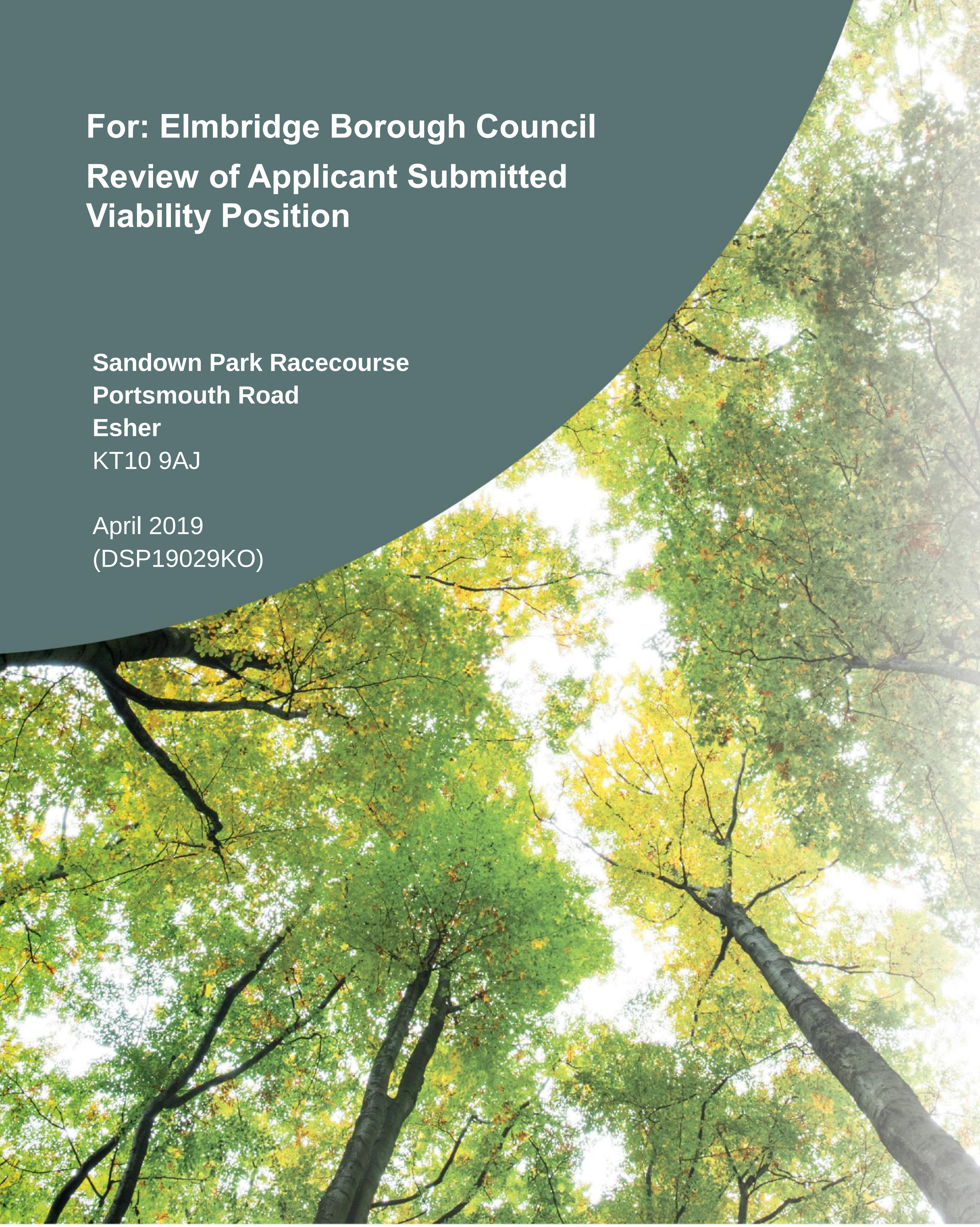
For: Elmbridge Borough Council

Review of Applicant Submitted Viability Position

Sandown Park Racecourse
Portsmouth Road
Esher
KT10 9AJ

April 2019
(DSP19029KO)



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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 Elmbridge Borough Council (EBC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case.

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 It has not been specified whether the information supplied to DSP to inform and support this review process has been supplied by the prospective / current planning applicant on a confidential basis. In looking at 'Accountability' the July 2018 published revised 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.' 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).

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Elmbridge Borough Council (EBC) to carry out an independent review of the 'Financial Viability Assessment' (FVA) submitted as part of planning application number 2019/0551 supplied to the Council on behalf of the applicant by Rapleys. This is in relation to the proposed redevelopment of five sites within Sandown Park Racecourse, Portsmouth Road, Esher, KT10 9AJ.

2.1.2 A hybrid planning application has been submitted under planning reference 2019/0551 and proposes the redevelopment of Sandown Park Racecourse involving:

- An outline application for the development and redevelopment of the site to provide racecourse and associated/other facilities, hotel (to 150 bedrooms), up to 318 residential units and nursery use (Use Class D1), with car parking, access and related works (for access only).
- A full application for the widening of the southwest and east sections of the racecourse track including associated groundworks, re-positioning of fencing, alterations to existing internal access road from More Lane and new bell-mouth accesses serving the development.

2.1.3 The Development Plan for the area currently comprises the Elmbridge Core Strategy 2011 and the Elmbridge Development Management Plan 2015. Policy CS21 of the Core Strategy relates to affordable housing (AH) and states that developments of 15 or more units are required to provide 40% affordable housing, or 50% affordable housing if on greenfield land.

2.1.4 It is unclear what proportion of the site is classed as greenfield and the submitted FVA has tested differing levels of affordable housing up to a maximum of 50% (159 units).

2.1.5 In presenting their viability position, the applicant has supplied to the Council a viability report setting out headline figures for costs and fees, as well as various appendices:

Appendix 1 – Masterplan
Appendix 2 – Accommodation schedules
Appendix 3 – Leslie Clark Cost Plan of racecourse improvements
Appendix 4 – Sales report
Appendix 5 – Hotel valuation
Appendix 6 – Calford Seaden cost plan for construction of housing

Appendix 7 – Printed viability appraisals

2.1.6 Working, electronic versions of viability appraisals have also been provided.

2.1.7 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. However, for the Council's consideration, some commentary is provided on the nature and potential suitability or otherwise of the chosen viability benchmark in the case of the submitted appraisal. This is because the residential and other elements of the scheme that will directly create value have been viewed essentially as a means of enabling the meeting of the estimated significant costs associated with the proposed improvements to the racecourse facility.

2.1.8 A viable development can be defined as *"the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project"*[1]. Under normal circumstances where a viability appraisal is provided, if the residual land value (RLV) created by a scheme proposal exceeds the value of the existing use (or, in the absence of a clear existing use, potentially an alternative use value) 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).

2.1.9 The submitted viability report has been carried out on a residual value basis, whereby the estimated costs of development (including a fixed level of profit, and all CIL and S106 costs including a contribution to affordable housing) are deducted from the estimated gross development value. The resulting surplus/deficit is then used to assess the impact of the planning obligations on the viability of the scheme.

2.1.10 The overall approach of the FVA is to assess the residual value of the hotel (site B – proposed to be sold as land with planning permission), family/community facilities (site 2c - shell and core of café/softplay leased to an operator, and cycle track/park) and five residential sites (comprising up to 318 flats) and then compare this value with the amount

[1] Financial Viability in planning – RICS Guidance note (August 2012)

stated to be required for various improvements to the racetrack, racecourse facilities and staff accommodation (Grandstand, sites A, C, D, E1/E2 and F).

2.1.11 The FVA is accompanied by various viability appraisals testing different proportions of affordable housing provision. The report concludes that a policy-compliant contribution of 40% affordable housing is not viable[2] once the cost of racetrack improvements have been taken into account, and that the maximum proportion that can be provided is 15%.

2.1.12 This review does not seek to pre-determine any Council positions, but 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.

2.1.13 Elmbridge Borough Council 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, this report provides our views. We have based our review primarily on the submitted scheme appraisal to see if the viability assumptions are valid in our opinion and whether the base position put forward by the applicant is reasonable. We then discuss any variation in terms of any surplus (or deficit) created from that base position by altering appraisal assumptions (where there is disagreement) utilising the applicant's appraisals as a base.

2.1.14 This assessment has been carried out by Nick Molyneux overseen by Richard Dixon and Rob Searle of DSP, who have many 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 assessing the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 16 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 the Council - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.

[2] It is unclear whether a policy compliant scheme would require 40% or 50% affordable housing, or somewhere in between the two. This is for the Council to consider, i.e. whether all or part of the site is previously developed land or greenfield.

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

3.1.1 The following commentary reviews the applicant's submitted viability assumptions as set out in the FVA and associated documents.

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 (the appraisal assumptions) provided, as below. We have also 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 Council a feel for whether or not the indicated profit and land value positions are approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

3.1.4 Should there be changes to the scheme proposals (noting the current outline nature of key elements here) this would obviously impact on the appraisal outputs.

Benchmark Land Value

3.1.5 In all appraisals of this type, the base value (value of the site or premises primarily considered in existing use terms) 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. These principles need to be considered as part of a typically and market norm type approach to viability review, at least comparatively, even though in this case a different, enabling type, approach has been put forward by the applicant team. We therefore need to consider this in the normal way, as well as informing any wider approach to this by EBC.

3.1.6 The RICS Guidance 'Financial Viability in Planning'[3] states that:

[3] RICS Professional Guidance – Financial Viability in Planning (August 2012)

'A viability appraisal is taken at a point in time, taking account of costs and values at that date. A site may be purchased some time before a viability assessment takes place and circumstances might change.

This is part of the developer's risk. Land values can go up or down between the date of purchase and a viability assessment taking place; in a rising market developers benefit, in a falling market they may lose out.

A developer may make unreasonable/overoptimistic assumptions regarding the type and density of development or the extent of planning obligations, which means that it has overpaid for the site'.

3.1.7 The revisions to the Viability PPG and the new NPPF (further updated in 2019 but to 24.07.18 in respect of 'Viability') now very clearly advise that land value should be based on the value of the existing use plus an appropriate level of premium or uplift to incentivise release of the land for development from its existing use. In regards to how land value should be defined for the purpose of viability assessment it states *'To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner.'*

3.1.8 The guidance defines existing use value as: *'the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'*

3.1.9 It states that a Benchmark Land Value should:

- *'be based upon existing use value*

- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.'*

3.1.10 The guidance further states that: *'Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).'*

3.1.11 In relation to the use of an alternative use value to determine BLV, the guidance states: *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'*

3.1.12 It is therefore clear that the only acceptable approaches to defining a benchmark land value for the purposes of a viability assessment, is the EUV+ or exceptionally AUV.

3.1.13 In this case, an approach has been taken which differs from the framework and guidance set out above. The development is being proposed in order to raise funds to carry out improvements to the racecourse, and the cost of the proposed improvement works has been used as the benchmark against which the residual value of the scheme is compared.

3.1.14 The residential development of 318 units is spread across five sites, with current and proposed use as follows:

SITE	SIZE (ha)	Current use	Number of flats	Comments
Site 3	1.76	Racecourse facilities and staff accommodation.	114	100% private housing
Site 1	0.24	Overflow stables	15	May contain affordable housing
Site 2	0.46	Car parking for Sandown Park Lodge Hotel. Stables	49	Affordable housing
Site 5	0.99	Overflow car parking (50%) / Children's nursery (50%)	68	May contain affordable housing. Will contain nursery site (0.18ha)
Site 4	0.57	Occasional parking	72	May contain affordable housing)
TOTAL			**318**	

3.1.15 As part of the proposals, the children's nursery currently on site 5 will be demolished and replaced on the western side of the same site.

3.1.16 The proposed children's café/soft play will be provided on site C (3.3ha, not included in the above table), which is currently a karting track, with the lease due to end in June 2019. The site is stated to be used as a viewing area on race days.

3.1.17 The hotel is proposed for site B (0.3ha, not included in the above table), which is mainly hardstanding, currently vacant and used for overflow car parking.

3.1.18 Following the approach set out in planning guidance, the BLV should be based on the land in its current use as described above (that is, the existing use of sites 1 to 5 (proposed for residential development), site B(proposed to be sold as hotel site) and site C (proposed as a family zone/softplay/café), which are acknowledged by the FVA to be of nominal value.

3.1.19 The FVA does not offer an opinion of the BLV were this to be considered in the conventional sense – i.e. land value based on the EUV principles noted above. We acknowledge that considering this would not be a straightforward matter. However, purely for high-level illustration/comparison purposes, for example were we to assume a BLV overview at a blended say £500,000/ha across the proposed revenue generating elements of the site, the benchmark in use would be at only a fraction of the enabling costs (£7.62 Ha @ £500,000 = c. £3,810,000m) related benchmark of £38,000,000 that has been submitted (see below). From this we can see that under no circumstances would a typically approached BLV, assessed in accordance with the guidance, come anywhere near the level of the selected benchmark approach. In other words, as the FVA acknowledges, the benchmark put forward amounts to a very high hurdle over which the scheme proposal collective RLV is expected to reach, as submitted.

3.1.20 If, however the applicant's enabling works cost related approach is accepted, and the Council accepts a reduction in affordable housing provision to enable the development as a whole on the basis that there is a community benefit to modernisation of the racecourse, aside from its review of the appropriateness or otherwise of that in principle, we assume that it is also necessary for the Council to consider the reasonableness of the estimated costs, as presented, of the racecourse improvements – as set out in the submitted cost plan prepared by Leslie Clark as part of the viability submissions.

3.1.21 We have therefore commissioned a separate independent assessment of the Leslie Clark cost plan, as a second opinion for EBC, due to this being a specialist area and this being a large figure; the most significant factor in the viability of the scheme. The race course related improvement works, if accepted in lieu of a BLV, will result in a reduction in the amount of affordable housing that can be provided – compared with the view that would be arrived at were an EUV based land value benchmark approach run as usual.

3.1.22 The Leslie Clark cost plan estimates the cost of the race course improvement works to be a total of £38,090,000. The second opinion commentary on that cost plan estimate, provided by MWA Associates as at April 2019, is attached to this report as Appendix 2, and identifies potential savings of £8,174,580 against the submitted cost plan in relation to the race course works costs estimates.

Gross Development Value (GDV) – Private Residential

3.1.23 The FVA includes assumed sales values for the 318 private flats based on advice from Leaders Romans estate agents. The flats have a total floor area of 22,621m² (243,490 ft²), based on a value of £7,277/m² (£676/ft²) on average ranging between 6,631/m² (616/ft²) and 7,599/m² (706/ft²) and amounting to a total estimated GDV of £164,605,000.

3.1.24 In order to ascertain whether the FVA figures are reasonable assumptions on these values, we have carried out our own desktop research of property values using property search engines and land registry data to review local market indications for properties (both re-sale and new build as available) considering current / recent asking prices and where available sold prices in the locality since the beginning of 2018.

3.1.25 There is a lack of data on the sale of new build flats close to the site within the past year. Land Registry data on resales indicates an overall average sale price for flats of £5,909/m² (with most being of two-bed size). We would generally expect new build flats to command a premium of at least 10% over this value, and we would also expect a premium to be attached to the prestigious location at Sandown Park, with easy access to the railway station for commuters also a likely attraction. Overall we would expect a 20% to 25% increase on the average resale values, which would suggest values in the order of £7,000/m² to £7,400/m² in our view.

3.1.26 Purely for wider context, we have also reviewed the recent, broadly similar, development context at Newbury Racecourse, where most of the flats have sold or been reserved. Asking prices per square metre in that instance are approximately 25% above the average price of flats in the area.

3.1.27 The comparisons above indicate that the FVA assumptions, which work out on average at £7,277/m² are approximately 20% above average sales values for flats in Esher, as viewed currently, and therefore in our view represent a not unreasonable estimate of development value in the circumstances (assuming the scheme details come forward as currently proposed in outline).

Gross Development Value (GDV) – Affordable Housing

3.1.28 The FVA has assumed an affordable housing tenure mix of 70% social rent, 4% Affordable Rent and 26% shared ownership.

3.1.29 Social rents have been calculated to be £145 per week for 1-beds, £169 per week for 2-beds and £178 per week for 3-beds.

3.1.30 Affordable Rents have been assumed at 90% of the weekly LHA rate as per EBC's policy, thus £161, £200 and £249 per week.

3.1.31 Net rents (after management and maintenance costs) have been capitalised at 5.75%.

3.1.32 This results in the rented affordable housing (the SO element is considered seaparately, below) working out at a value of between 30% and 40% of the private sales values (depending on the proportion of affordable included).

3.1.33 We consider these assumptions to be not unreasonable overall, again bearing in mind that they are based on outline proposals. Whilst the values overall are lower than seen on some other schemes, they are within expected parameters given that 70% of the units are proposed as social rent. We recommend that, if permission is granted, the inclusion of social rented units be specified in a S106 agreement, as any subsequent changes to the tenure mix, even from social rented to 'Affordable Rented' tenure, would alter the viability position.

3.1.34 The FVA proposes social rented housing being provided for use of ''JCR essential workers". This is not something which affects the viability in terms of build cost and rental income, however we recommend the Council verifies how these units would be allocated and whether they would meet the Council's definition of affordable housing.

3.1.35 Shared ownership assumptions include a 25% initial sale with staircasing over 30 years, resulting in a capitalised value overall of 74% of market value. This is toward the upper end of the values expected for units with this level of initial share, therefore we have not queried this further.

<u>Ground rents</u>

3.1.36 Ground rents have not been included within the development value assumptions. For the purposes of our appraisal, we have assumed, conservatively, ground rents at £300 per annum for each flat, capitalised at 4.5%. This adds a total of £2,120,000 to the GDV, which in view should be accounted for at this point of review.

Gross Development Value – Nursery

3.1.37 The FVA assumes that the 0.18ha of nursery land (0.44 acres) will be sold as a cleared site with planning permission for £1,050,000 (£2.39 million per acre). Profit has not been applied to this price, which is based on a residual value for constructing a 6000 ft² nursery.

3.1.38 No supporting evidence has been provided with regard to this value. However, in our view this is very unlikely to have been under-estimated – a positive view has been taken from what we can see, based on experience and amounting to revenue equivalent to c. £6m/Ha.

Gross Development Value – Hotel (150 beds)

3.1.39 The FVA uses advice received from Savills on the likely value of the proposed hotel, which is described as:

- Upper midscale branded hotel
- 150 rooms
- Two meeting rooms
- Bar
- Dining Area
- Outdoor seating
- Terrace
- Reception
- 150 parking spaces.

3.1.40 The FVA uses a valuation by Savills of the hotel at £2,473,000 (£16,500 per room) based on sale of the land with planning permission. Again, profit has not been applied to this price.

3.1.41 Full details of Savills' calculations leading to the above land value have not been provided. However the following information is included within the submission:

- Capitalised value of the hotel (when built) of *"£19,300,000, [which] equates to approximately £129,000 per key. This is after purchaser's costs of 6.8%"*.
- Build cost per key (room) of £82,500, with a further £7,500 per key (room) of fixtures, fittings and equipment costs, plus standard professional fees.

- Build period of 18 months and a 3% contingency.

3.1.42 We have carried out our own research around hotel values, which indicates that the capitalised value is within the expected range for a mid to upper range hotel of this size in such a location. Outside London, this level of capital value is closer to that achieved for more individual / 4-star country house hotels or similar, than for standard business traveller type hotels. This appears appropriate in the particular circumstances.

3.1.43 The proposed build period of the hotel is within typical parameters. Regarding the build cost, we have carried out a high level estimate using the BCIS median build cost (rebased to an Elmbridge location factor) of £2,619/m² for hotels, assuming a room size of 18m² and net:gross ratio of 60:40, which leads to a build cost of £10,476,000. Assuming a further 15% to cover external works and fees gives an estimated build cost of £12,047,400, which breaks down to circa £80,000 per room before fixtures and fittings. This indicates that the cost estimated in the FVA is within the expected range.

3.1.44 Overall we consider the value attributed to the land with planning permission for a hotel to be a not unreasonable assumption.

Gross Development Value – Family/community zone softplay café.

3.1.45 This is proposed as a community facility which will be free to local residents outside of race days. It is proposed that the 7,539 ft² soft play and café will be delivered as shell and core and then leased at a rate of £15 per ft² (£113,010 per annum). The rent has been capitalised at 7% and 6.19% purchaser's costs (£99,933) have been deducted to arrive at a valuation of £1,514,496. The rent is said to be based on 'comparable rental information', however that information has not been provided.

3.1.46 Development Profit of 15% has been applied to this value, which we consider to be a not unreasonable assumption.

3.1.47 We have reviewed softplay/café businesses currently advertised, and it has not been possible to find a direct comparable in the local area. Rents achieved on similar facilities are highly dependent upon location/accessibility. However, compared with rents on similar facilities, the rental assumption above is at the upper end of achievable rents for this type of business, reflecting the location, and again overall we do not consider these to be unreasonable assumptions.

Development Timings & Development Finance

3.1.48 Finance costs have been assumed in the FVA based on debt finance rate of 6.0% per annum, inclusive of all fees. A credit rate of 0.75% has been assumed.

3.1.49 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*'.

3.1.50 RICS also points out that it is often the case that schemes are modelled at current costs & values i.e. *ignoring* inflation (as is the case here). In this case RICS Financial Viability in planning paper states in appendix D 4.5 '... *current values and costs should be used together with a* ***net*** *of inflation finance rate. Such a net of inflation rate would be much lower than a bank rate (which naturally includes inflation expectations*)'.

3.1.51 The assumed rate of 6.0% including all fees is within the range typically seen in the current market and we have not amended this rate in our appraisal.

3.1.52 The following timetable has been assumed, beginning in February 2019 with the construction of Site 3, and with the following phases – some of which are overlapping resulting in an overall programme of 96 months' duration:

SITE	Number of flats	Construction period (months)	Sales period (months)	Sales period start
Site 3	114	24	12	6 months before completion
Site 1	15	14	3	Completion
Site 2	49	21	1	Completion
Site 5	68	22	12	6 months before completion
Site 4	72	18	12	6 months before completion
TOTAL	**318**			

3.1.53 The period in the table above for site 2 includes the construction of the shell and core of the café/soft play on site C.

3.1.54 An indicative phasing plan has also been provided. Some of the above stages overlap, so that the apparent total of 104 months construction and 41 months sales (i.e. as viewed individually) is proposed to take place over a total project period assumed at 96 months (8 years).

3.1.55 The timing of the individual sites is within typical parameters, and we do not consider the proposed sales period for each scheme to be unreasonable. The phasing is described as being subject to change, and may depend on factors such as the need to maintain the operation of the racecourse whilst works are carried out and the need to avoid flooding the market with too many flats being completed at one time. Aside from these issues, the sites are discrete and could potentially be started and delivered more closely together (concurrently to a greater extent), so there could be potential to see a different sequencing and to shorten the project period and achieve further overall savings. Such an approach would be likely to improve the flow of available enabling funds, on the basis that these are released as the various scheme elements progress (the approach that seems to be assumed). However, in balance with this we would accept that to a degree the market conditions and "absorption rate" achieved as the scheme progresses will have an influence on the subsequent phases (sites coming forward).

3.1.56 Nevertheless, in our view the Council needs to be mindful of the outline nature of the main value generating elements at this stage. Viewed in conjunction with the lengthy overall assumed timings, it may well be appropriate to consider that ultimately the scheme details could vary from those currently being assumed. In this context, in any event some consideration of review mechanisms – revisiting viability subsequently, and potentially more than once, could be appropriate should the support for affordable housing and other matters fall short when viewed at the outset. In this case, later stage review(s) could also be informed by the evolving picture of actual values and costs as this progresses.

<u>Acquisition costs: Stamp Duty, agent's fees and legal fees</u>

3.1.57 Stamp Duty of has been included at a rate of 4.87% on the residualised price. This follows the basis that costs at broadly these proportions would be payable on land purchase under normal circumstances. This should be linked to the consideration of the BLV, therefore, and whilst we will not adjust this assumption owing to circularity at this stage, this may need to be looked at further on settling the initial viability view.

3.1.58 An agent's fee of 1.0% and legal fee of 0.5% on the acquisition have been included. These costs are within the range we would expect. However, ass with the stamp duty above, these assumptions do not seem consistent with the approach to benchmark land value – since they are calculated as a proportion of the residual value generated by the scheme. We have not considered specific alteration of this assumption at this stage however we consider that all fees/costs relating to land value are probably currently over-stated.

<u>Acquisition costs: Planning fees</u>

3.1.59 £250,000 has been included for Town Planning, based on an assumption of £50,000 per residential site. Normally we would expect this to be covered by the percentage estimate for professional fees relating to construction, however when added to the 8% on construction costs included for fees the total is still within expected parameters, and we have not amended this figure in our appraisals.

<u>Cost Assumptions - Build Costs</u>

3.1.60 An order of cost plan for construction of the residential properties has been provided by Calford Seadon, which shows a cost of £2,640/m² including design fees and 8% contingency. The FVA has removed the design fees and contingency to arrive at a basic build cost for use in the appraisals (including contractor's overheads and preliminaries, *and* all external costs) of £2,314/m².

3.1.61 We have researched the BCIS (Building Cost Information Service of RICS) costs data, rebased to an Elmbridge location factor, which are as follows:

BCIS – Flats (apartments) rebased to Elmbridge, 5 years, as at 30 Mar 2019	**Median £/m² gross internal floor area**
Generally	1648
1 – 2 storey	1642
3 – 5 storey	1636
6+ storey	2095

3.1.62 Applying the rate from the above BCIS costs to the proposed scheme indicates the following basic build cost, based on internal area (*before* external costs and contingency):

	TOTAL	Storeys	Floor area (ft²)	Floor area (m²)	BCIS median	Rate	Basic build cost (BCIS)
Site 1	15	2 and 3	10750	999	£ 1,642	(2 storey rate)	£ 1,639,877
Site 2	49	3	40250	3739	£ 1,636	(3 to 5 storey rate)	£ 6,117,570
Site 3	114	3	84450	7846	£ 1,636	(3 to 5 storey rate)	£ 12,835,497
Site 4	72	4,5 and 6	61440	5708	£ 2,095	(6 storey rate)	£ 11,958,177
Site 5	68	4	46600	4329	£ 1,636	(3 to 5 storey rate)	£ 7,082,702
TOTAL	**318**	-	**243490**	**22621**		**TOTAL BASIC BUILD COST**	**£ 39,633,823**
Total (ft2)	243490					**Average build per ft²**	**£ 162.77**
Total (m2)	22621					**Average build per m²**	**£ 1,752.08**

3.1.63 The gross dwelling areas used in Calford Seadon's estimate (stated to be based on dwelling sizes as advised by PRC Architecture & Planning) when compared with the accommodation schedule provided, indicate a net:gross ratio of 78%. Applying this to the BCIS figure would bring the total base cost to £50,768,698.

3.1.64 Typically in such circumstances we would expect to see up to around 10% added to this figure to reflect the cost of external works. The plans for the five sites show a fairly typical scope of landscaping/parking relating to the proposed flats in our view.

3.1.65 On this basis, adding 10% to the above figure would bring the BCIS equivalent cost to £55,845,568, or £1,927/m^2 (179/ft^2) based on gross area as compared with the submitted cost of £67,160,625, or £2,314/m^2 (215/ft^2).

3.1.66 Looking in more detail at the range of information within the BCIS costs (below), applying a lower quartile rate would lead to a cost of £49,194,472. Using the upper quartile cost gives a figure of £66,102,625.

3.1.67 The Calford Seadon cost plan includes a financial uplift applied to the internal private specification (£6,000 per unit), an extra £200/m^2 for 'façade enhancements' and costs relating to lifts and wheelchair accessibility as well as an 'enhanced external envelope' for sites 3, 4 and 5, which includes balconies. Also, an element of professional fees has been included in the Calford Seadon plan, which are not accounted for in the BCIS cost.

3.1.68 Overall, in our view the build cost is toward the upper end of the range that may be expected for this type of housing – which considering the location, the potential market, and the projected sales values is probably not unreasonable. However we would recommend that the Council is satisfied that the development will be delivered to the proposed standards and all relevant requirements commensurate to both the policies and the values estimates.

3.1.69 A contingency of 5% has been included in the FVA on all construction costs. This assumption is not outside expected levels.

Cost Assumptions - Professional Fees & Contingencies (Residential)

3.1.70 In addition to the build costs, an allowance has been made for professional fees at 8% of total build costs. This is within the typical range in our experience. As explained in the FVA, the submitted appraisal includes rates of roughly 3% for fees to allow for the fees already included within the build cost – avoiding overlapping of allowances.

Cost Assumptions – Agent's, Marketing & Legal Fees

3.1.71 For the residential element of the proposal, the FVA has assumed 2.5% sales agent's fee on the private units and 1% on the affordable, and legal fees of £600/unit for the private units and £400/unit for the affordable. The agents' fees are higher than some seen. However overall the agents' and legal fees are within expected parameters.

3.1.72 For the commercial element (café/softplay), 10% of one year's annual rent (a total of £11,301) has been added for letting agents' fees, and 3% (£3,390) for letting legal fees. These costs appear high, however do not make a significant difference to the viability outcome therefore we have accepted them for the purposes of our appraisal.

3.1.73 As mentioned earlier in this report, purchaser's costs have been included at a rate of 6.19% on the café/softplay, which represents typical costs for purchase of an investment of this nature.

Cost Assumptions – Community Infrastructure Levy/ Section 106 Payments / Planning Obligations

3.1.74 The FVA states that detailed information regarding S106 was not available at the time of appraisal, and an assumption of £3,000/unit has been made.

3.1.75 Similarly, £1,500 per unit for S278 works has been assumed.

3.1.76 CIL has been calculated in the FVA on the net additional floorspace at the indexed rate, and with the appropriate discount applied where affordable housing is included. Thus the CIL payment varies from £2.3 million where 50% affordable is included, to £4.7 million assuming a 100% private scheme.

3.1.77 Whilst these assumptions are within the range we would expect, we recommend the Council verifies the correct amount of contributions that are applicable. It should be noted that any change in the chargeable sums would have an impact on the overall viability of the scheme as viewed through the appraisal - a reduction in the CIL cost (and/or s106/s278) 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.

Developer's risk reward – profit

3.1.78 The development appraisal has been carried out on the assumption of a profit level of 17.5% on GDV across the five residential scheme elements and 15% on GDV of the café/softplay elements of development.

3.1.79 The RICS Guidance[4] states that: '*When a developer's return is adopted as the benchmark variable, a scheme should be considered viable, as long as the cost implications of planning obligations are not set at a level at which the developer's return (after allowing for all development costs including site value) falls below that which is acceptable in the market for the risk in undertaking the development scheme. If the cost implications of the obligations erode a developer's return below an acceptable market level for the scheme being assessed, the extent of those obligations will be deemed to make a development unviable as the developer would not proceed on that basis'.*

3.1.80 Latest Guidance within the Planning Practice Guidance is silent on the level return to a developer for the purposes of viability assessments in decision taking but does indicate that for plan making an assumption of 15% - 20% of gross development value may be considered a suitable return to developers.

3.1.81 Obviously, the level of profit assumed viable is often a matter of debate and certainly with no fixed rules. In our experience through both numerous site-specific cases and strategic viability review, typically a profit on GDV of between 15% - 20% for market housing (though now often as beneath 20%) and 6% for affordable housing serves as a reasonable guide. The upper end of this range was seen more commonly through and immediately following the recessionary period, where the risk of development was potentially higher than under current circumstances.

3.1.82 Profit requirements have since eased and overall in our experience a profit level not exceeding more than say 20% based on development *costs* is more representative of the range of scenarios that are put to us across a wide variety of sites and schemes. Indeed, within our wide experience of viability reviews such as this, a 20% profit on cost assumption is one we have also seen used by practitioners elsewhere. This is usually equivalent to circa say 16 to 18.5 % GDV on the market housing.

3.1.83 Taking into consideration the above, we consider the profit assumptions applied to be reasonable in this case.

[4] RICS - Financial Viability in Planning (GN/94/2012)

4. Summary and Recommendations

4.1.1 Aside from the use of the cost of racecourse improvements as a benchmark against which the scheme viability is assessed, we find the overall approach of the FVA and accompanying appraisals to be appropriate. We are also in agreement with the majority of the assumptions used in the development appraisals. On the theme of the submitted approach to the viability benchmark, a separate review of the cost plan for the racecourse improvement works has however identified £8,174,580 potential savings against the submitted cost plan (race course related improvements).

4.1.2 If the BLV is assessed as per the planning guidance and best practice in viability assessment, it should be based on the value of the land in its existing use, acknowledged by the FVA to be a nominal amount. Taking this approach, then even with the full provision of 50% affordable housing on site, the BLV would have to be over c. £20 million before any pressure was put on viability such that the affordable housing could not be delivered.

4.1.3 The land in its existing use is as follows:

Site	Existing Use	Size (ha)
Site B	Vacant site used for overflow parking	0.3
Site C	Area in centre of racecourse, with dilapidated outbuildings, car parking, and tarmac/tyre walled go-kart track	3.3
Site 1	Single storey, brick built stables	0.24
Site 2	Car parking	0.46
Site 3	Single and two storey structures serving the racecourse, and staff accommodation. Green Belt Land, Flood Zone 2.	1.76
Site 4	Car parking	0.57
Site 5	Car parking and children's nursery (land for replacement nursery in the appraisal valued at £1.05 million)	0.99
TOTAL area of sites		**7.62**

4.1.4 Using Existing Use Value (EUV) and allowing for a premium to arrive at a BLV, the land would have to be worth upwards of c. £2 million per hectare on average to make any difference to the viability of the overall project. In our opinion, the value of the land in its existing use (plus premium) will not exceed £19 million, therefore if assessed on this basis, the scheme will support a fully policy compliant affordable housing provision. In fact, as above, our view (and consistent with the likely 'nominal' value levels referred to in the FVA) is that if a market norm type approach were to be taken then an appropriate land value bases benchmark would be significantly below the level at which this would begin to restrict the capacity of the proposals to support affordable housing.

4.1.5 If overall however the Council accepts a trade-off between a compromised AH level in order for the value generated by the scheme proposals to cover the costs of race course improvements, thus using these costs as a benchmark instead of land value, then we recommend EBC considers the inclusion of a mechanism within the s.106 or equivalent that will allow and guide a review of the viability using costs/values relating to the residential/commercial development; as well as the ensuring the proposed works to the racecourse and facilities are carried out fully as currently envisaged, and the other development delivered according to suitable high specifications. On the basis that the Council might consider the racetrack improvements as being of sufficient community benefit to offset the otherwise achievable affordable housing provision, we have further reviewed the submitted viability appraisals, making the following adjustments (based on our review of assumptions as per section 3, above, of this report). The adjustments are summarised as follows:

- Benchmark cost (racecourse improvements) reduced from submitted cost estimate figure of £38,090,000 to the alternative estimated figure of £29,915,420.
- Addition of ground rental income of £2,120,000

4.1.6 The result of these amended assumptions, applied together, is shown in the table below. The originally submitted figures (RLV and benchmark) are also included for reference. To the right-side of the table can be seen the DSP alternative potential/indicative outcomes, resulting in viability being maintained with a significantly greater proportion of AH included and on the basis of the submitted benchmark principle (albeit as reviewed) rather than on the normally appropriate land value in existing use based approach to a viability benchmark.

Scenario	Submitted RLV	Submitted Benchmark	Surplus/deficit	Viable/Not Viable	DSP RLV	DSP Benchmark (based on cost plan review)	Surplus/deficit	Viable/Not Viable
100% Private	£ 47,590,000	£ 38,090,000	£ 9,500,000	Viable	£ 49,097,054	£ 29,915,420	£ 19,181,634	Viable
10% Affordable	£ 41,870,000	£ 38,090,000	£ 3,780,000	Viable	£ 43,398,975	£ 29,915,420	£ 13,483,555	Viable
15% Affordable	£ 37,880,000	£ 38,090,000	-£ 210,000	Viable	£ 39,448,348	£ 29,915,420	£ 9,532,928	Viable
20% Affordable	£ 35,570,000	£ 38,090,000	-£ 2,520,000	Not Viable	£ 37,153,296	£ 29,915,420	£ 7,237,876	Viable
30% Affordable	£ 30,830,000	£ 38,090,000	-£ 7,260,000	Not Viable	£ 32,424,257	£ 29,915,420	£ 2,508,837	Viable
50% Affordable	£ 19,510,000	£ 38,090,000	-£ 18,580,000	Not Viable	£ 21,176,420	£ 29,915,420	-£ 8,739,000	Not Viable

4.1.7 The revised appraisals demonstrate that, even accepting the submitted approach of using the race course improvement costs as a viability benchmark, it should be viable to provide approximately 35% affordable housing on site.

4.1.8 We note that the FVA proposes social rented housing being provided for use of ''JCR essential workers". This is not something which affects the viability in terms of build cost and rental income, however we recommend the Council verifies how these units would be allocated and whether they would meet the Council's definition of affordable housing. This is effectively tied accommodation and in our opinion provision of affordable housing prioritised for (or exclusively used by) racecourse staff would amount to a further financial benefit to the racecourse, as they would be able to offer discounted accommodation on site and therefore benefit from improved staff recruitment and retention – and potentially be able to offer lower wages to staff.

4.1.9 We need to be clear that this is based on current day costs and values assumptions as described within our review, based on the current scheme as submitted (albeit using the submitted information associated to current outline proposals in some key respects). A different scheme may of course be more or less viable – we are only able to review the information provided.

4.1.10 DSP will be happy to advise further as required.

Review report ends

April 2019

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APPENDIX 1

DSP TRIAL APPRAISAL SUMMARIES (DSPv1)

DSPv1a - 10% affordable housing

DSPv1b - 15% affordable housing

DSPv1c - 20% affordable housing

DSPv1d - 30% affordable housing

DSPv1e - 50% affordable housing

DSPv1f - 100% market housing

APPENDIX 2

REVIEW OF LESLIE CLARK COST PLAN FOR RACECOURSE IMPROVEMENTS BY MWA