D|S|P Housing & Development Consultants

# South Downs National Park Authority

# High level viability review: Former Syngenta Site, Midhurst Road, Fernhurst

Ref: DSP14261

## June 2014

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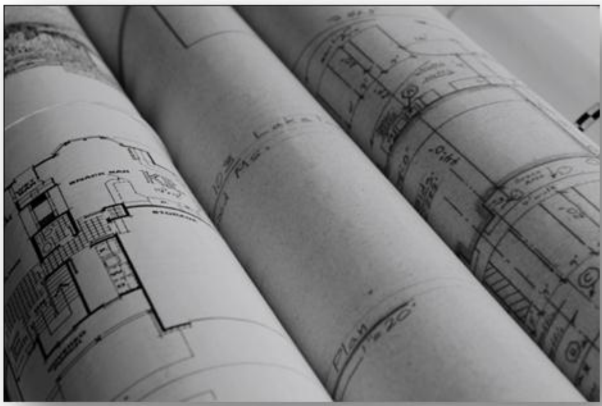

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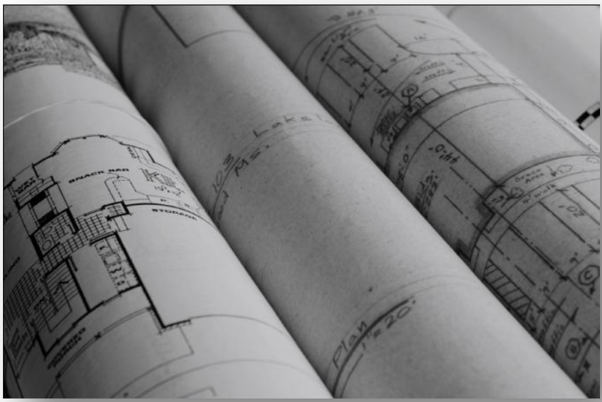

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# 1 Introduction

## 1.1. Background to the review

1.1.1. Dixon Searle Partnership (DSP) has been instructed by the South Downs National Park Authority (SDNPA) to prepare a review of the development viability considerations that will be relevant to the progression of proposals for what is likely to be a significantly sized scheme in the National Park context.

1.1.2. This is being undertaken in order to inform the Authority's work on this site in conjunction with the landowner / developer, the neighbourhood planning body Fernhurst Parish Council, local communities and other stakeholders; and therefore also inform its decision making through the planning process.

1.1.3. The current stage review is necessarily a high-level exercise given its timing at the point of development themes and options / ideas beginning to emerge rather than being shaped in detail or formalised in any way. The delivery of any proposals for the site will need to be market-led in the usual way. However, the approach and aim of the SDNPA, along with that of the Parish Council, is to progress proposals that are suitable in terms of local needs and provide an optimal balance in terms of meeting the various planning objectives whilst understanding the commercial drivers that are necessary to support such a development. Therefore, the SDNPA aims to guide and influence the proposals as appropriate and also to develop the context for the review of the specific scheme proposals that will come before it in due course through the usual planning application processes.

1.1.4. There is a recognition, related to the location and market realities, that development here will need to be residential based and of a sufficient scale to provide revenues capable of funding the extensive works whilst meeting the development criteria of Major Development in a National Park, including the requirements of NPPF paragraphs 115 and 116 and the statutory purposes. Those include design, affordable housing, sustainability / environmental and other matters alongside the scheme finances supporting the necessary developer's return (profit associated with risk-reward) and an appropriate level of land value. These are not matters prescribed through this work or its findings, but feed into the need to make reasonable current stage assumptions about the likely values / costs relationships involved in progressing a significant residential-led development here.

1.1.5. A key aspect of this review is to inform the authorities' consideration of the type, scale and balance of uses that the redevelopment of this site could most realistically support in financial viability terms. Prior to this work, in relation to development of the Fernhurst Neighbourhood Plan (Policy SA2), some initial parameters have been considered in terms of the potential scale of residential development needed here as a base level in order to support overall scheme viability. This review aims to further inform those initial scoping ideas, which were based on a scheme of around 150 dwellings in all.

1.1.6. It should be noted that this report provides information for consideration as part of the much wider picture relevant to this site and development; the assumptions made are necessary to provide a basis for the review and are unlikely to be reflected in every respect as the scheme detail progresses.

## 1.2. Background – the site

1.2.1 The nature of the site, its background and context is set out elsewhere and therefore will not be repeated here in detail. The following points outline the basics relevant to this review, however, given that assumptions need to be made on certain aspects as a key part of the appraisal process. Further information on the site and Fernhurst local area context can be found via the SDNPA's Fernhurst Neighbourhood Plan Consultation web-site page: https://consult.southdowns.gov.uk/consult.ti/neighbourhoodplan/consultationHome

1.2.2 In summary, the extent of the full former Syngenta site under consideration, located on the eastern/southern side of the A286 Midhurst Road, south of Fernhurst, is as shown on the following illustrative site plan (see Figure 1 below).

Figure 1: Site plan

1.2.3 The information supplied to DSP by SDNPA indicates an overall developable (gross) site area of very approximately 8.4Ha, and this is the land area that DSP has been asked to assume as available to accommodate development (including landscaping, open spaces / amenity, road and footways, car parking, drainage solutions and the like). Ultimately, the scale and type of housing, and / or any other form of development that forms part of the proposals here, will be influenced by a wide range of factors all to be considered – including the landscape and environmental constraints, as well as the opportunities to use the varying levels within the site and consider the shielding effect provided by the levels and trees both within and around the site. At this stage, the potential development site area viewed in either gross (overall) or net (developable – buildings and ancillary uses coverage) cannot be fixed. This means that the scale of development appraised in any trial viability scenario (the crux of this review) is purely assumption based and for exploring parameters, rather than indicative of fully deliverable scheme details in practical terms. This is the key reason why this review is necessarily described at high level. This is not unusual; a firmer, later stage review might well be based on some indicative scheme layouts and accommodation schedules that will be arrived at after considering the achievable scale of development given the site characteristics. Such information is not available at present. There are significant implications for housing density and any commercial/non-residential site coverage, and therefore for the nature of the scheme and how that may be viewed in planning terms, of varying the assumptions on the number and type of dwellings and/or other space assumed within current stage appraisals. The SDNPA will need to add those considerations to its review of the current stage viability indications set out below.

1.2.4 The assumed 8.4Ha available land area (within the total area of circa 11Ha) excludes the existing occupied commercial use buildings known as 'Longfield' and 'The Pagoda'. Longfield is located in a distinct area, separated to some extent both visually and physically from the western end of the main site, adjoining the A286. The modern building provides workshops / storage and offices together with loading and car parking areas and is let to an Auctions company (John Nicholson Auctioneers). The Pagoda building, let to a high-end leather goods company (Aspinal of London), is a more prominent feature of the site, located in a more open central area towards the site's southern boundary and main access roadway. At this stage, the brief to DSP is to assume the retention of these buildings within / adjacent to any redevelopment of the remainder. The focus of this review is therefore not on these buildings; they remain an unaltered aspect as other potential scheme variations are explored here in high-level viability terms.

1.2.5 The largest existing building on site is known as Highfield, which we understand is entirely vacant. This is very large and uniform in nature and provides approximately 16,000 sq. m of accommodation over 3 floors having a footprint of circa 5,100 sq. m plus a part basement. The building is designed on a quadrangle basis, to include 4 larger internal courtyard areas. Under comprehensive redevelopment proposals for the site, this building would be demolished, however we have also been informed by SDNPA that a previous planning application (Chichester District Council ref. 07/05805/FUL) withdrawn in 2008 proposed the conversion of Highfield into 288 flats as part of an overall scheme proposal for 440 dwellings. We understand also that under permitted development rights there could still be scope, subject to details and to market demand and therefore viability, to provide a residential conversion of this former office space amounting to potentially 200+ flats. The removal of Highfield will involve substantial demolition and clearance works, included amongst the current stage assumptions.

1.2.6 Beyond Longfield, The Pagoda and Highfield, there are a number of other smaller buildings (workshops, temporary offices and the like) along with car parking areas that would need to be cleared as part of any comprehensive redevelopment.

### 1.3 Scope of appraisals - Brief

1.3.1 The SDNPA has requested DSP's viability overview based on the following indicative / test scenarios or potential development use options / mixes (again, to inform the exploration of potential options and the development approach):

1. Residential-led development but essentially to the minimum scale necessary to create viability – for example broadly as expected to be reflected by Fernhurst Neighbourhood Plan Policy SA2 (site allocation policy 2) – Indicatively, approximately 150 new-build dwellings and on the basis that Highfield is demolished;
2. Mixed-use development - incorporating the exploration of the viability implication of elements / mixes to include residential, commercial, low-value community use and specialist housing for the elderly;
3. Recreational / hotel uses;
4. Institutional / education uses;

1.3.2 In respect of point 1 at 1.3.1 above, the viability overview sought is to extend to the consideration of trial proposals of up to 250 dwellings, and potentially also including variable amounts of commercial space (bearing in mind that under the Chichester District Local Plan (1999) the adopted policy in place is based on employment uses). A sensitivity test at 400 dwellings was also requested.

1.3.3 So far as possible at the current stage, this review addresses the above through appraisals and / or commentary, again bearing in mind that this is assumptions driven in order to inform the review rather than linked to any particular development expectations or proposals at this point.

1.3.4 In terms of property market context, this overview is being undertaken at a point where local house prices have been rising notably over the last year or more, following a continuation and strengthening of the trends identified on finalising the CIL and affordable housing viability assessment work completed in January 2014, based on available data from the end of 2013. At that stage, depending on the data-set under review, local houses prices were indicated to have risen by at least 3 to 4%, and probably more, over the preceding year.

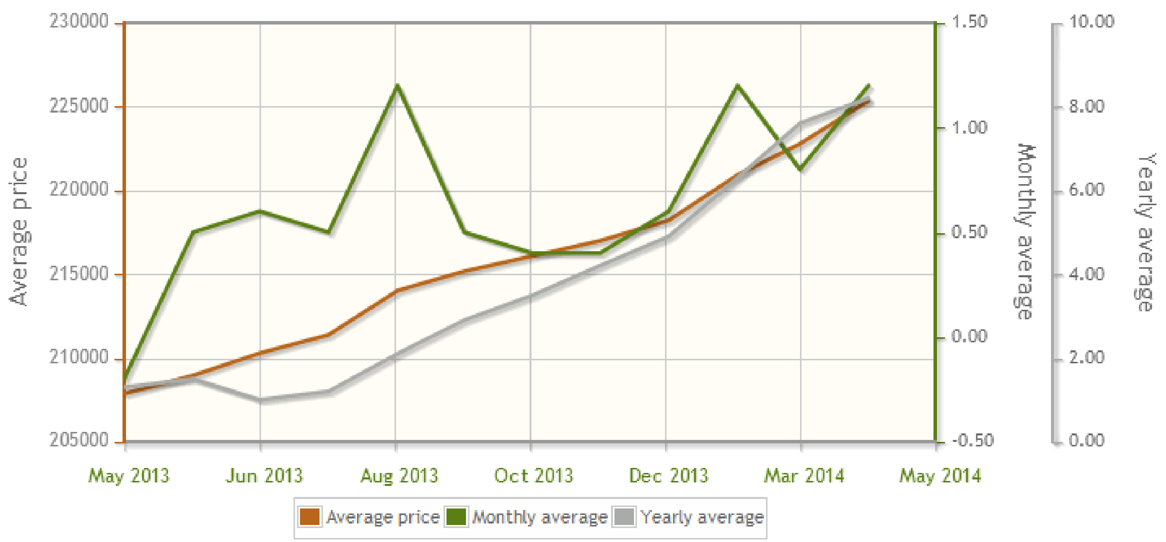
1.3.5 The following Land Registry House Prices Index sourced extract (see Figure 2 below) gives a feel for the significant strengthening of house prices, and how the rate of increase has gathered pace; showing West Sussex prices to have increased by more than 8% in the year to April 2014.

Figure 2: West Sussex house price trends overview.

Single location: **WEST SUSSEX**
Date: **Date range, May 2013 - June 2014**

Average price | Sales volume | House price index | Summary table

## Average price




| Month | Average price (£) | Monthly average | Yearly average | Month | Average price (£) | Monthly average | Yearly average |
|---|---|---|---|---|---|---|---|
| May 2013 | 207,863 | -0.2 | 1.3 | November 2013 | 216,089 | 0.4 | 3.5 |
| June 2013 | 208,952 | 0.5 | 1.5 | December 2013 | 216,989 | 0.4 | 4.2 |
| July 2013 | 210,286 | 0.6 | 1 | January 2014 | 218,206 | 0.6 | 4.9 |
| August 2013 | 211,375 | 0.5 | 1.2 | February 2014 | 220,918 | 1.2 | 6.3 |
| September 2013 | 214,015 | 1.2 | 2.1 | March 2014 | 222,772 | 0.8 | 7.6 |
| October 2013 | 215,167 | 0.5 | 2.9 | April 2014 | 225,340 | 1.2 | 8.2 |

(Source – Land Registry as at 01.06.2014 - http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index )

1.3.6 Only time will tell how the market develops from here. However, recent forecasts from the RICS have placed a view of likely house prices a year ahead a further 8% + higher than current levels (so have been forecasting a continued similar rate of growth), whilst others' market reporting forecasts prices to be up by as much as 20 – 30% or so over the next 4 to 5 years

– e.g. Savills ( http://www.savills.co.uk/research_articles/141274/176292-0 ). Balancing these, the very latest market sentiment includes some early signs of a potential correction to some degree, amongst concerns of the market over-heating in some prime locations, led by London. Potential values growth has not been relied upon in the appraisal assumptions used here, although the sensitivity analysis sheets at the end of each appraisal summary (see Appendix II) do allow consideration of the effect on the appraisal output land values and therefore viability positions of both rising and falling values from the assumed base levels. These potential effects can also be viewed in combination with trial construction cost increase adjustments, should those be relevant.

1.3.7 Whilst the commercial property market has stabilised to some degree in recent months, DSP has found this to be of significance really only in respect of prime locations / sectors however. In respect of the subject location and any potential expanded commercial property offer here, currently (and in the foreseeable future) we do not consider that presently seen levels of market pick-up will be sufficient to drive a significant level development that is commercially viable by normal industry and appraisal standards. In essence, we consider it highly likely that most forms of non-residential development would be seen to produce a reduction in overall viability compared with a residential-only scheme; would effectively cause a drag on the viability of residential development and therefore need to be considered in terms of the scheme's ability to bear other proposals in balance with the residential. This theme reflects the previous findings on the typical viability of CIL payments for various development use types in the SDNPA area, and will be picked-up later in the report too. The location is considered unlikely to provide a strong commercial property offer.

## 1.4 Notes and Limitations

1.4.1 This study has been carried out using well recognised residual valuation techniques by consultants highly experienced in the preparation of strategic viability assessments for local authority policy development including affordable housing and CIL economic viability. However, in no way does this study provide formal valuation advice. It should not be relied on for other purposes.

1.4.2 In order to carry out this type of review a variety of information, so far as readily available, is reviewed and a range of assumptions are required. It is acknowledged that these rarely fit all eventualities - small changes in assumptions can have a significant individual or cumulative effect on the residual land value generated and therefore the viability positions indicated (following comparison of the RLV outcomes with any indications as to the target site value to be met or exceeded).

1.4.3 It should be noted that in practice every scheme is different and no review of this nature can reflect all the variances seen in site specific cases. The study is not intended to prescribe assumptions or outcomes for specific scenarios.

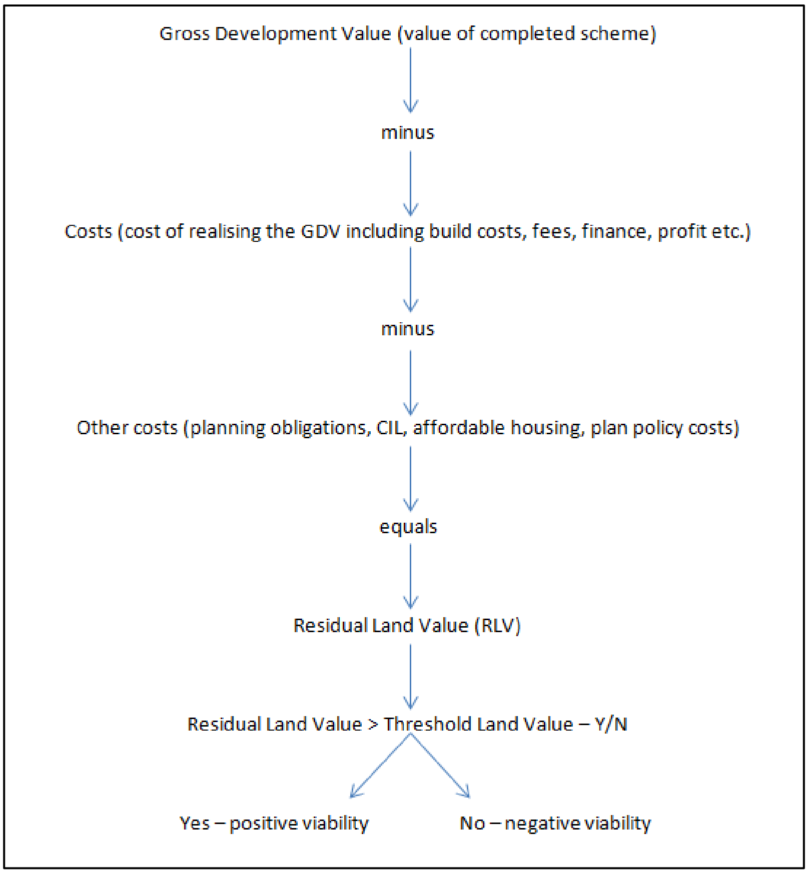
1.4.4 Assumptions and values applied for our review purposes scenarios are unlikely to be reflective of actual figures in all respects and a degree of professional judgment is required. We are confident, however, that our assumptions are reasonable in terms of making this viability overview and informing the NPA's and others' work towards considering proposals for this site.

# 2 Appraisals process - outline

## 2.1 Residual valuation principles

2.1.1 The appraisals use residual valuation principles. As the term suggests, this provides a "residual" value from the gross development value (GDV) of a scheme after all other costs (the development costs) are taken into account (deducted from the GDV). The diagram below (Figure 3) shows the basic principles behind residual valuation, in simplified form:

Figure 3: Simplified Residual Land Valuation Principles




2.1.2 Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.3 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). Essentially this means reviewing the potential level(s) that land value (i.e. the scheme related RLV) may need to reach in order to drive varying prospects of schemes being viable. This follows the methodology typically used in such a viability review, whether for site-specific purposes such as in this case, or for strategic / policy level considerations. Related to the latter, this methodology and the assumptions basis used shares much in common with the CIL (Community Infrastructure Levy) and Affordable Housing Viability Assessment prepared by DSP for the SDNPA earlier in 2014. Indeed, it is appropriate that this review draws on the CIL study work, although currently it appears likely that the consideration of a planning application for the Syngenta site will proceed the CIL being in place; a s.106 basis for planning obligations is currently assumed. Further information on the SDNPA CIL proposals, including the viability study, is available on the authority's web-site at: http://www.southdowns.gov.uk/planning/planning-policy/community-infrastructure-levy .

2.1.4 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner.

2.1.5 The range of current stage assumptions used as inputs to the high level RLV appraisals process is outlined at Appendix I to this report.

2.1.6 Argus Developer software has been used to run the appraisals, the proprietary format report summaries of which are included at Appendix II. Whilst the CIL study has been used as a basis for these inputs, consideration has also been given to the particular appropriateness of assumptions given the site and location characteristics.

2.1.7 At the rear of each of the Appendix II appraisal summaries are tables showing the outcomes of sensitivities to changes made to the base appraisal assumptions in respect of sales values and sustainable construction cost inputs. The base assumptions in each case were sales values at £3,750/sq. m – i.e. approx. £348/sq. ft. (or, in the case of the Highfield residential conversion review only, £3,000/sq. m or approx. £279/sq. ft.); consistent with CIL Viability Assessment value level 5 – 'VL5' sales values and assuming construction to Code for Sustainable Homes Level 4 (CfSH L4) or equivalent. The sensitivities show how the RLVs alter from the base positions (shown as £0 construction cost change and £0.00 pm2 sales rate change) on adding £60/sq. m in steps to the residential base build costs both as a single effect and in combination with the tests at 2 x £250/sq. m steps up and down from the base sales value assumption. Compared with the current (CfSH L4 / equivalent) build cost assumption (representing current BCIS based costs plus CfSH L4 allowance), the further added £60/sq. m is considered to be representative of a zero-carbon approach as assumed now; subject to future review of how such technologies and costs settle. Beyond that, viewed now, the further sensitivity tests simply give a feel for the potential impact of various increased costs trials when considered against the varying values sensitivities.

**2.2 Scenarios – Potential uses range, and market / demand overview**

2.2.1 In the course of information gathering and familiarisation for the review, a site visit was made. This was a general exercise to lift the matter from desktops, particularly as the site is almost totally beyond view (owing to tree screening and falling levels moving in to the site eastwards) from the adjoining public highway – A286 Midhurst Road. We were accompanied by representatives of the SDNPA, the landowner (prospective developer, Comer Homes) and Comer's consultants (including property advisers Savills). The opportunity to better appreciate the site context was useful and enabled us to ask questions, which were also followed up in terms of seeking any further available information to inform our review.

2.2.2 As part of the information gathering / background, DSP was supplied with a 2012 informal statement by Savills on behalf of the owner, providing their views on the potential for alternative uses here – i.e. uses other than residential (in the form of general market residential incorporating affordable housing). This document can also be viewed via the SDNPA Fernhurst Neighbourhood Plan Consultation web-page (as noted at 1.2.1 above; at: https://consult.southdowns.gov.uk/consult.ti/neighbourhoodplan/consultationHome

2.2.3 An update of that statement on the potential for alternative uses would now be beneficial and would presumably form part of any planning submission in any event. We found this useful as background and in many important respects we consider that it concurs with our own views and experience of the market as likely to be relevant to the development of this site.

2.2.4 Further commentary – our current stage views on the viability prospects for other uses - is provided on this in section 3 of this report, below.

2.2.5 Looking at business development ('B' Use Class) prospects, as will be noted in section 3 below, the inclusion of this form of development (envisaging a mix of offices and workshops or flexible multi-purpose units / business centre type studios) using sound available information sources (as per the CIL study) has the effect of pulling-down the viability shown by the residential element.

2.2.6 In order to consider further the effect of this relationship, i.e. the balance between the positive residential viability and that from business development in this location, an iterative approach was taken whereby the assumed B floorspace alongside the residential was increased whilst keeping an eye on the deterioration of the overall scheme RLV indication. See 3.1.4 and Figure 4 below for further details. More general commentary is also provided on the prospects for other non-residential uses

## 2.3 Land value

2.3.1 As outlined at 2.1.1 to 2.1.4 above, it is necessary to compare the appraisal RLVs (review outcomes) with a feel for the level of land value underpinned by the site's existing uses and taking into account the prospect of it having significant development potential; albeit subject to planning and therefore associated with a level of risk in terms of the scheme extent, timing, potential planning obligations, any unforeseen costs and other details.

2.3.2 For the time being, DSP has been asked to base this thinking on as assumed £8.6m total site value, which we understand to be the price related to the whole site purchase in circa 2008, including the premises that are currently occupied and at this stage assumed for retention (Longfield and The Pagoda Building, as at 1.2.4 above). Once again, the intention is certainly not to prescribe a figure in any way; it is necessary though to have some context in place for considering the RLV outcomes and their likely meaning in overall viability terms. The RLVs in themselves do not provide the findings. We have also noted that the RLVs are usually highly sensitive to change as the input assumptions alter; and especially when the key areas of market sales values, affordable housing, build costs (overall), timings and finance are tested for the effect of adjustments. The review hinges around the:

- strength of the development values / costs relationship relevant to each scenario;
- RLVs those produce;
- nature of those RLVs considered against a reasonable land value expectation / measure;
- effect on the scenario RLVs of varying assumptions – Sensitivity – e.g. on scenario make-up (scale, type and mix of development assumed);
- implications of changing RLVs for the land value comparison, as above.

2.3.3 For the current purposes, DSP has estimated the capital values of the Pagoda and Longfield buildings in existing use at a total of approximately £1.87m. Deducted from the £8.6m indicated total site purchase price provides a land value benchmark of approximately £6.73m. This figure is used for the indicative comparison process as outlined above. Again, this is a broad measure that we have needed to consider to inform the review and the high level interpretation of the appraisal RLVs (their meaning) rather than a fact; it is not fixed and has not been tested. Nevertheless, the site value expectations do need to be realistic in terms of factoring-in its characteristics, planning status and other points as noted at 2.3.1 above.

2.3.4 In considering the potential viability of any proposed conversion / rehabilitation scheme for the Highfield Building (for renewed office use or for residential, as noted respectively at Figure 4 below) for the current stage review we have taken the view that such proposals might be pursued in isolation; in advance of or alongside any wider redevelopment proposals that may be pursued for the remainder of the site. This is purely a practical, appraisal led, view which in reality would require much more detailed scrutiny by the landowner / developer and planning authorities. Figures are provided for illustration purposes only and, as with all other aspects here, such scenarios would be subject to the consideration of planning matters and the likelihood of such proposals given the highly uncertain market capacity for them owing to the scale and nature of this building, particularly in this rural location context. However, a feel for the likely limited (existing use) value of the Highfield building purely for this exploratory purpose was assumed to be broadly indicated by the residual figure produced by our assumed office refurbishment scenario (circa £1.3m). Therefore the relevant appraisal scenario RLVs were viewed in this light for the time being, rather than against the £6.73 indicative level assumed as a form of approximate target of the whole site redevelopment scenarios (all other scenarios, where for now only The Pagoda and Longfield buildings were assumed for retention). Figure 4 contains notes outlining our findings and views.

# 3 Outcomes

## 3.1 Overview

**- A guide to the appraisal results (RLVs) by varying assumed scenario and outcomes**

3.1.1 The Argus Developer appraisal summary reports (in order as follows at Figure 4 below) are available at Appendix II, based on the assumptions outlined in the Appendix I sheets. (which are available electronically on request).

3.1.2 Viewed overall, there is a good prospect of producing a viable residential based development.

3.1.3 Consistent with the CIL Viability Assessment findings, business use ('B' Use Class) space currently provides a negative viability scenario, however. Indeed, in general we consider that non-residential uses of any form relevant here would be likely to have the effect of pulling-down the scheme viability significantly compared with the residential proposals that will no doubt be needed to drive it.

3.1.4 The following summarises the main appraisal outcomes and the viability findings from those. In all cases where another form of development is listed alongside the number of residential dwellings, that is assumed as additional new space provided as well as the residential scenario. This information is provided on the basis of the comments made about site area (as at 1.2.3 above) and comparison of the RLVs with the £6.73m land value level (as at 2.3.3 above) that is considered appropriate as a guide measurement for the RLVs (or alternative comparison view in respect of Highfield refurbishment indications) – see Figure 4 below:

Figure 4: Appraisal RLVs and outcomes from those

Key:

Viability indications (subject to wider context commentary and on basis of assumptions used):

| |
|---|
| Non-viable |
| Potentially viable – marginal at best |
| Marginally viable |
| Clearly viable |

| Scenario / sensitivity tested (with reference to 1.3 above – SDNPA brief) | | RLV (£m) (For indicative comparison with £6.73m "target") | Outcome – Overview / comments |
|---|---|---|---|
| 1. | 150 dwellings; no commercial (0 sq. m) | £6.16m | Potentially viable, but may be only marginally so at best, and dependent on unknown site costs and s.106 extent. |
| 2. | 150 dwellings; 1,000 sq. m commercial | £5.36m | Negative impact of circa -£805,000 added to above outcome renders it likely unviable. |
| | 150 dwellings; 5,000 sq. m commercial | £1.99m | Negative impact of circa -£4,176,000 added to above outcome renders it clearly unviable. Also query commercial market capacity. |
| | 250 dwellings; no commercial (0 sq. m) | £10.09m | Clearly viable indication |
| | 250 dwellings; 1,000 sq. m commercial | £9.26m | Negative impact of circa -£825,000 added to above reduces relative viability, but likely clearly viable overall. |

| | Scenario / sensitivity tested (with reference to 1.3 above – SDNPA brief) | RLV (£m) (For indicative comparison with £6.73m "target") | Outcome – Overview / comments |
|---|---|---|---|
| | 250 dwellings; 4,000 sq. m commercial | £6.79m | Negative impact of circa -£3.3m added to above significantly reduces viability; likely to margins overall. Query site capacity? Also query commercial market capacity. |
| | 250 dwellings; 5,000 sq. m commercial | £5.96m | Negative impact of circa -£4.13m added to above further reduces viability; likely to beneath margins overall > probably unviable. Query site capacity in any event? Also query commercial market capacity. |
| | 400 dwellings; no commercial (0 sq. m) | £13.81m | Clearly viable financially but query density, design and site capacity etc. implications? |
| | 400 dwellings; 1,000 sq. m commercial | £13.01m | Reduces above outcome by £802,000. Clearly viable financially but query density, design and site capacity etc. implications? |
| | 400 dwellings; 5,000 sq. m commercial | £9.52m | Reduces base outcome by circa £4.29m. Financial viability likely to be retained, but query density, design and site capacity etc. implications? Also query commercial market capacity. |
| | 400 dwellings; 8,000 sq. m commercial | £6.64m | Reduces base outcome by circa £7.18m. Financial viability likely to be taken back to margins – bearing in mind added risk and query re density, design and site capacity etc. implications, very unlikely to be a realistic scenario. |
| Other tests | | | |
| | Highfield – rehabilitation as offices | £1.33m | Considered inadequate to justify refurbishment costs. Not considered realistic. Query practicality, investment level and associated risk etc. - likely significant barriers re rental |

| | Scenario / sensitivity tested (with reference to 1.3 above – SDNPA brief) | RLV (£m) (For indicative comparison with £6.73m "target") | Outcome – Overview / comments |
|---|---|---|---|
| | | | levels, incentives required / vacancy rates and, overall, market capacity for sufficient take-up. |
| | Highfield – conversion to an assumed 250 residential units (flats) | £3.42m | Potentially attractive proposition on paper compared with current situation or bringing back into office use, bearing in mind above comments on office use. However a relative comment. Query risk level associated with this type of proposal given the likely number and type of units potentially involved, the market capacity in this location and the consequent pricing and sales periods likely etc.<br>Uncertainty with regard to planning scope for other development on site remainder also an issue. |
| 1.d | Include specialist housing for the elderly - sheltered / retirement | N/A at this stage | Financial viability prospects considered similar to general market residential. However, query demand and drivers for this location. |
| | - care based provision | N/A at this stage | CIL study found care based uses unviable at the current stage – no evidence to vary that finding here. As above, potential queries over suitability of location re demand? |
| 3 | Recreational / hotel uses | N/A at this stage | CIL study found insufficient viability for CIL charging on a reliable basis - unviable at the current stage – no evidence to vary that finding here. As above - potential queries over suitability of location re demand, particularly alongside other uses, if envisaged as an upmarket offer; and high development costs? |
| 4 | Institutional / education uses | N/A at this stage – subject of appraisal | Such uses not viable in traditional format without very significant subsidy; as reflected in SDNPA's proposals for nil CIL charging. DSP is aware of proposals for a new school in a rural location at Stedham for example, however; potential that such a site user might bid |

| | Scenario / sensitivity tested (with reference to 1.3 above – SDNPA brief) | RLV (£m) (For indicative comparison with £6.73m "target") | Outcome – Overview / comments |
|---|---|---|---|
| | | would need to be clarified. | strongly with limited other options? However, piecemeal / part development unlikely to be viable (e.g. in combination with other uses here) and, as with other forms, impact assessment and planning criteria would apply. |

3.1.5 In respect of figure 4 above, it must be noted that the appraisals process and resulting figures for all commercial / non-residential scenarios by definition assume a level of demand sufficient to ensure a normal level of occupancy; either to underpin the investment involved in speculative development or from occupiers for either owner-occupation or pre-let scenarios. DSP has significant doubts over whether anything other than a nominal amount of non-residential space here would be supportable in market capacity terms; in order to underpin the theoretical viability positions arrived at this stage. The issue of market capacity for such uses in this location could be investigated by SDNPA and of course monitored over time. However, even if a significant amount of business space, for example, were able to be constructed through cross-subsidy, the holding risk associated with that and the possibility of seeing long vacancy periods or needing to offer significant occupancy discounts or similar would need to be considered in terms of overall sustainability and a no doubt landowner's / developer's position.

3.1.6 Broadly the same scenario and concerns are applicable to other (non-residential) uses here in our view.

3.1.7 In financial viability terms, a development of say 150 or more dwellings should be able to support the relatively minor additional development costs associated with the provision any small scale non-commercial community uses provided on the site – e.g. flexible space for hall / community shop / office or similar. This would be expected to have a negative viability impact within the overall figures (it would generally represent a cost to rather than be revenue generating for the development).

3.1.8 Any proposal for a small commercially operated shop or similar on-site, would, we think, also generate either a small negative or at best around a neutral viability impact to be considered as part of the scheme. The NPA could consider any demand for this, subject to planning implications.

**Other development use types – including Community Uses and other uses potentially relevant to the National Park – Agriculture, leisure, visitor facilities, etc.**

3.1.9 Following our extensive iterative review process for the SDNPA's CIL Viability Assessment, we saw that once values fall to a certain level there is simply not enough development revenue to support the developments costs, even before any CIL cost was considered (i.e. where adding CIL cost simply increases the nominal or negative numbers produced by the residual land value results – makes the RLVs, and therefore viability prospects, lower or moves them further into negative).

3.1.10 We found that in such scenarios, a level of CIL charge or other similar degree of added cost in any form would not usually be the single cause of a lack of viability of those development forms. Such scenarios are generally unviable in the sense we are studying here. This is because they have either a very low (or no) commercial value and yet the development costs are often similar to those for equivalent types of commercial development. These are often schemes that require financial support through some form of subsidy or through the particular business plans of the organisations promoting and using them.

3.1.11 As will be seen below, potentially there is a wide range of developments with these characteristics. We also noted through that earlier work that many of these uses would more frequently occupy existing, refurbished or adapted premises.

3.1.12 A clear case in point will be community uses which generally either generate very low or sub-market level income streams from various non-commercial occupier groups and, as a general rule, require very significant levels of subsidy to support their development cost; in the main they were considered likely to be a long way from producing any meaningful CIL scope. The same viability indications are relevant to this report.

3.1.13 There are of course a range of other arguments in support of a distinct approach to CIL in respect of such uses. For example, in themselves, such facilities are generally contributing to the wider availability of community infrastructure.

3.1.14 **In any event, from our viability perspective, a zero (£0/sq. m) CIL rate was recommended in these instances.** In our view these findings, together with those associated with that viability assessment's other nil CIL charging rate recommendations, remain relevant. As with all other aspects, their viability could be kept under review, but that picture also informs this review.

3.1.15 As a part of reviewing for SDNPA's CIL the viability prospects associated with a range of other uses, we compared their estimated typical values (or range of values) – with reference to values research from entries in the VOA's Rating List and with their likely build cost levels (base build costs before external works and fees) sourced from BCIS. As has been discussed above, where the relationship between these two key appraisal ingredients is not favourable (i.e. where costs exceed or are not sufficiently outweighed by values) then we can quickly see that we are not dealing with viable development scenarios. The lack of positive relationship is often such that, even with low land costs assumed, schemes will not be viable in their own right.

3.1.16 Figure 5 below (shortened version of SDNPA's CIL assessment Figure 11) provides a reminder of examples - Relationship between values and costs in a range of these other scenarios.

Figure 5: Other uses – example guide value / cost ranges and relationships

| Example development use type | Indicative annual rental value (£/sq. m) | Indicative capital value (£/sq. m) | Base build cost indications –BCIS** | Viability prospects and Notes |
|---|---|---|---|---|
| Community Centres | £15 - £60 per sq. m | £150 - £600 per sq. m | Approx. £1,125 - £1,580 | Clear lack of development viability |
| Day Nurseries | £60 - £100 per sq. m | £600 - £1,000 per sq. m | Approx. £1,300 - £1,800 | Insufficient viability to clearly and reliably outweigh the costs |
| Halls - Community Halls | £10 - £25 per sq. m | £100 - £250 per sq. m | Approx. £1,250 - £1,690 (General purpose Halls) | Clear lack of development viability – subsidy needed |
| Leisure facilities - Health and Fitness or similar | £100 - £120 per sq. m | £1,600 @ 7.5% yield | Approx. £800 - £1,780 | Likely marginal development viability at best - probably need to be supported within a mixed use scheme; or to occupy existing premises |
| Storage Depot and Premises – e.g. Agricultural | £30 - £40 per sq. m | £300 - £400 per sq. m | Approx. £460 - £700 (mixed storage types to purpose built warehouses) | Assumed (generally low grade) B type uses. Costs generally exceed values - no evidence in support of regular viability. |
| Visitor Centres | No comparable information available | | Approx. £1,465 - £2,300 | Likely clear lack of development viability – subsidy needed |

*£/sq. m rough guide prior to all cost allowance (based on assumed 10% yield for illustrative purposes - unless stated otherwise).

**Approximations excluding external works, fees, contingencies, sustainability additions etc.

# 4 Summary of main findings

4.1. An outline of the main findings of this current stage review is as follows.

4.2 Development of approximately 150 residential dwellings looks likely to be around the minimum level deliverable in order to support scheme viability; particularly in the event of needing to fund additional site related or other costs not factored-in at the current stage owing to the limited information available.

4.3 At this level, a comprehensive redevelopment scenario appears barely capable of supporting uses other than residential to any significant degree (even looking at the financial impact of supporting the development of say 1,000 sq. m added business space).

4.4 Viewed in this way, the more realistic viability results may be generated within the range 150 to 250 dwellings; particularly if further components of non-residential space are required in planning terms beyond any new small scale non-residential elements for community or other uses (i.e. in addition to the retention of existing space at Longfield and The Pagoda).

4.5 At that scale, there appears to be scope to support some level of business or other non-residential / potentially negative land value generating development (as viewed currently), although viability appears likely to deteriorate to a marginal level by the time the amount of assumed commercial space reaches approximately 4,000 sq. m in combination with an assumed 250 residential dwellings.

4.6 Further test scenarios involving as many as 400 new-build dwellings appear highly viable purely in financial / theoretical – i.e. figures on paper – terms, however would be likely to involve very significant considerations and compromise over design and capacity, etc. given the setting and previously explored parameters. In the same way, and following the above trend of the capacity of a greater amount of residential development to support more non-viable development forms, site capacity and practical delivery aspects must be considered generally.

4.7 A highly relevant consideration in all of those scenarios is likely to be review of the suitability of this site and capacity of the market (likely interest and take-up) for a significant amount of commercial floorspace. We recommend that this be considered further, but at the current review stage, we consider it unlikely that there are strong prospects of supporting more than say an additional 1,000 - 2,000 sq. m commercial space. Based on the assumptions and scenarios used to inform the current stage view, we think that this would be likely to entail the development of more than 150 new dwellings.

4.8 Any number of further iterations could be run, all bearing in mind that this process is assumptions based. In any event, the market capacity and site suitability aspects would need to be addressed in our view. Developer's risk could greatly increase without a strong case for the demand being in place. In turn that would be likely to reflect in alternative appraisals of the scheme resulting in greater negative impact from factors such as reduced occupancy, higher rental yield, rent free periods/ incentives, deferred receipt timings, increased risk-rewards sought, etc.

4.9 The test scenarios indicate that there is a good prospect of the SDNPA securing affordable housing levels and / or contributions at or near to the full 40% target basis assumed, based on a mix of tenure – all as noted within the assumptions at Appendix I (again bearing in mind these are assumptions as necessary to build up the appraisals, rather than a firm indication of detailed strategy or needs requirements, etc.). Whilst at 150 or so dwellings this aspect of a scheme could come under pressure from any other site costs / abnormals not currently fully factored-in, there certainly appears to be scope to balance that effect should that be necessary; for example by considering some adjustment to overall numbers or alternatives solutions to provision / tenure mix; all subject to planning and housing needs criteria.

4.10 From our wider work and consideration of this site, we do not consider at the present time that any particular viability advantage would accrue from looking to promote the location or part of it for specialist / elderly persons housing. In values terms, it seems likely that in the circumstances that may not exceed the viability potential from more general market housing. Again, in any event we consider that site selection and market capacity for such uses in this location would need to be closely considered. At an initial look, whilst it is likely that retirement / sheltered housing could produce an enhanced viability scenario over a care-based form of housing development, in general, however, we have reservations about a reliance on any significant proportion of either form in terms of this site's suitability to underpin significant demand for these, given its location remote from wider facilities and the likely reliance of future occupiers largely on independent transport.

4.11 High level appraisals indicate that, again, with potential demand and development cost / investment risk issues taken account of, an office use refurbishment of the Highfield building would most likely prove to be uneconomic and unjustified. Whilst it appears possible to create a relatively small financial surplus, that would be highly sensitive to appraisal input adjustments for the type of uncertainties mentioned above.

4.12 On a similar basis, there appears to be a theoretical level of viability in a potential residential conversion of Highfield. In relative terms compared with the current situation, this could potentially appear attractive on paper. However, it would require very significant investment in terms of the costs involved and high risk levels given its scale, leading to reduced values and a long sales period with consequent high financing costs etc. Similarly, therefore, the apparent positions could quickly be eroded and, overall, this appears to us a significantly less attractive potential proposition all-round than pursuing a new-build based scheme. These examples show how the figures need to be considered in context; not in isolation.

**Main text of review report ends.**
**June 2014.**

**Appendices follow:**

**I – Assumptions outline**
**II – Appraisal summaries**