City Plans Panel

12th March 2020

Supplementary Information

(Agenda Item No.9 – Mixed use development to land at Kirkstall Hill, Kirkstall, Leeds, LS5 3BH – Viability Appraisal)

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Valuation Office Agency

DVS Property Specialists for the Public Sector

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LS1 4DR

[redacted]

Planning Services, City Development
Leeds City Council
Merrion House
110 Merrion Centre
LEEDS LS2 8BB

Our Reference : [redacted]
Your Reference : 19/01666/FU
Please ask for : [redacted]
Tel : [redacted]

E Mail : [redacted]

Date : 11th November 2019

By email (PDF)

Dear [redacted]

DVS Independent Review of a Development Viability Appraisal

Proposed Development	**263 Residential Units and Commercial Floor Space**
Address:	**Kirkstall Place, Leeds, LS3 5BH**
Planning Ref:	**19/01666/FU**
Applicant:	**Artisan Leeds Kirkstall Ltd**
Applicant's Planning Advisor:	**CBRE**
Applicant's Viability Advisor:	**Cushman and Wakefield**

Further to your instructions dated 20 August 2019, and my terms of engagement of the same date. It is understood that Leeds City Council Planning Authority require an independent opinion on the viability information provided by Cushman and Wakefield, in terms of the extent to which the accompanying appraisal is fair and reasonable and whether the assumptions made are acceptable and can be relied upon to determine the viability of the scheme. I have now inspected the site and reviewed the viability assessment prepared by Cushman & Wakefield on behalf of the applicant, and I am pleased to supply my report.

Following the publication of my draft report dated 28th October2018, the applicant has not responded regarding my draft conclusions. This report is my final report. A summary of the key differences of opinion and impact is then provided.

A site specific viability assessment review has been undertaken, the inputs adopted herein are unique to this site and scheme and may not be applicable to other viability assessments undertaken or reviewed by DVS.

Planning Professional Guidance promotes increased transparency and accountability, and for the publication of viability reports and review reports. It has, however been agreed that your authority, the applicant and their advisors will neither publish nor reproduce the whole or any part of this report, nor make reference to it, in any way in any publication. It is intended that a non-technical executive summary of the final DVS report will later be prepared, which will redact certain personal and confidential data and that document will be available for public consumption.

Contents (Main headings)

1.0 Executive Summary

1.1 Viability Conclusion

This report explains that it is my independent conclusion that a scheme fully compliant with planning policy is unviable.

Having regard to the requirements of your authority including the preferred hierarchy of obligations, it is my conclusion the scheme can support 8.36% affordable housing (22 Units) and £1,029,521 CIL and £142,610 S106 contributions.

1.2 Non-technical Summary of Main Viability Assessment Inputs

Policy Compliant Inputs	Applicant	DVS Review	Agreed (draft report)
Scheme, Gross Internal Area, Site Area	Policy Compliant, 263 Residential Units and Commercial Space. GEA GIA 268,906 ft. Site area 5.9 acres	263 Residential Units and Commercial Space. GIA 268,906 ft. Site area 5.9 acres	**Agreed**
Gross Development Value	£50,016,668	£54,489,150	**Not Agreed**
Market Value Housing	£47,074,083	£52,984,741	**Not Agreed**
Affordable Housing	£2,245,526	£1,484,100	**Not Agreed**
Commercial floor Space	£697,059	£697,059	**Agreed**
Ground Rent Capital Value	£Nil	£723,000	**Not Agreed**
% Affordable Housing, tenure split and	60% Affordable Rent 40% Shared Ownership	58% Affordable Rent 42% Shared Ownership	**Not Agreed**
Community Infrastructure Levy and / S.106 total	CIL – £766,360 S106 - £142,610	CIL – £1,029,521 S106 - £142,610	**Not Agreed**
Construction Cost inc. External Works	£28,404,514	£28,404,514	**Agreed**
Abnormal Cost	£6,766,000	£6,479,300	**Not Agreed**
Professional Fees	£1,704,272	£1,704,272	**Agreed**
Contingency	3%	3%	**Agreed**
Finance Costs	£2,031,187	£1,198,285	**Not Agreed**
Profit	£9,716,444	£10,517,813 (19.63%	**Not Agreed**
EUV	£1,221,389	£1,221,389	**Agreed**
EUV Premium to BLV	16.6%	16.6%	**Agreed**
Benchmark Land Value	£1,464,000	£1,464,000	**Agreed**

Alternative Use Value	Not Applicable	Not Applicable	N/A
Viability Conclusion	Not Viable	Partially Viable	**Not Agreed**
Deliverable Scheme	Affordable: NIL CIL: £925,655 S106:£142,610	Affordable: 22 Units (8.36%) CIL: £1,029,521 S106:£142,610	**Not Agreed**

2.0 Assumptions and Limitations

2.1 Date of Viability Review

The viability review has been assessed at the 23 October 2019 and adopts values and build costs at this time.

2.2 Conflict of Interest and Financial Viability in Planning Conduct and Report Requirements

In accordance with the requirements of RICS Professional standards, DVS as part of the VOA has checked that no conflict of interest arises before accepting this instruction. It is confirmed that DVS are unaware of any previous conflicting material involvement and is satisfied that no conflict of interest exists. It is confirmed that the valuer appointed has no personal conflict undertaking this instruction. It is confirmed that all other valuers involved in the production of this report have also declared they have no personal conflict assisting with this instruction. Should any conflict or difficulty subsequently be identified, you will be advised at once and your agreement sought as to how this should be managed.

In accordance with the requirements of the RICS professional standard 'Financial viability in planning: conduct and reporting', (effective from 1st September 2019) it is confirmed that :

- In carrying out this viability assessment review the valuer has acted with objectivity impartiality, without interference and with reference to all appropriate sources of information.
- The professional fee for this report is not performance related and contingent fees are not applicable.
- DVS are not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.
- The appointed Brian Maguire MRICS is not currently engaged in advising this local planning authority in relation to area wide viability assessments in connection with the formulation of future policy.
- Neither the appointed valuer, Brian Maguire MRICS nor DVS advised this local planning authority in connection with the area wide viability assessments which supports existing planning policy.

DVS are employed to independently review the applicants financial viability assessment, and can provide assurance that the review has been carried out with due diligence and in accordance with section 4 of the professional standard. It is also confirmed that all other contributors to this report, as referred to herein, have complied with the above RICS requirements.

2.3 Restrictions on Disclosure and Publication

The report has been produced for Leeds City Council only. DVS permit that this report may be shared with the applicant and their advisors Cushman and Wakefield as listed above, as named third parties.

The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers and solely for the purposes of the instruction to which it relates. Our report may not, without our specific written consent, be used or relied upon by any third party, permitted or otherwise, even if that third party pays all or part of our fees, directly or indirectly, or is permitted to see a copy of our report. No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report.

Planning Professional Guidance promotes increased transparency and accountability, and for the publication of viability reports. However, it is has been agreed that your authority, the applicant and their advisors will neither publish nor reproduce the whole or any part of the draft report, nor make reference to it, in any way in any publication. It is intended that a non-technical executive summary of the final DVS report will later be prepared, which will redact certain personal and confidential data and that document will be available for publication.

None of the VOA employees individually has a contract with you or owes you a duty of care or personal responsibility. It is agreed that you will not bring any claim against any such individuals personally in connection with our services.

This report is considered Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006 and your council is expected to treat it accordingly.

2.4 Status of Valuer

It is confirmed that the viability assessment has been carried out by myself, [redacted] MRICS, Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge, skills and understanding necessary to undertake the viability assessment competently and is in a position to provide an objective and unbiased review. As part of the DVS Quality Control procedure, this report and the appraisal has been reviewed [redacted], Registered Valuer.

2.5 Confirmation of Standards to be Applied

The viability assessment review has been prepared in accordance with paragraph 57 of the National Planning Policy Framework, which states that all viability assessments should reflect the recommended approach in the National Planning Practice Guidance on Viability, (July 2018, updated May 2019, September 2019).

The viability assessment review report has been prepared in accordance with the Professional Statement Financial Viability in Planning: Conduct and Reporting (effective from

1st September 2019). Regard has been made to the RICS Guidance Note “Financial viability in planning” 1st Edition (GN 94/2012), where applicable.

Valuation advice (where applicable) has been prepared in accordance with the professional standards of the Royal Institution of Chartered Surveyors: RICS Valuation – Global Standards 2017 and RICS UK National Supplement, commonly known together as the Red Book. Compliance with the RICS professional standards and valuation practice statements gives assurance also of compliance with the International Valuations Standards (IVS).

Whilst professional opinions may be expressed in relation to the appraisal inputs adopted, this consultancy advice is to assist you with your internal decision making and for planning purposes, and is not formal valuation advice for acquisition or disposal purposes. It is, however, understood that our assessment and conclusion may be used by you as part of a negotiation, therefore RICS Red Book professional standards PS1 and PS2 are applicable to our undertaking of your case instruction, compliance with the technical and performance standards at VPS1 to VPS 5 is not mandatory (PS 1 para 5.4) and they will only be applied to the extent not precluded by your specific requirement.

Where relevant measurements stated will in accordance with the RICS Professional Statement 'RICS Property Measurement' (2nd Edition) and, the RICS Code of Measuring Practice (6th Edition).

2.6 Agreed Departures from the RICS Professional Standards

It is agreed by you, that the report contains an agreed departure from ‘RICS Property Measurement (2nd Edition)’. Specifically any office or residential property present or proposed will be reported upon using a measurement standard other than IPMS. Specifically the measurement standards of Net Internal Area , Gross Internal Area, Net Sales Area may be referred to / or will adopted as per the preceding measurement standard, the RICS Code of Measuring Practice (6th Edition).

DVS understand that you agree to this departure because adopting these widely recognised measurement standards is established practice in the construction/ residential industry. It is considered expedient to use the same measurement basis as the applicant, and, necessary to analyse the comparable data on a like with like basis. Using the same measurement basis will also aid transparency when comparing conclusions.

2.7 Viability Methodology

The review of the applicant’s viability assessment has been prepared in accordance with the recommended practice set out in the National Planning Policy Framework; the NPPG on Viability (July 2018, updated May 2019, September 2019)) and the Royal Institution of Chartered Surveyors (RICS) Financial Viability in Planning Guidance Note (1st Edition).

DVS have used the residual appraisal methodology, as is established practice for viability assessments. In simple terms the residual appraisal formula is:

Gross Development Value less Total Development Cost (inclusive of S106 obligations abnormal development costs and finance) less Profit, equals the Residual Land Value.

The Residual Land Value is then compared to the Benchmark Land Value as defined in the Planning Policy Guidance on Viability. Where the Residual Land Value produced from an appraisal of a policy compliant scheme is in excess of the Benchmark Land Value the scheme is financially viable, and vice versa:

Residual Land Value > Benchmark Land Value = Viable
Residual Land Value < Benchmark Land Value = Not Viable

The appraisal can be rearranged to judge the viability of a scheme in terms of the residual profit, which is compared to the target profit:

Residual Profit > Target Profit = Viable
Residual Profit < Target Profit = Not Viable

Cushman and Wakefield have also used the residual appraisal methodology. The output is a residual for land value. For ease of comparison my review appraisal is set out the same way.

<u>2.8 Definitions of Bases of Value</u>

Benchmark Land Value is defined at Paragraph 014 of the NPPG.

Existing Use Value is defined at Paragraph 015 of the NPPG.

Market Value is defined at VPS 4 of: RICS Valuation – Global Standards 2017 and RICS UK National Supplement.

<u>2.9 Special Assumptions</u>

On occasion, it may be agreed that a basis of value requires to be modified and a Special Assumption agreed.

The following special assumptions have been agreed with Leeds City Council and applied:

- That your council's planning policies, or emerging policy, including for affordable housing are up to date.

- There are no abnormal development costs in addition to those which the applicant has identified, and (where an independent costs review has not been undertaken) the applicant's abnormal costs, where supported and considered reasonable by the valuer, can to be relied upon to determine the viability of the scheme, unless otherwise stated in the relevant section of this report.

2.10 Validity

This report remains valid for 3 (three) months from the date of this report unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

2.11 Inspection

Brian Maguire inspected the property on 20 September and he is familiar with the area and property values in the locality.

2.12 Background Information Planning Status

From the local development plan policies map it is understood that the site is allocated for a mixed used development and I refer to the aerial plan and extract from the Site Allocations Plan- Submission Draft Plan (August 2018) below:

Site Allocations Plan - Submission Draft Plan (August 2018)

Leeds City Council submitted a Revised Submission Draft Site Allocations Plan to the Secretary of State for Ministry of Housing, Communities & Local Government on 23 March 2018 for independent examination.

The site is allocated as 'MX2-4' on the emerging proposals map (forming part of wider site allocation comprising 3.62 hectares) for a mixed-use scheme capable of accommodating 55 residential units and 7,000 sq.m office floorspace. The draft site allocation extends the Kirkstall Town Centre boundary to cover the entire site.

The draft text from the mixed-use allocation for the policy states:

- The site is within Kirkstall Town Centre boundary and Kirkstall Primary Shopping Area, therefore there is an expectation for retail and other town centre uses to be delivered at ground floor level.
- Older persons housing/independent living: The site is suitable for older persons housing/independent living in accordance with Policy HG4
- Highway Access to Site: To achieve a suitable access, mitigation works will be required on the A65 Commercial Road at Beecroft Street, Savins Mill Way and Kirkstall Lane.
- Local Highway Network: This site will have a direct impact upon the congested A65/Kirkstall La and Savins Mill Way junctions. The development will be required to contribute to measures to mitigate the impact of this.
- Listed Buildings: The site is in the setting of a Listed Building. Any development should preserve the special architectural or historic interest of Listed Buildings and their setting.

3.0 The Viability Assessment

3.1 The Scheme

The proposed development totals 263 dwellings, of varying types and sizes. The total net sales area for the built accommodation is 217,624ft^2 on a site area of approximately 5.9 acres.

I make no comment about the density, design, efficiency, merit or otherwise, of the suggested scheme.

3.2 Applicant's Viability Assessment

I refer you to the Applicant’s report entitled Financial Viability Assessment dated 4 September 2019. There is one policy compliant and an offer appraisal within the report.

I have not conducted any negotiations with Cushman & Wakefield other than to request an electronic copy of their updated appraisal following consultation with Rex Proctor and Palmer regarding abnormal costs.

The Applicant’s report provides a narrative regarding the benchmark land value which they have assessed to be £1,465,000 (or £250,000/acre) on the Net Developable Area of 5.9 acres. The Viability consultant’s conclusions are based upon key parameters such as profit at a target level of 20% of development value on market value houses and 8% on affordable houses. These are discussed in the body of this report. The Applicant's policy compliant appraisal produces a negative land value of -£3,080,003.

In spite of the deficit shown in their compliant appraisal, the Applicant’s Viability Consultants conclude that the scheme is able to viably contribute £925,655 towards community infrastructure levy and a Section 106 contribution of £142,610 but is unable to viably deliver any affordable housing or planning gain contributions.

To review the reasonableness of this conclusion I have considered each appraisal input in turn.

3.3 Development Period

The Applicant's surveyor has adopted a 53 month development period, comprising a 3 month pre construction phase followed by an 18 months construction and a 32 month post development period which I interpret as the sales period.

I do not agree with the manner in which the Applicant has phased the development as the period over which properties are sold does not begin until the end of construction. I believe the entire site can be phased to enable residential properties to be sold earlier than anticipated in their appraisal. (As individual blocks/ houses are developed)

My appraisal assumes construction begins in September 2019 and the first house is sold in May 2020, allowing approximately 9 months for site remediation, enabling works and construction of the first properties which will sell after 9 months. This difference will result in a decrease in finance costs in my appraisal compared to that of the applicant.

Consequently, my appraisal assumes a total development period of 44 months.

4.0 Gross Development Value (GDV)

4.1 Applicant's GDV

I have considered the applicant's Gross Development Value of £50,016,068.

Comprising:	
Market housing	£47,074,083
Affordable housing	£2,245,526
Commercial floor space	£697,059
(Ground Rent (if applicable)	£0

4.2 Market Housing Revenue

I have considered the reasonableness of the sales prices for the Market Housing.

For the houses Cushman and Wakefield have applied a range of values between £245ft^2 - £270/ft^2.

The VOA holds details of all sales of residential properties in the region including referencing information such as accommodation, floor areas etc. I have analysed sales of dwellings built since 2015 in the surrounding post code areas.

Further to my investigations and my experience as a RICS Registered Valuer, it is my opinion that the Applicant's conclusions regarding values for the market housing are on the low side of the evidence.

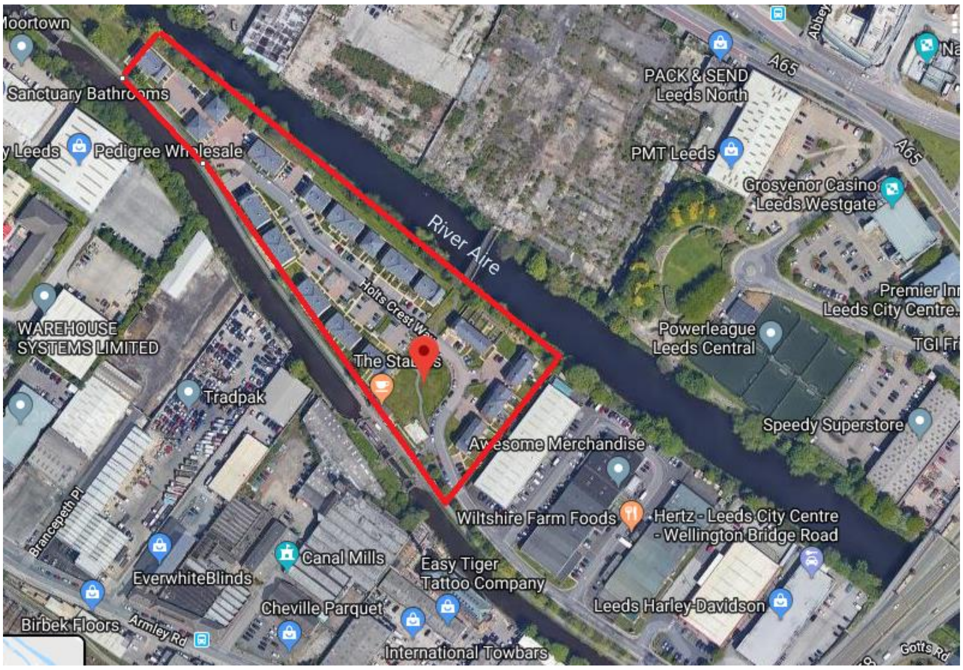
I have researched comparables schemes within the surrounding area and towards Leeds City Centre which lead me to consider the site will deliver higher revenues than those indicated by the Applicant.

I have specifically considered the relevance of evidence proposed by Cushman and Wakefield which in the main, comprise conversions schemes of former office buildings or mill buildings. I do not believe the comparables used are a direct comparison with the proposed new build accommodation that is proposed at Kirkstall Place.

In particular, Kirkstall Gate, Kirkstall Road may be close to the subject site, however the developer in this instance has converted a semi-derelict office building into apartments which has been referred to earlier is not directly comparable with the proposed new build. I believe the Applicant in this instance will be creating a “destination development” which will commence improved revenues to reflect the quality and design of the scheme. My view is supported by evidence of new build accommodation in the area and towards Leeds City Centre.

Strata Homes, Flaunt, Holts Crest Way, Leeds, LS12 2 AH

In respect of house values, Flaunt is a scheme of new houses recently completed which I regard as comparable, it is situated 1.75 miles south of Kirkstall Place in a predominantly industrial area. The development is approached off a dual carriageway (A58) which is a main thoroughfare from the M621 to access city and then accessed via an industrial estate which leads to the Flaunt development which is situated between the River Aire and Leeds Liverpool Canal.



Although the Flaunt development is situated closer to the city centre it does not benefit from the same local amenities as the subject site, being close to Kirkstall Place (Leisure Centre, Retail Park, Kirkstall Abbey Park and Metro Rail Station).

Flaunt Comparable

REDACTED

Cushman & Wakefield have also presented River Court, Bridge Road, Kirkstall as comparable which is a converted Grade II listed building which has its constraints in terms of design and layout in comparison to a purpose-built modern development, which would command higher values.

I agree with Cushman and Wakefield's view that Eden Place and Eden Court at Kirkstall Hill are not comparable as they are situated in an inferior location.

Cushman and Wakefield have also identified Victoria Gardens Hyde Park which was developed by Stonebridge Homes. I consider the location is not directly comparable. I am familiar with this site as I have carried out a viability review on behalf of Leeds City Council.

Similarly the development at Victoria Square, Headingly and Oakbank are relatively remote situated in a residential setting which is substantially different to that of Kirkstall Place and therefore I have effectively discounted them from my considerations, on the grounds of location, design, and style of development.

In conclusion, I have adopted sales values ranging from £258/ft^2 up to £275/ft^2.

4.3 Affordable Housing Requirement

The Applicant has adopted 15% affordable within their policy compliant viability appraisal which is in accordance with current Leeds City Council planning policy.

It should be noted that when considering viability, different assumptions in terms of the affordable types, proportions and tenure split would lead to a different outcome.

4.4 Affordable Housing Revenue

The Applicant's have adopted the formal transfer values of £66.77/ft^2 for affordable rent units, and £78.87 for shared ownership properties, with a split of 60% for affordable rent and 40% for shared ownership under the tenant type.

This approach is accepted and the figures are confirmed and these values have been carried forward within my appraisal.

The planning (sales distribution) of the affordable housing revenue adopted by Cushman and Wakefield is not considered appropriate as they have presented a viability appraisal which assumes the houses are not transferred to a registered provider until all properties are completed after a construction period of 18 months. My valuation assumes that affordable units begin to be transferred to registered providers after 10 months of construction and are continued to be transferred over a period 10 months. This results in a quicker development period for the affordable housing which results in savings in finance when compared to the applicant's appraisal.

4.5 Ground Rent Revenue

The evidence regarding the tenure on disposal of houses is predominantly freehold in this location. Therefore I have assumed all houses are to be sold with an unencumbered freehold interest, and have not included this potential revenue in my assessment of the GDV.

However a number of properties within this development are direct sale apartments which may only be sold subject to a leasehold tenure. Therefore my appraisal assumes that 241 properties will be sold leasehold subject to a ground rent of £150 per annum per apartment.

The total revenue per annum for ground rents is £36,150which has been capitalised at a yield of 5% resulting in an additional capital revenue of £723,000 for the development. The Applicant's adviser however has not included this revenue in their appraisal.

4.6 Tax Reliefs

There are significant costs within the development towards the decontamination and remediation of this site. DVS note that there are tax breaks such as Contaminated Land Tax Relief available to the effect that for every £1 spent in this way the developer could potentially reclaim around 24 pence (150% x 0.16). This would usually be recovered/offset in the same year tax year that it is spent.

If tax reliefs are applicable this will improve the viability of the scheme. There is no allowance for tax reliefs in the Cushman & Wakefield assessment. The relief may not be applicable on this site, however, this is an area where I recommend the Council receive clarity and reassurance ahead of the final report. My draft report and viability conclusion takes no account of any tax relief.

4.7 Grant Funding and Other Revenue

It is understood the development will not benefit from any grant funding. If grants are applicable this will improve the viability of the scheme. This is an area where I recommend the Council receive clarity and reassurance ahead of the final report. My draft report and viability conclusion takes no account of any grants or other revenue.

4.8 DVS Conclusion Gross Development Value (GDV)

My opinion of the GDV for a planning compliant scheme compromises:

Market housing	£48,391,016
Affordable housing	£2,245,526
Commercial floor space	£697,059
Ground lease freehold revenue	£723,000

Total GDV is. £54,489,150

The Applicant's GDV is £50,016,668. This is a like-for-like comparison however it includes an increase in revenues and inclusion of revenue from the sale of the ground lease investments.

As part of any future negotiation or appeal process, and in the event further or better sales evidence, I may revisit this opinion of GDV.

5.0 Gross Development Costs

5.1 Construction Cost

The Applicant has used a Cost Consultant who advises the Applicant that the construction cost for the entire development, inclusive of externals is equivalent to £105.63/m^2 for all types of residential accommodation.

I have referred this matter to Leeds City Council's Quantity Surveying consultants Rex Proctor and Partners (RPP).

RPP have carried out a full review of the costs..The Applicant submitted a new breakdown of abnormal costs which resulted in a decrease cost of £932,000.

RPP have advised that they do not agree with the amount of prelims and profit allowed for by the developer at 18%. Therefore RPP have recommended that the percentage allowance is reduced by 5% which results in a further saving of £286,700. My appraisal is based upon this advice which is summarised later in this report.

5.2 External Costs

Is included in the above.

The comparative construction costs inclusive of externals are agreed:

5.3 Contingency

Applicant's surveyor has allowed 3% contingency on basic build cost and 3% on abnormals which is considered to be in a range which is reasonable and accepted.

5.4 Abnormal Costs

Cushman and Wakefield have provided the following abnormal costs which total £6,766,000 these comprise:

Item	Cost
Demolition	£ 400,000
Piling	£ 573,000
Basement	£2,189,000
Transfer deck	£1,050,000
Basement Mechanical and Electrical	£ 112,000
Site works	£1,410,000
Prelim and profits and overheads @ 18% on £5,734,000	£1,032,000
TOTAL	**£6,766,000**

These costs have been considered by RPP, Leeds City Council's Independent Quantity Surveying adviser for viability and planning.

5.5 Planning Obligations

Community Infrastructure Levy and / S.106 total	C&W CIL – £766,360 S106 - £142,610	DVS CIL – £1,029,521 S106 - £142,610	**Not Agreed**

5.6 Section 106 Hierarchy and Timing

Regarding the timing of these contributions, I have sought guidance from your Authority and consequently I agree the applicant's cash-flow assumption for the Section 106 costs. If this is later found to be incorrect, the conclusion cannot be relied upon and the matter should be referred back to DVS.

5.7 Professional Fees

The applicant has allowed 6% for professional fees and applied to build cost and externals.

On the evidence available to me and on advise from Rex Proctor and Partners this costs are considered to be within the normal parameters for a development such as this and are accepted.

5.8 Finance

The debit rate of 6% is considered appropriate for a scheme of this size and scale and is accepted.

I recommend that a credit rate is included to reflect but once the scheme is in credit a developer would use this to offset their debt elsewhere. A 2% credit rate has been included in my appraisal. The comparative finance costs are:

5.9 Remaining Cost Inputs

RICS Prof Statement says you must state all in outs agreed or not if not agreed why not with justification.

The remaining development cost inputs have largely been carried forward into my review assessment, unless otherwise stated. These include:

- Marketing (sales agency) fees at 3% of GDV per private house is accepted as reasonable and is agreed.
- Sales legal fees of £500 per market value house.
- Land acquisition stamp duty & legal fees totalling £86,225 is adopted in my appraisal.

6.0 Benchmark Land Value

6.1 Site Description

The site comprises a parcel of brownfield land occupying a high profile location and bounded by Kirkstall Lane, Kirkstall Hill and Kirkstall Road to the north, west and south. The western boundary lies adjacent to a buffer between Commercial Street. The site lies at a major junction and close to a number of main arterial routes.

On site there are a number of commercial buildings which include a retail discount store, former betting shop and vehicle repair centre. Large parts of the site are vacant, including a former public house and liberal club. Part of the site to the north included a number of commercial buildings that have since been demolished. The site includes a large amount of hard standing which is currently used as car parking.

The site is broadly rectangular in shape and slopes significantly from east to west. Though large areas of the site are level due to the number of retaining wall structures. There are two vehicular accesses available via Beercroft Street, whilst Kirkstall Hil includes a commercial access. I understand from the Applicant's viability appraisal the site extends to a net developable area of 2.4 hectares (5.9 acres).

As referred to earlier the site is situated in a mixed commercial area and is well served by local services including a nearby retail park and supermarket.

6.2 Applicant's Benchmark Land Value

The applicants report provides a narrative regarding the benchmark land value which they have assessed to be £1,465,000 (or £250,000/acre) on the Net Developable Area of 5.9 acres. The Applicant's opinion of the benchmark land value has been arrived at through using the EUV/CUV + methodology, this methodology is accepted.

In their report they consider the benchmark land value to be £1,465,000 which equates to £250,000/acre.

The Applicant has carried out a residual valuation which for a planning compliant scheme of 15% affordable results in a negative land value of £3,080,003.

6.3 Professional Guidance

professional guidance for viability assessments support the ideal notion it is the planning policy and material considerations (abnormal development costs, site-specific infrastructure costs; and professional site fees) that drive the land value and not the other way around. The valuation process therefore involves the surveyor judging where the value of the site would be if the respective costs of applying all the Council policies in undertaking the normal works (if applicable) were fully reflected and reflecting whether this figure would be acceptable to the typical landowner.
Further to the NPPG

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. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+).

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.

The NPPG advocates an Existing Use Value (EUV) plus approach to land value. At paragraphs 13 and 14 the policy explains the premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.... while allowing a sufficient contribution to comply with policy requirements.

6.5 EUV

The Existing Use Value, the NPPG (July 2018) defines Existing Use Value at para 15

Existing use value (EUV) is 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.

Cushman and Wakefield's opinion of the EUV has been derived at using an quasi investment vakue approach , whereby each building's the rental value is determined by each building's 2017 rateable value (as produced by the Valuation Office Agency) and capitalised at their opinion of an appropriate yield, as summarised below.

Cushman & Wakefield EUV Rental Valuation Summary

REDACTED

By adding the total rateable values for accommodation on the site which is £219,850 and capitalising it using a yield of 18%. the Applicant's conclusion, is that the EUV is £1,221,389 which has been rounded to £1,220,000.

I consider this methodology flawed as it does not calculate the current EUV as the comparable evidence used to arrive at the Rateable Values were based on an antecedent valuation date in 2015, and reflect certain assumptions not applicable to the properties (good repair etc add) .. Therefore the approach is flawed as the evidence used to calculate the EUV are approximately 4 years old.

The yield adopted has not been supported by evidence.

I understand there is no information regarding the historic rental income for the site in order to support a EUV based on traditional investment value approach and acknowledge it is challenging to arrive at an EUV for a complex site occupied by a variety of uses which have either ceased or were within buildings which are vacant, and can empathise with the Rateable value approach. My opinion of EUV reflects £1,220,000. The EUV of can be accepted I have adopted the same EUV for my review.

6.4 Premium (EUV)

It is my understanding that the applicant's opinion of an appropriate uplift is £220,000 or 16.7% of EUV.

There is no comparable evidence in support of the uplift, which is understood to come from the assessors 'considerable experience.'

6.5 Market Evidence

To accord with the requirements of the RICS professional statement *Market Evidence must be reported, and adjusted in accordance with (Paragraph 14 of) the PPG.* This explains that (my emphasis) ...

*Market evidence can also be used as **a cross-check** of benchmark land value but **should not be used in place of benchmark land value.** There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.*

*This evidence should be based on developments which are **fully compliant** with emerging or up to date **plan policies, including affordable housing requirements** at the relevant levels set out in the plan. 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.*

Due to the nature of how large housebuilders acquire land it is often difficult to obtain appropriate evidence and then correctly analyse it.

This is recognised in the RICS FVIP GN at 3.4.5 *Site Value will be based on market value, which will be risk-adjusted, so it will normally be less than current market prices for development land for which planning permission has been secured and planning obligation requirements are known.*

£1,465,000 has been used as a threshold for judging viability i.e. where the residual for land of a planning compliant scheme is in excess of this figure the scheme is judged to be viable.

6.6 Purchase Price

In connection with purchase price this RICS guidance states at para *3.6.1.2* **"***It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition..'*

However, the new NPPG on viability very much dissuades the use of a purchase price as a barrier to viability and advocates an Existing Use Value (EUV) plus approach to land value. This is reinforced at several places in the guidance The price paid for land is not a relevant justification for failing to accord with relevant policies in the plan. para 2, and ... *Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Paragraphs:* 6,11,14,18

The PPG and the RICS encourage the reporting of the purchase price to improve transparency and accountability.

The PPG remarks on purchase price of land, that*: Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan*.

The PPG does not invalidate the use and application of a purchase price where it enables the development to meet the policies in the plan.

6.7 Alternative Use Value (AUV)

I consider an Alternative Use Value approach is not applicable in this case. I assume this view is shared by the applicant's assessor whom has not mentioned AUV in their viability assessment.

6.8 DVS Benchmark Land Value

In determining The BLV value I have considered the applicants figure and the reasoning behind the applicant's figure.

The applicants CUV or EUV of £1,220,000 is accepted as reasonable.

The applicant’s premium of 16.7% is accepted as reasonable.

My opinion of BLV is £1,465,000 and is based upon adjusted market evidence of employment sites.

7.0 Profit

7.1 Applicant's Profit Position

The applicant states a target profit at 19.43% of GDV.

7.2 Professional Guidance

I agree with this opinion. It is my experience that the standard industry practice is to apply a lower profit levels to the affordable housing than the market housing. This 'dual rate' approach to profit has been recommended by the Homes and Communities Agency (now Homes England) since the 2009 Good Practice Note; Investment and Planning Obligations.

Risk and profit *– Different elements of a project will incur less risk than others – for example where affordable housing is constructed with an agreed purchase price from an RSL the risk is minimal, consequently the margin will be relatively low and akin to that of a construction activity (perhaps six or seven per cent or build costs at present including overheads). Other elements such as private residential sales have a greater risk and a figure of perhaps 16 per cent of values (rather than costs) may be targeted exclusive of sales and marketing and overheads which may each add a further 3 per cent. The differentiator between different profit margin levels is risk and it follows that different risk sharing arrangements will use different margins.*

For traditional affordable housing (socially rented and shared ownership where the affordable housing body is responsible for the onward sales) the Registered Providers are often involved at planning stage, securing the purchase price and (sometimes) providing up front capital; thus, there is little risk to the developer and, it is commonly accepted practice that the profit should reflect this. A dual rate is frequently adopted in local plan viability studies.

This continues to be recognised by the recent viability PPG, (my emphasis) that ...*15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability* and ...***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.***

7.3 DVS Position on Profit

I can accept a blended profit of 19.43% of GDV as a suitable profit for the market housing units in this scheme, for the above reasons.

8.0 DVS Conclusion

8.1 Viable scheme
As the scheme cannot meet full policy requirements I have therefore considered the maximum contributions that the scheme could viably provide.

It is my independent opinion that this scheme can viably provide sub policy compliant contributions with 8.36% affordable housing (22 Units) and £1,029,521 CIL and £142,610 S106

A copy of my appraisal is included.

8.2 Scenario Test

Further to the special assumption and my terms of engagement scenarios testing is not required

9.0 Recommendations

9.1 In the Event of Incorrect Assumptions:

If any of the assumptions stated herein this report and/or in the attached appraisal are incorrect the matter should be referred back to DVS as a re-appraisal may be necessary.

9.2 Additional Information

Please note my conclusion makes no adjustment for any tax reliefs or grant funding that the developer may secure, you may wish to seek assurances from the developer Seddon Homes that they will not benefit from these, or any other incentives, through developing this site.

9.3 Viability Review

Given that, based on my advice, your Council's full planning policy requirements will not be met, a review clause might be appropriate as a condition of the permission.

My appraisal embraces the costs and revenues appropriate to the valuation date and is therefore valid only if the building construction work commences within the next 12 months and proceeds at a rate consistent with achieving sales in the market. If commencement of the works were to be delayed and is then undertaken at some other time when market conditions may be different, then I believe a re-appraisal may be required adopting the costs and revenues then obtaining.

DVS assume that you will restrict the report's circulation as appropriate.

Should the applicant disagree with the conclusions of our draft assessment, we would recommend that they provide further information to justify their position. Upon receipt of further information and with your further instruction, we would be happy to review the new information and reassess the schemes viability.

If the applicant does not wish to contest the draft report, a final report can be issued at your request. If I do not hear back from you within four weeks I will close my case.

Yours sincerely

[redacted]

MRICS Registered Valuer
Principal Surveyor DVS

Report reviewed by

[redacted]

[redacted] Hons MRICS Registered Valuer
Principal Surveyor DVS
Sector Leader Viability (North)

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Kirkstall Hill, Leeds - 22 Affordable Units

Development Appraisal
Licensed Copy
12 November 2019

Kirkstall Hill, Leeds - 22 Affordable Units

Summary Appraisal for Merged Phases 1 2

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Block A - 2-Bed Apartment	24	18,072	258.00	194,274	4,662,576
Block A - 3-Bed Townhouse H3	7	7,462	265.00	282,490	1,977,430
Block A - 3-Bed Townhouse H4	7	8,141	255.00	296,565	2,075,955
Block B - 2-Bed Apartment	24	18,072	258.00	194,274	4,662,576
Block B - 3-Bed Townhouse H3	6	6,396	265.00	282,490	1,694,940
Block B - 3-Bed Townhouse H4	6	6,978	255.00	296,565	1,779,390
Block C - 2-Bed Apartment	24	18,072	258.00	194,274	4,662,576
Block C - 3-Bed Townhouse H3	8	8,528	265.00	282,490	2,259,920
Block C - 3-Bed Townhouse H4	8	9,304	255.00	296,565	2,372,520
Block D - 1-Bed Apartment	16	8,784	270.00	148,230	2,371,680
Block D - 2-Bed Apartment	26	19,578	258.00	194,274	5,051,124
Block F - 2-Bed Apartment	3	2,259	258.00	194,274	582,822
Block F - 2-Bed Townhouse H7	11	9,713	275.00	242,825	2,671,075
Block F - 4-Bed Townhouse H8	11	13,266	260.00	313,560	3,449,160
Block G - 1-Bed Apartment	3	1,647	270.00	148,230	444,690
Block G - 2-Bed Apartment	12	9,036	258.00	194,274	2,331,288
Block H - 1-Bed Apartment	3	1,647	270.00	148,230	444,690
Block H - 2-Bed Apartment	12	9,036	258.00	194,274	2,331,288
Block K - 1-Bed Apartment	3	1,647	270.00	148,230	444,690
Block K - 2-Bed Apartment	9	6,777	258.00	194,274	1,748,466
Block E - 1-Bed Apartment	1	549	270.00	148,230	148,230
Block E - 2-Bed Apartment	11	8,283	258.00	194,274	2,137,014
Block G - 2-Bed Townhouse H5	3	2,679	275.00	245,575	736,725
Block G - 2-Bed Townhouse H6	3	2,649	275.00	242,825	728,475
Block E - 1-Bed Apartment	5	2,745	66.77	36,657	183,284
Block E - 2-Bed Apartment	8	6,024	66.77	50,278	402,222
Block G - 2-Bed Townhouse H5	4	3,572	78.87	70,431	281,724
Block G - 2-Bed Townhouse H6	5	4,415	78.87	69,642	348,211
Totals	**263**	**215,331**			**52,984,741**

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground Leases Freehold	241	241	150.00	150	36,150	36,150
Commercial	1	2,153	20.00	43,060	43,060	43,060
Totals	**242**	**2,394**			**79,210**	**79,210**

Investment Valuation					
Ground Leases Freehold					
Current Rent	36,150	YP @	5.0000%	20.0000	723,000
Commercial					
Market Rent	43,060	YP @	6.0000%	16.6667	
(6mths Rent Free)		PV 6mths @	6.0000%	0.9713	697,059
					1,420,059
GROSS DEVELOPMENT VALUE				**54,404,800**	
Income from Tenants				84,350	
NET REALISATION				**54,489,150**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price (5.90 Acres 248,305.08 pAcre)			1,465,000		
				1,465,000	
Stamp Duty			64,250		
Agent Fee		1.00%	14,650		
Legal Fee		0.50%	7,325		
				86,225	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Combined GIA	268,906	105.63	28,404,541	**28,404,541**	
Build contingency		3.00%	852,136		
Abnormal contingency		3.00%	194,379		

Kirkstall Hill, Leeds - 22 Affordable Units

Abnormals			6,479,300	
S.106			142,610	
CIL			1,029,521	
				8,697,946
PROFESSIONAL FEES				
Professional Fees		1.00%	284,045	
Quantity Surveyor		1.00%	284,045	
Structural Engineer		1.00%	284,045	
Mech./Elec.Engineer		1.00%	284,045	
Project Manager		1.00%	284,045	
C.D. Manager		1.00%	284,045	
				1,704,272
MARKETING & LETTING				
Marketing and Agent's Fee		3.00%	1,553,079	
Letting Agent Fee		10.00%	7,921	
Letting Legal Fee		5.00%	3,961	
				1,564,960
DISPOSAL FEES				
Sales Legal Fee	223 un	500.00 /un	111,500	
Sales Legal Fee	22 un	250.00 /un	5,500	
				117,000
FINANCE				
Debit Rate 6.000%, Credit Rate 2.000% (Nominal)				
Total Finance Cost				1,793,302
TOTAL COSTS				**43,833,247**
PROFIT				
				10,655,903

Performance Measures

Profit on Cost%	24.31%
Profit on GDV%	19.59%
Profit on NDV%	19.59%
Development Yield% (on Rent)	0.18%
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%
IRR	23.85%
Rent Cover	134 yrs 6 mths
Profit Erosion (finance rate 6.000)	3 yrs 8 mths

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