DVS Property Specialists for the Public Sector

St Albans Valuation Office
St Peters House
45 Victoria Street
St Albans
AL1 3WZ

Tony Collins
Cambridge City Council
The Guildhall
Cambridge
CB2 3QJ

Our Reference: OJ/1467452

Your Reference:

Please ask for : Olayinka Jawando
Tel : 03000 504826
Mobile : 07799348784
E Mail : olayinka.jawando@voa.gsi.gov.uk

Date : 20 August 2013

Dear Tony,

DESK TOP REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT by CBRE for 41-45 RUSTAT ROAD, CAMBRIDGE CB1 3QR

I refer to your email of 24 July 2013 requesting a desktop review of the development viability assessment undertaken by CBRE, my confirmation of instruction letter dated 31 July 2013 and your subsequent email of 5 August 2013 to proceed. You have forwarded the CBRE's viability assessment dated July 2013. We have now undertaken our own desk top research and review and report as follows:

Background:

I understand that this review is required as an independent assessment of the viability assessment undertaken by CBRE as part of the Homes and Communities Agency (HCA) mediation process.

I understand that that the subject site received planning permission in 2008 under planning application reference No 05/1336/OUT and 07/1223/REM for the demolition and development of 143 residential units comprising 4 x 3 bed town houses, 108 x 2 bed maisonette and 31 x 1 bed flats.

The contention of the applicant is that following a tender exercise for the design and construction of the consented scheme, a significant 'abnormal' development costs associated with elements of the scheme have been identified the impact of which has led to the development of site being financially "unviable" on the basis of reasonable expectations as to land value for the local area.

I am advised that a S.106 contribution level has been agreed as part of the detailed planning applications which is detailed below within our report.

The Scheme:

The proposed scheme (as detailed in the provided CBRE report) comprises the redevelopment of the site formerly owned by the Cambridge Water Company to provide 143 new residential dwellings comprising 4 x 4 bedroom town houses, 6 x 2 bedroom houses, 102 x 2 bedroom maisonettes and 31 x 1 bedroom flats with basement car parking and amenity space.

Tenure breakdown is as follows:

- 13 no. open market 1 bed flats of 50.5 sq m to 57 sq m (544 sq ft and 614 sq ft)
- 77 no. open market 2 bed maisonettes of 64 sq m to 77.8 sq m (689 sq ft and 837 sq ft)
- 6 no. open market 2 bed houses of 64 sq m (689 sq ft)
- 4 no. open market 4 bed town houses of 85 sq m (915 sq ft)
- 18 no. affordable 1 bed flats of 48 sq m to 53 sq m (517 sq ft and 570 sq ft)
- 25 no. affordable 2 bed maisonettes of 64 sq m to 71.4 sq m (689 sq ft and 769 sq ft)

There are 100 open market dwellings and 43 affordable dwellings, equating to an affordable housing content of 30%.

<u>Viability Review:</u>

This desk top review has been undertaken following my own research into both current sales values and costs. I have adopted the figures put forward by the applicant/CBRE where I believe them to be reasonable.

I summarise my review of the CBRE's report as follows:

1) Development costs -

a) Land Value

CBRE have stated that the land value has been calculated on a residual basis and is not based on the historic purchase price of the site but they have allowed interest to accrue on the residual land value from 2006 when the applicant originally acquired the site.

I accept the approach that the land value should be assessed on a residual basis disregarding the historic purchase price. However, I would exclude any interest accrued as the site value should be as at the date of assessment taking account of costs and values as at that date.

b) Finance costs

CBRE have adopted a finance rate of 7% applied to all build costs and land payments, which I have accepted as being reasonable and the industry norm for a development of this nature.

c) Development Programme

CBRE has adopted a build period of 30 months for both the private and affordable units with the sales period beginning four months after the start of construction for each block and assumes an 18-month sales period for the open market units.

Although CBRE recognise that this is slightly higher than normal, they have put this down to the fact that individual blocks have to be completed given the access to the central core.

I have undertaken my own independent research and I am satisfied with the proposed 30 months build period.

d) Build Cost:

CBRE have adopted an overall build cost of £1,188 per square metre (£110 per sq ft) excluding abnormals (identified separately), design team fees and contingency allowance as provided by the applicant.

I have had regard to the BCIS average build costs adjusted to reflect the location and having regard to the likely quality of the completed dwellings and I accept the adopted build costs of £110/sq.ft as being reasonable.

e) Abnormal costs

The applicant following a value engineering exercise has identified abnormal development costs which equate to a total cost of circa £4.65m i.e. £422.62 per sq m (£39.26 per sq ft).

I understand that these have been provided by a specialist QS firm and relate to site specific costs for the excavation and piling of the basement; piling of the substructure; provision of lift access; and walkways / balconies.

I have undertaken my independent research of the abnormal costs and whilst I believe them to be reasonable for what is being proposed. However, I would question why the blocks are being linked and not stand alone. I believe there is a need for a further value engineering exercise which could see the abnormal costs reduce.

f) Contingency

The applicant has included a development contingency of 5% which CBRE have adopted in their appraisal as being a reasonable percentage taking into account that abnormal costs have been separately identified

In view of the fact that a value engineering exercise has been undertaken which has identified the abnormal costs and is in itself an exercise that seeks to enhance value by eliminating unnecessary cost I am of the opinion that a contingency of 5 % is on the high side and feel 3% should be sufficient.

g) Professional Fees

The applicant has included professional fees of 10%. I have accepted this as being reasonable for a development of this nature.

h) Sustainability Code Level 3

I am advised that there is a sustainability requirement on Rustat Road for Code Level 3 which the applicant has calculated at £1,500 per plot which I accept as reasonable in attaining code level 3.

i) Survey Costs

CBRE have allowed a nominal £10,000 towards survey costs which I accept as being reasonable.

j) Sales, Marketing and Legal Fees

CBRE has allowed 3% of GDV (open market dwellings only) for marketing / sales costs and legal costs at £750 per unit (open market dwellings only) in line with the SHLAA.

I have accepted the above level of fees as being reasonable and the industry norm.

k) Other Legal Fees

The applicant contends that £12,275 has already been incurred to date in legal fees in relation to the affordable housing disposal to get to contract stage. They also estimate that they will further incur an additional £50 per affordable dwelling as the plots are transferred totalling £14,425. CBRE have allowed for additional legal costs.

I have allowed for these costs in my review as being reasonable as they are costs incurred in the delivery of the proposed scheme.

l) Section 106 Costs

S106 costs have been assessed at £1,309,789, which cover the following items:

Education	256,776
Transport	435,107
Public Art	200,000
Formal Open Space	96,253
Informal Open Space	81,815
Play Space	86,609
Community Facilities	153,229

I understand that these are agreed.

m) Acquisition fees on Residual Land Value

CBRE have allowed for Agency acquisition fees on the residual land value at 1%, legal fees at 0.5% and SDLT at 4.8%.

I accept these as being the market standard rates. However the SDLT should be at 4% as opposed to 4.8%

n) Developers Profit

CBRE has allowed for a developers profit on gross development value of 20% on open market housing and 6% on affordable housing as per the SHLAA assumptions. I have accepted this as being reasonable and the industry norm.

2) Development Values -

o) Private Residential:

CBRE has adopted capital resale values ranging between £222,201 and £337,244 for the market sale properties.

I have undertaken my own independent research and set out below my opinion of the open market sales values for the proposed development derived from analysis of achieved sales of similar units or similar units currently available on the open market in proximity to the subject site.

Summary	Unit/sq m	Unit/sq ft	Est. MV	£/sq m	£/sq ft
Private 1 Bed Flats	50	538	235,000	4,700	437
Private 2 Bed Maisonettes	70	753	280,000	4,071	378
Private 2 Bed House	64	915	300,000	3,529	328
Private 4 Bed Townhouse	85	1,023	350,000	3,684	342

Overall my figures are not too dissimilar to CBRE's.

p) Ground Rents

CBRE has added ground rents to their revenue schedule for the flats/maisonettes at a rate of £300 per unit and capitalised this at a rate of 5%.

I have accepted this as the norm for this type of development.

q) Affordable Hosing

I understand that an offer has been received from BPHA for the affordable housing element of the development which is inclusive of land, build and on-costs which has been reflected in CBRE's appraisal. However we have not had sight of this.

2) Residual Land Value (RLV)-

CBRE have assessed the residual land value as follows:

a. **£1.16** m based on the information and assumptions presented in their report. This equates to £995,000 per hectare (£403,000 per acre).

b. **£4.05** m based on **nil** abnormal costs

To help provide a benchmark level for residential land values, CBRE have compared the RLV of the subject site with residual land value within the SHLAA of an adjacent site, Clifton Industrial Estate, within the Coleridge Ward for the purpose of comparing this benchmark figure against the RLV for the subject site to establish if they are in a similar ballpark. Whilst recognising that the Clifton Industrial site values presented in the SHLAA are derived from standard assumptions adopted by CBRE in their analysis of the subject site but in addition anticipate the future policy of a fully chargeable CIL payment of £125 per sq m and S.106 obligations of £1,000 per dwelling, as well as a 40% affordable housing contribution.

Reference has also been made by CBRE to the Valuation Office Agency Property Market Data 2011 in which the value of residential development land in Cambridge as at 1st January 2011 (for suburban sites of 0.5 ha) has been given as £2.9m per ha (£1.17m per acre).

I can confirm that CBRE's assessed land value is below what I would expect for residential development land in close proximity of Cambridge City Centre taking into account the current buoyant local market.

I have had regard of other residential development land transactions in the locality of the subject property. But would confirm I have not undertaken my own independent appraisal.

My Overall assessment and recommendations:

Overall, I do not disagree with the vast majority of CBRE's input in their viability assessment. However, their assessed site value is in my opinion a conservative assessment.

Nevertheless, it is evident that there is a need for Cambridge City Council and the applicant to reach an agreement reflecting a compromise on both sides which although may see the reduction in the level of affordable housing delivered will ensure the site is brought forward for development.

I trust this report deals with the issues as required but please do not hesitate to contact me if you have any queries and I would welcome the opportunity of discussing this with you in greater detail.

If required I am prepared to undertake further modelling to assist any negotiations with the applicant as to the appropriate level of affordable housing for this scheme.

Olayinka Jawando MRICS
Senior Surveyor
RICS Registered Valuer
DVS