.8% higher at the present time.

3.5.5 Therefore, we have not altered Savills' assumed build cost estimate of £12,340,000 (or £2,849/m² based on NIA).

3.6 Professional Fees

3.6.1 Professional fees have been included at 10% of construction costs. The previous estimate included 8% on construction costs as well as £75,000 in planning fees, although the latter cost was not accepted by DSP. This increase from the previous estimate has not been explained and accordingly we have applied the previous assumption of 8% in our appraisal.

3.7 CIL / Planning Obligations

3.7.1 £105,150 has been allowed for CIL in the submitted appraisal, and the commentary in the FVARA refers to a '*total floor area of 4,206 m²*' which is considerably less than the gross floor area of the block. It has not been stated whether any existing floor area has been deducted in the proposed calculation. No allowance has been made for any other planning contributions/s106.

3.7.2 At this stage, DSP has left these assumptions as submitted; the Council will need to confirm the CIL amount and any other S106 contributions which are required. It should be noted that any change in the chargeable sum would have an impact on the overall viability of the scheme as viewed through the appraisal - a reduction in the CIL cost assumption would improve the viability outcome and an increase would pull it downwards (looking at the effect of this assumption only). In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included. We recommend that AWC checks the above CIL/S106 figures.

3.8 Development Finance

3.8.1 Finance costs have been included in the FVARA appraisal using an 8.0% interest rate assumption.

3.8.2 The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT): '*The rate applied will depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit* *balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible and will generate significantly erroneous results in a long-term scheme.'*

3.8.3 In our previous review we tested the viability using an interest rate of 6.5% (representing all-inclusive finance costs), however since then finance costs have increased considerably. Nonetheless, an 8.0% assumption is at the upper end of the range currently seen and therefore we have tested the viability at this latest stage using a rate of 7.5% in our appraisal.

3.9 Agent's, Marketing & Legal costs relating to sale of units

3.9.1 The submitted appraisal has assumed 2.5% GDV for marketing costs for the proposed residential units (£413,453 in the updated appraisal). This is an increase of £73,913 from the previously submitted position, however we consider this assumption to be not unreasonable as it is within the range of sales-related costs seen, and it is reasonable to assume that additional marketing will be needed in the current market to achieve our assumed sales values/sales rates. We have not adjusted this in our appraisal. Savills have also assumed a total cost of £82,691 for legal fees relating to sale, which we consider is a not unreasonable assumption.

3.10 Developer's Risk Reward – Profit

3.10.1 The previously submitted assessment included a profit allowance at 17.0% of gross development value (GDV) on market housing. (£2,886,090). Savills' appraisal update now includes a 20% profit assumption, resulting in an allowance of £3,307,630 based on the submitted GDV.

3.10.2 The Planning Practice Guidance (PPG) on Viability states: '*Potential risk is accounted for in the* assumed *return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan*'. It goes on to state: '*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may* *be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types*[2]'.

3.10.3 As previously we note that amongst the development risks, the risk relating to market sales appears to be low given the stated popularity of the current office conversion and the waiting list for the proposed scheme. We consider that the earlier assumption of 17.0% on market housing is an appropriately pitched level and consistent with our previous review we have maintained this assumption, resulting in a profit allowance of £3,010,700 based on our assumed GDV.

[2] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment - Paragraph: 018 Reference ID: 10-018-20190509

4. Findings Summary

4.1.1 The overall approach to re-assessing the viability of the proposed development appears to be appropriate in our opinion.

4.1.2 Although the majority of the submitted assumptions appear fair, in brief summary the following are the areas we have queried or where a difference of opinion exists:

- GDV (see 3.3, above) – based on our updated research including sold prices at current phases of the scheme (which is converted flats as opposed to the purpose-built block proposed here) we consider that higher values can be achieved and we have tested the following values:

DSP assumed values for trial appraisal								
	Number of units	Ave size (m2)	Ave size (ft2)	Total Floor area (m2)	Total Floor area (ft2)	Value (£/ft2)	Average unit value (£)	GDV (£)
Studios total	10	41.9	451	418.8	4508	£ 388	£ 175,000	£ 1,750,000
1 beds total	58	53.4	575	3098.5	33352	£ 383	£ 220,000	£ 12,760,000
2 beds total	8	78.8	849	630.7	6789	£ 371	£ 315,000	£ 2,520,000
3 beds total	2	91.5	985	183	1970	£ 345	£ 340,000	£ 680,000
TOTAL	**78**	**55.5**	**597.7**	**4331**	**46618**	**£ 380**	**£ 227,051**	**£ 17,710,000**

- Professional fees (see 3.6) – the submitted allowances for professional fees have been increased from the previously submitted £1,023,631 to £1,234,000. This increase has not been explained and we have maintained the previous rate of 8.0% works cost in our appraisal.

- Finance costs (see 3.8) – we have tested a rate of 7.5% based on 100% debt finance (reduced from the 8.0% assumption tested by Savills).

- Profit (see 3.10) – the previous assessment included a 17.0% profit allowance. Savills have included 20.0% in their appraisal. We have tested the previous assumption (although based on a higher GDV, resulting in a £3,010,700 profit allowance, reduced from the submitted £3,307,630).

4.1.3 Applying the above (DSP suggested) adjustments to the submitted appraisal indicates an improved viability outcome in comparison, however the residual value indicated is still negative at -£770,111. Taking into account the agreed £100,000 BLV this indicates a deficit of -£870,111.

4.1.4 Therefore, whilst our view of the viability outcome is more positive (less negative) than that of Savills, having robustly tested the assumptions and taken what we consider to be a fairly positive view of values in this location we are able to confirm the FVARA conclusion that the proposed scheme (latest proposals) remains unable to support any affordable housing.

4.1.5 For AWC's general consideration, however, it may be noted that Paragraph 65 of the NPPF and recent Appeal precedent indicates that major developments (i.e., of 10+ dwellings) are expected to provide at least 10% of the proposed homes as 'affordable home ownership' units.

4.1.6 We need to be clear that our review is based on current day costs and values assumptions as described within our review based on the current scheme(s) as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.

4.1.7 Of course, no viability report or assessment can accurately reflect costs and values until a scheme is built and sold – this is the nature of the viability process and the reason for local authorities needing in some circumstances to also consider later stage review mechanisms when significant developments fall short of policy provision. In this sense, the applicant and their agents are in a similar position to us in estimating positions at this stage – it is not an exact science by any means, and we find that opinions can vary.

4.1.8 As regards the wider context including the economic situation following the Covid pandemic and with the effect of events such as the war in Ukraine, in accordance with the relevant viability guidance our review is based on current day costs and values – a current view is appropriate for this purpose. Since the previous review, we have seen house prices generally and the price of flats in Worthing fall (albeit relatively marginally so far) year-on-year for the first time in many years. Commentators are currently predicting that house prices will soon return to growth, and activity within the market has in many cases been surprisingly strong given the pressures of general price inflation and mortgage costs. This is thought to be driven by the ongoing lack of supply. Construction cost inflation is also levelling off currently after a period of sustained significant increases, and the pricing of key components has become less volatile; supply chains appear to be strengthening. Whilst currently the generally reported expectations are that while costs will continue to rise due to increasing labour costs (owing to shortages) the ongoing upward build costs trend will be much less steep. We note also that flats in Worthing continue to be in high demand in comparison to some other local authority areas.

4.1.9 As set out in the PPG, a balanced assessment of viability should consider the returns against risk for the developer and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission. DSP will continue to monitor the established appropriate information sources, as the Council will also be able to do.

4.1.10 DSP will be happy to advise further if/as required by AWC.

Review report ends

July 2023

Appendix 1 – DSP version of applicant appraisal