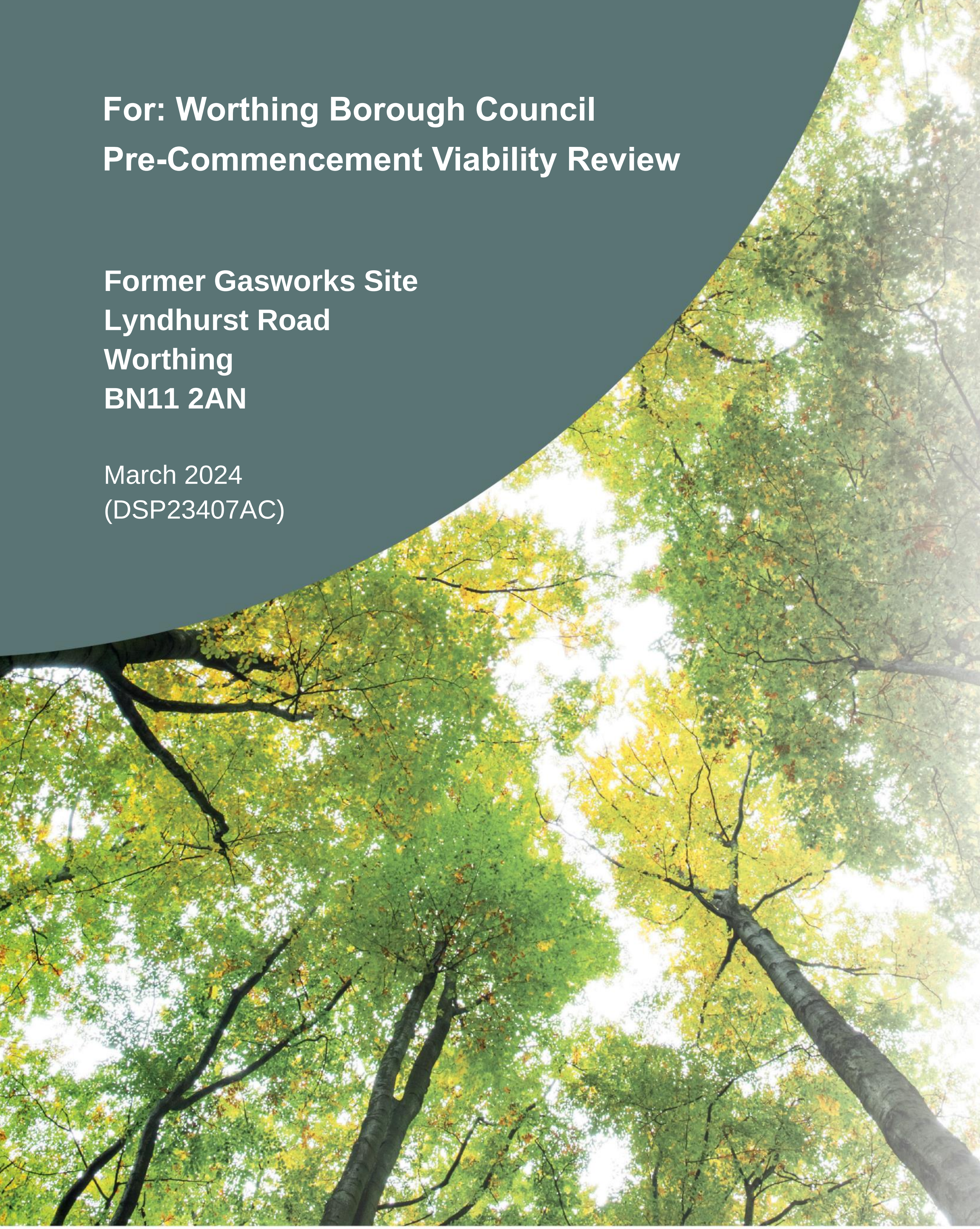
For: Worthing Borough Council
Pre-Commencement Viability Review

Former Gasworks Site
Lyndhurst Road
Worthing
BN11 2AN

March 2024
(DSP23407AC)



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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 our client Worthing Borough Council (WBC) 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. The information supplied to DSP to inform and support this review process has not been described by the prospective / current planning applicant on a confidential basis. However, potentially some of the information 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 and strategic level (development plan/planning policy) projects within the Worthing BC area.

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/Background

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Worthing Borough Council (WBC) to carry out an independent review of the 'Viability Appraisal Summary' (VAS) dated January 2024 and supplied to the Council by the planning applicant, Berkeley Homes. This is in relation to the proposed redevelopment of the former gasworks at Lyndhurst Road, Worthing, BN11 2AN. An application has been submitted, reference AWDM/0083/24, described as follows:

'AWDM/0083/24 | ORIGINAL DESCRIPTION AWDM/1459/21 (as amended by AWDM/1446/23): FULL PLANNING APPLICATION FOR THE DEMOLITION OF EXISTING STRUCTURES, PARTIAL REMOVAL OF BOUNDARY WALLS AND THE CONSTRUCTION OF A RESIDENTIAL DEVELOPMENT SPREAD ACROSS 5 BLOCKS WITH ASSOCIATED ACCESS, PARKING, OPEN SPACE AND LANDSCAPING Application to vary Conditions including: Condition 1 (Approved Plans); Conditions 17 & 20 (Foul & Surface Water Drainage); Condition 21 (Energy Strategy); Condition 22 (Landscape); Condition 25 (Balcony Screens); and Conditions 31 & 33 (Noise). The changes include an additional (eighth) storey to Block B but broadly within the approved massing envelope and including a reduction of building heights, accommodating an additional 19 dwellings. | Land At Former Gas Works Site Park Road Worthing West Sussex'

2.1.2 DSP carried out an independent review of a viability report related to a similar application on this site dated December 2020. Our report (ref DSP 23407T) and appraisals indicated that the proposed scheme of 209 units (with nil affordable housing provision) was not viable by usual measures and that affordable housing would not be supported by the scheme based on the available information at the time. The Council then granted planning approval with nil affordable housing but included provisions for viability to be reviewed at suitable stages to test whether the viability position had improved to the point that a contribution could be made.

2.1.3 DSP also reviewed the viability of the 209 unit scheme at 'pre-commencement' stage in March 2023 (report reference 23407AC), noting that both values and costs had significantly increased since the original viability review but concluding that the net result was that whilst there had been an improvement in the overall position, the scheme indicated a profit of 13.58% of GDV which is below the range suggested by the PPG and which in our view did not demonstrate sufficient surplus for the scheme to make any additional planning contributions.

2.1.4 The applicant has now submitted a new application for an amended scheme, proposing an increased number of units (228 units, increased from 209) as described above. This is stated to be in response to the introduction of new fire regulations which require the inclusion of an additional staircase in buildings over 18 metres in height. The Government has not yet provided the detailed specifications relating to the requirement for second staircases, however Berkeley Homes have updated their fire safety standards in preparation for the coming requirement and as such have amended the plans to include a second staircase in one of the five proposed blocks (Block B), also adding one storey to the building and adjusting building heights of the other blocks and providing some additional parking spaces.

2.1.5 The applicant has referred to previous viability assessments and reviews within the VAS.

2.1.6 The submitted appraisal has been carried out on a residual profit basis, which includes the Benchmark Land Value (assumed at £2.744 million) as a fixed cost and indicates the profit after allowing for this and all development costs. The appraisal, as presented, indicates a profit of only £631,899 (0.83% on GDV) therefore as presented the scheme would not be proceedable by accepted norms. The VAS does not provide comment on this outcome other than to note that the scheme's overall viability remains extremely challenging. The report states that '*the proposed scheme amendments attempt to overcome the cost, floorspace and design impacts associated with introducing a second staircase into Block B*' and concludes that *'no affordable housing can be provided, although the previously agreed contribution is maintained'.*

2.1.7 It can be assumed that the applicant intends to find efficiencies within the development costs as well as hoping for an improvement in the market leading to higher sales values (also driven by 'placemaking') in order for the scheme to reach an acceptable level of profit.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

3.1.1 The following commentary reviews the applicant's submitted viability appraisal assumptions as explained within the VAS and accompanying development appraisals.

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 where considered relevant to this review advice for DC.

3.1.3 In this case, we have also referred to previous viability reviews for the site and assumptions agreed at the time of those reviews.

3.1.4 This type of audit / check is carried out so that we can give the Council a feel for whether or not the presented outcome is approximately as may be expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

3.1.5 As a general point, should there be other changes sought to the scheme proposals this would obviously impact on the appraisal outputs.

3.2 Benchmark Land Value (BLV)

3.2.1 In all appraisals of this type, the base value (value of the site or premises – e.g. in existing use) is one of the key ingredients of scheme viability. A view needs to be taken on land value so that it is sufficient to secure the release of the site for the scheme (sale by the landowner) but is not assumed at such a level that restricts the financial capacity of the scheme to deliver suitable profits (for risk reward), cover all development costs (including any abnormals) and provide for planning obligations as a part of creating sustainable development. This can be a difficult balance to reach, both in terms of developers' dealings with landowners, and Councils' assessments of what a scheme has the capacity to bear.

3.2.2 BLV was discussed in detail in DSP's original viability review of the site in 2021 (and subsequently in 2023) and a BLV of £2.8 million was agreed with the applicant on the basis of the existing use value of the site, including a car park (plus landowner premium), office/storage buildings, the SGN Depot and the area of the former gas holder which was valued as storage land, as follows:

	Rent	Yield	Capitalised value	Purchaser's costs	EUV	Premium	BLV
Car Park	£115,000	8.00%	£1,437,500	6.80%	£1,339,750	20.00%	£1,607,700
Office/Storage Buildings	£22,000	10.00%	£220,000	6.80%	£205,040	0.00%	£246,048
SGN Depot	£45,000	10.00%	£450,000	6.80%	£419,400	0.00%	£503,280
Gas holder (AUV as storage)	£40,000	10.00%	£400,000	6.80%	£372,800	0.00%	£447,360
TOTAL BLV							**£2,804,388**

3.2.3 We consider that the assumed BLV of £2.8 million (equating to c. £2.5 million per hectare) remains suitable and have tested our appraisal results against this same BLV.

3.3 Acquisition Costs

3.3.1 Acquisitions costs of £192,500 have been included in the submitted appraisal as follows:

Acquisition Costs			
Stamp Duty			129,500
Effective Stamp Duty Rate		4.63%	
Legal Fee		0.75%	21,000
Agents' fees		1.50%	42,000
			192,500

3.3.2 Overall the amounts included do not exceed typical parameters and are therefore considered appropriate.

3.4 GDV (residential market sale)

3.4.1 The development consists of 228 dwellings with 222 apartments across five blocks (A to E), and 6 maisonettes now included on the edge of Blocks D and E. The proposed mix is as follows:

Proposed Accommodation - 222 x flats and 6 x houses						
Type	**Block A**	**Block B**	**Block C**	**Block D**	**Block E**	**TOTAL**
Studio			13	17		**30**
1-bed flat	24	14	5	1	13	**57**
2-bed flat	20	30	29	28	27	**134**
3-bed flat				1	0	**1**
2-bed maisonette				1	1	**2**
3-bed maisonette				2	2	**4**
TOTAL						**228**

3.4.2 The total sales revenue is £73,885,000 which is stated to be based on sales advice from Savills (not provided) and equates to £487/ft² average across all units based on the stated NIA of 151,670/ft².

3.4.3 An additional £2.28 million has been included in the submitted appraisal for car parking (114 units including EV charging spaces therefore an average capital value of £20,000 per space), taking the overall assumed GDV to £502/ft².

3.4.4 We note that previous viability submissions/discussions included the following assumptions on sales values (based on 209 flats):

Berkeley 2021	£441/ft² (based on a pricing schedule from Savills)
DSP 2021	£463/ft²
Berkeley (and DSP) March 2023	£482/ft², although sensitivity testing a more optimistic £507/ft².

3.4.5 There has been very little change in the price of flats generally in Worthing since the previous review. Adjusting the March 2023 figures by HPI in flats for Worthing indicates a value of £483/ft² (with the sensitivity test figure increasing to £509/ft²) for flats.

3.4.6 We note that house prices generally in Worthing fluctuated slightly in 2023 and have increased on the two most recent months on record, although being slightly below their 2022 peak at present (based on sales recorded by Land Registry).

3.4.7 We have reviewed sold prices for new build flats recorded by the Land Registry, and as with previous reviews we note that values of £500/ft² to £650/ft² (and in the case of one particular flat as high as £782/ft²) are being achieved for waterfront locations; some of which have parking, however new flats sold further inland have an average sales value of £412/ft² (with most of these sales taking place in 2022 when the market was at its peak). The submitted values are 17.5% above this average which is as expected for 'the Berkeley product', as it is described, being aimed at the higher/luxury end of the market.

3.4.8 Although the proposed development is not directly on the seafront, it is within easy reach of the seafront and some of the properties will benefit from sea views (including some of the flats added in this latest scheme iteration), therefore it is reasonable to expect some increase to the average values on this basis.

3.4.9 We have also reviewed the resale price of flats over the most recent 6 months on record which was £361/ft² average. The submitted values are 35% above this level – again as expected reflecting the premium attached to new build and 'the Berkeley product'.

3.4.10 As a further check we have also reviewed all new build flats offered for sale within 5 miles of the site. The number of examples is limited therefore we give limited weight to this dataset but the advertised prices suggest values of £350 to £450/ft² for any flats that are not in a waterfront location once a discount from the advertised price is taken into account.

3.4.11 Overall the submitted values appear to be reasonably placed although potentially cautious taking into account that based on previous discussions we understand that Berkeley expect the development to benefit from 'placemaking', with higher values also being driven by a high specification (which it should be noted will be reflected in the construction cost).

3.4.12 In order to fully 'stress-test' the viability position, we have adopted a base position on sales values of £509/ft² and have also sensitivity-tested values of £560/m² (plus the assumed £20,000 per space for car parking), noting that the average sales values are unlikely to exceed this point (£575/ft² average including car parking) due to competition from new build and resale apartments at waterfront developments.

3.5 Ground rents

3.5.1 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, we consider that it is acceptable not to include a capital contribution from ground rents within the appraisal.

3.6 Build costs

3.6.1 The build costs applied in the submitted appraisal are based on a Stage 2 Cost Plan from Fulkers Bailey Russell Quantity Surveyors (FBR). The total cost set out by FBR (including contingency) is £56,277,000 which based on the stated GIA of 195,251/ft² equates to £286.76/ft².

3.6.2 The net:gross ratio of the proposed flats/maisonettes is 77.3%. This indicates a higher-than-average level of non-saleable/communal space however the plans include a second stairwell, communal space and two lifts in Block B, as well as cycle storage/bin storage for each of the five blocks.

3.6.3 The submitted cost plan has been separately reviewed by ERMC Quantity Surveyors, whose report is attached as Appendix 1.

3.6.4 In summary, ERMC conclude that the submitted cost is overestimated and have provided their own estimate which is £1,762,000 below FBR's.

3.6.5 ERMC note however that the overall cost of building the scheme is high, partly due to the cost of remediating the site due to its former use as a gas works. ERMC have benchmarked their costs against BCIS and note that their estimated scheme build costs are at the Upper Quartile level. As noted above this is consistent with the relatively high values put forward here (and with the upper-end values being sensitivity-tested in our appraisals).

3.6.6 ERMC's estimate differs from FBR's by only 3.1% and some level of variance would be expected from different surveyors when assessing a scheme of this size. Nonetheless to fully test the viability position we have applied ERMC's lower figure of £54,515,000 including contingency within our appraisal (equating to £277.78/ft²).

3.7 Professional Fees

3.7.1 The VAS appraisal includes 7.0% in professional fees (equating to circa 7.4% of build costs excluding contingency). This assumption does not exceed typical parameters and we have applied the same in our appraisal.

3.8 Sales and Marketing costs

3.8.1 The VAS assumes 4.0% of GDV for sales and marketing. This results in an allowance of £3,046,600 in total which equates to £13,362 per unit. Whilst we accept that a product aimed at the upper end of the market might require additional marketing costs (e.g. multiple show homes) this still appears excessive, and we note that the plans indicate repetition of unit types which suggests that a limited number of show homes could adequately demonstrate the majority of apartment types. It is also reasonable to assume that agent fees and marketing fees on a per unit basis will be reduced due to the bulk scale here (228 units). We consider the submitted sales/marketing/legal costs to be set too high, and in the absence of a detailed/itemised justification of the submitted costs, we have assumed a total of 3.0% GDV resulting in a cost of £2,284,950 or £10,021 per unit.

3.9 The VAS appraisal also allows £750/unit for legal fees relating to disposal of the dwellings, which does not exceed typical parameters. We have not adjusted this in our appraisal.

3.10 Finance costs

3.10.1 The VAS appraisal assumes 100% debt finance with an interest rate of 8.0% which includes all fees. This is at the upper end of assumptions typically seen at this time and we have tested a rate of 7.5%, noting that following a sharp increase in borrowing costs, rates are now easing to some extent. We note also that the credit rate on positive balances within the appraisal is set at 0.0%. If applying a higher interest rate on debt it would also be appropriate to apply a suitable credit rate of circa 5.0% at the current time, therefore we consider our application of a lower rate of 7.5% overall to be suitable.

3.11 CIL/S06 costs

3.11.1 The VAS appraisal includes £442,525 for CIL. We note that the 2024 indexed rate for flats is stated on the Council's website to be £28.60/m² therefore we have applied this rate in our appraisal, leading to an increased CIL allowance of £521,444.

3.11.2 The appraisal also assumes £627,000 in S106 costs (£2,750 per unit), and a further £20,000 contribution to a car club. These amounts are stated to have been agreed as part of the previous application.

3.11.3 The Council will need to confirm the above costs or offer an alternative that can be tested in our appraisal. For the time being we have maintained the submitted assumptions totaling £647,000.

3.12 Profit (Developer's Return)

3.12.1 The VAS appraisal has been carried out on a residual profit basis, with a stated target of 20.0% GDV. The appraisal indicates a profit of only 0.83% on GDV (after allowing for Benchmark Land Value).

3.12.2 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*.'

3.12.3 The PPG, as above, although silent in terms of decision making, does set out a range of between 15% and 20% on GDV for market housing; lower for affordable housing in relation to plan making. Given that the NPPF and PPG expect planning applications to be consistent with the plan making stage, it is therefore also appropriate to assume that the range 15% - 20% on GDV (lower for affordable housing) may be considered application at the decision taking stage.

3.12.4 We do not necessarily agree with the assumed 20.0% profit target in this case, particularly as the various ground condition/remediation reports and the cost plan suggest that the site risks have already been mitigated. As noted above the presented position is that the scheme will produce less than 1.0% profit, and that the developer is reliant on an improvement in the viability position between the point of assessment and sale of the dwellings. We will consider the residual profit indicated by our appraisal as part of our viability overview.

3.13 Scheme timings

3.13.1 The submitted scheme timings include an 8-month period between site purchase/project start and construction start, followed by a pre-construction period of 9 months and a 49-month construction period (with construction assumed to start at the beginning of the 'pre-construction period' and works costs spread in an S-curve from the start of the pre-construction period until the end of the construction period).

3.13.2 Sales completions are assumed to take place over a period 22 months ahead of the end of construction, with 14% of completions (32 units) in the first four months of the sales period and the remaining sales revenue spread evenly across a 27-month period (therefore with the final sale taking place 2 months after the final construction completion). The overall sales rate is circa 7 units per month which aligns with assumptions seen for schemes of a similar size and type.

3.13.3 Marketing is assumed to begin alongside construction, with costs applied spread evenly across the marketing period which lasts until the end of construction.

3.13.4 In addition, we have consulted the BCIS duration calculator for schemes of a similar nature which suggests an overall construction period of 27 months. Based on a '90% confidence level' BCIS indicates a range of 23 to 30 months which suggests that the submitted 49-month build period is potentially excessive.

3.13.5 However, it is likely in this case that the five blocks will be completed in sequence, with some of the construction running concurrently, therefore allowing some sales in the earlier blocks whilst the remainder are constructed. Based on our experience of similar schemes, a single block of c. 50 units will take 15 to 18 months to construct therefore we have assumed 5 stages of 15 months each, with sales beginning 6 months after completion of the first block, and continuing until 5 months after completion of the final block, as follows:

Assume 5 blocks with staggered completions				
	Project Month			
BLOCK	Construction Start	Construction End	Sales completions Start	Sales Completions End
Block 1	9	24	30	38
Block 2	18	33	33	41
Block 3	27	42	42	50
Block 4	36	51	51	59
Block 5	45	60	60	68

3.13.6 We have therefore adjusted the appraisal timings as follows resulting in a total construction period of 51 months, which is similar to the overall period within the submitted appraisal:

Stage	Start month	End month	Duration
Purchase	1	1	1
Pre-construction	1	9	8
Construction	9	60	51
Marketing period	9	68	59
Sales exchanges	22	66	44
Sales revenue	30	68	38

3.13.7 Within our appraisal, applying the above timings, we have assumed that sales revenue and construction costs are spread evenly across the relevant periods.

3.13.8 Making the above adjustments in isolation (i.e. without varying any of the applicant's other assumptions) results in an improvement to the profit position of c. £600,000. However when tested alongside other DSP assumptions noted above, this results in a reduction in the profit position of over £1 million. This illustrates the sensitivity of appraisal outcomes to changes in assumptions when applied to a scheme of this size.

3.13.9 Overall, having tested alternative timing assumptions we consider that the submitted assumptions are a reasonable proxy for what will occur with the scheme. Having considered the likely spread of costs over the duration of the scheme it would not be reasonable to reduce the assumed construction period in line with the duration suggested by BCIS without making adjustments to other assumptions such as the spread of construction costs and sales revenue timings.

3.13.10 Therefore within our trial appraisals we have not adjusted the submitted timings. We will however carry out sensitivity testing on costs and values to illustrate the potential variation in the viability position over time.

4. Summary - Overview

4.1.1 We consider the submitted overall approach to assessing the viability of the proposed development to be appropriate in terms of general principles and approach to the development appraisal.

4.1.2 We also consider the majority of the submitted assumptions to be suitable. However, there are some aspects where we have tested alternative assumptions, as follows:

- Sales values (see 3.4, above) – whilst these appear to be within the expected range, the comparable evidence is limited and we note that the assumed values appear fairly cautious. Many of the units in the scheme will benefit from sea views and the assumed build cost is at an Upper Quartile level which can be expected to include a specification which will drive above-average values. We have tested a base position of £509/ft² (average) across the scheme and have also sensitivity tested £560/ft² reflecting the 'Berkeley product' and the aim for 'placemaking' to contribute to improved sales values, and consistent with the stated high specification of the build. Combined with the assumed revenue for parking spaces this higher sensitivity test equates to £575/ft². We consider that values are unlikely to exceed this level due to competition from other developments (new build and resale) in waterfront locations.

- Build Costs – (see 3.6). These have been reviewed by ERMC surveyors who although broadly in agreement with the majority of the submitted costs, estimate the overall cost including contingency to be c. £1.7 million lower than the applicant's QS. In order to fully test the viability position we have applied ERMC's lower estimate of £54,515,000 in our appraisal.

- Marketing costs (see 3.8). The submitted costs appear excessive and in the absence of a detailed/itemised justification of the submitted costs, we have assumed a total of £2,284,950 or £10,021 per unit.

- Finance (see 3.9) – the submitted appraisal assumes a rate of 8.0% interest (based on 100% debt finance including all fees). This is at the upper end of assumptions currently seen. We have tested an interest rate of 7.5%.

- The VAS appraisal includes £442,525 for CIL (see 3.10). We note that the 2024 indexed rate for flats is stated on the Council's website to be £28.60/m² therefore we have applied this rate in our appraisal, leading to an increased CIL allowance of £521,444.

- S106 costs (see also 3.10). The appraisal also assumes £627,000 in S106 costs (£2,750 per unit), and a further £20,000 contribution to a car club. These amounts are stated to have been agreed as part of the previous application. We have not adjusted these amounts in our appraisal - the Council will need to confirm the above costs or offer an alternative that can be tested in our appraisal.

- Profit (see 3.11) – the assumed return for risk is at the upper end of the range suggested by the PPG. We will consider the outcome of our appraisals in terms of a suitable profit target.

- Scheme timings (see.3.12) – We have tested alternative scheme timings/spread of revenues/costs. Overall, these do not alter the viability outcome and results vary according to the scenario tested and the other assumptions applied. We have not altered the submitted assumptions, however we note the potential for alternative timings to move the profit position depending on the scenario tested. This is part of the uncertainty that exists when assessing a scheme of this size, and we will carry out sensitivity testing of our appraisal assumptions (generally) to assist with the view taken of overall scheme viability.

4.1.3 When making our suggested adjustments as noted above, the proposed scheme produces the following results:

DSP appraisal results (profit after allowing fixed cost of BLV at £2.8 million)							
	GDV (£/ft²) flats	Total GDV (£) including car parking spaces	Total GDV (£/psf inc car parking spaces)	Residual Profit	Profit (% GDV)	Submitted target profit (20.0% GDV)	Surplus/deficit against submitted target profit of 20.0% GDV
DSP base position	£509	£79,480,030	£524	£10,521,028	13.24%	£15,896,006	-£5,374,978
Sensitivity test higher values (likely maximum average value)	£560	£87,215,200	£575	£18,539,595	21.26%	£17,443,040	£1,096,555

4.1.4 Having applied a fairly positive set of assumptions in our base appraisal (for 100% market housing) the results indicate a significant deficit against the target level of profit. Although we do not necessarily agree with the target level of 20.0% profit, our base appraisal indicates a 13.24% profit which is below the 15 to 20% range suggested by the PPG and therefore indicates that the scheme does not show scope for a contribution to affordable housing.

4.1.5 We have also sensitivity tested an optimistic development value assumption of £575/ft² (including parking) which in our view would require an improvement in values from the current market position as well as a significant uplift due to 'placemaking' as hoped for by the applicant.

4.1.6 Contrary to the submitted position which suggests that there would be very little profit at all from the scheme, our appraisals demonstrate that the scheme is deliverable, and our sensitivity test position above is likely representative of the position that Berkeley hope to reach if market conditions become more favourable.

4.1.7 However, stepping back and viewing the viability as a whole, we agree that based on present day costs and values the scheme will not support a contribution to affordable housing. This is principally due to the high build cost needed to support the assumed values, alongside site remediation costs.

4.1.8 As noted above there is uncertainty in estimating costs and values for a scheme of this size, as well as scheme timings which can have a significant effect on profit outcomes. Therefore, for the Council's information we have used the sensitivity testing function in Argus developer to assess the impact of changes up and down in construction costs and sales values, with results as follows:

Sensitivity Test showing Profit (£, and % GDV) with changes +/- up to 5.0% in sales values and build costs from DSP base position					
Construction: Gross Cost	Sales: Gross Sales				
	-5.000%	-2.500%	0.000%	2.500%	5.000%
	73,340,029	75,270,029	77,200,030	79,130,031	81,060,032
-5.000%	9,832,184	11,844,995	13,847,888	15,843,761	17,835,005
51,789,250	13.002%	15.274%	17.423%	19.462%	21.400%
-2.500%	8,156,955	10,176,606	12,189,086	14,191,980	16,187,878
53,152,125	10.787%	13.123%	15.336%	17.433%	19.424%
0.000%	6,475,215	8,502,069	10,521,028	12,533,178	14,536,071
54,515,000	8.563%	10.963%	13.237%	15.395%	17.442%
2.500%	4,785,310	6,821,384	8,847,184	10,865,450	12,877,269
55,877,875	6.328%	8.796%	11.131%	13.347%	15.451%
5.000%	3,085,995	5,131,480	7,167,554	9,192,299	11,209,871
57,240,750	4.081%	6.617%	9.018%	11.291%	13.451%

4.1.9 The above table demonstrates that to reach the applicant's stated 20.0% profit target, the situation would have to improve from DSP's assessment of present day value/costs via a close to 5.0% increase in sales values alongside a 5.0% decrease in build costs; or some equivalent combination. Again, this most likely shows the position that the applicant is hoping to reach having taken the risk of investing in the scheme, relying on strong values derived from 'the Berkeley product' and an element of 'placemaking' but supports our conclusion (having robustly scrutinised the submitted figures) that there is not sufficient scope for an affordable housing contribution in this case.

4.1.10 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 to also consider later stage review mechanisms when significant developments fall short of policy provision. In this sense, the applicant and their advisors 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.

4.1.11 As regards the wider context including the challenging economic situation, 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. The very latest indications are of decreasing house prices; thought likely to continue over the coming year or more although balancing this to some degree, trends are also pointing to a potential slowdown in construction cost inflation as demand appears to be falling for residential projects, with the most recent rates indicated by BCIS showing some lower rates than previous months; however, it is not yet known whether these indications will be developing into longer-term trends.

4.1.12 The RICS Professional Standard notes that 'Development risk' reflects: '*The risk associated with carrying out, implementing and completing a development, including site assembly, planning, construction, post-construction letting and sales*' and that '*The return for the risk is included in the developer return and the PPG makes it clear that it is the developer's job to mitigate this risk, not plan makers and decision takers'*. This is all part of the usual development process. Furthermore, in reflecting the PPG the RICS Professional Standard notes: '*PPG paragraphs 007 and 009 reflect on the impact of market cyclicality during the life of the plan. Paragraph 007 gives market downturns as one example of the justification for a site-specific FVA, but it is restricted to "a recession or similar significant economic change". This implies the exclusion of normal market cyclicality, which is embedded in the level of developer return'*.

4.1.13 DSP will be happy to advise further as required.

Review report ends
March 2024

Appendix 1 – Cost report (ERMC Quantity Surveyors)

Appendix 2 – DSP version of applicant appraisal – base appraisal - Summary

Appendix 3 – DSP appraisal summary – sensitivity test max values