

4th April 2024

[REDACTED]
Portabella
Nickel Yard
Bakers Row
Cardiff
CF10 1AL

Dear David,

RE: Viability Appraisal Exercise – Bolston House, Bonvilston, Vale of Glamorgan CF5 6TR

Further to the viability report submitted 17th June 2022 (**Appendix 1** – attached) and pursuant to instructions received, I write to provide an updated viability submission with supporting appraisals and evidence.

I have constructed the following two updated development appraisals to demonstrate the viability (or otherwise) of the proposed development;

1. The proposed 14 unit residential scheme including on-site affordable housing provision and s.106 payments assuming a sale of the units in the open market following completion of construction works. A copy of this appraisal is appended to this letter (**appendix 2**).
2. The proposed 14 unit residential scheme excluding affordable housing and s.106 payments and assuming a sale of the units in the open market following completion of construction works. A copy of this appraisal is appended to this letter (**appendix 3**).

N.B. This is NOT a Formal Valuation.

The appraisal was built using Argus Developer development appraisal software. Further to the previous submission of June 2022 the following revenue and cost items have been updated:

**Sales Revenue (Gross Development Value)
Open Market Units (NO CHANGE)**

The updated appraisal of the open market private residential units was provided by locally based estate agents and chartered surveyors Watts & Morgan using comparable sales evidence. Watts & Morgan have a Land & New Homes department that are expert in the pricing, sale and marketing of New Homes within the Vale of Glamorgan and Bridgend area. Their advice is appended to this letter (**appendix 4**). There has been no change to this item.

A sales period of 8 months has been allowed for the private units.

Affordable Units (UPDATED)

With reference to the affordable housing revenue in Appraisal 1 (appendix 2), reference has been made to the Vale of Glamorgan Affordable Housing Supplementary Planning Guidance and Welsh Government's ACG Schedule dated January 2018 and accordingly the 2no. 1b2p flats, 2no. 2b3p flats and 2no. 3b5p houses which would form the on-site affordable housing provision.

The revenue of the five social rented units has been updated to 42% of 2023 ACGs (**appendix 5**). The revenue of the single intermediate unit is set at 70% of Market Value, as per the SPG.

The previous submission applied a total of five affordable units.

Land Price, LTT and Legal Costs (NO CHANGE)

The price paid for the land by you and the resultant legal costs and LTT costs are as per the June 2022 submission (appendix 1) and there is no change.

Town Planning & Survey Costs (NO CHANGE)

Costs incurred up to date as well as a budget allowance for reasonable costs anticipated to be incurred in relation to the planning application in relation to planning, design, SAB and supporting technical documentation as required as part of the planning process, as advised by you. This cost remains the same as per the June 2022 submission (Appendix 1)

Construction Costs (UPDATED)

Dwelling construction costs have been updated. Royal Institution of Chartered Surveyors (RICS) Build Cost Information Service (BCIS) average build cost data has been used. Median costs for residential new-build construction rebased to South Glamorgan at March 2024 has been adopted (**appendix 6**).

External Works, Abnormal Costs and Garage Construction costs (**appendix 7**) calculated by Expedite a locally based firm of Chartered Quantity Surveyors and Chartered Project Management Surveyors who specialize in residential development, remain the same as the June 2022 submission (appendix 1).

An developers contingency of 3% has been applied.

Construction Timescale (NO CHANGE)

15 months with costs applied over an 'S' curve.

Section 106 Contributions (UPDATED)

The following s.106 costs have been included in Appraisal 1, as per planning committee report;

- Public Open Space - £34,686
- Sustainable Transport - ££29,900
- Education - £109,743
- Public Art contribution at 1% of construction costs at £57,989

Professional Fees Associated with Construction (NO CHANGE)

The fees allowed for Architecture, planning, engineering, building regulations, surveys and Project Management fees post planning and during construction at 8%.

Disposal Fees & Marketing Budget (NO CHANGE)

1% selling agent fees and £800 per unit selling conveyancing fees have been included. A £25,000 figure has been allowed for marketing and advertising.

Debt Rate for Development Finance (UPDATED)

An increase in rates of 5.60% debit interest per annum on 100% of costs (which equates to 8.0% per annum of 70% of costs including land) which is at the lower end of what is typically encountered by developers in prevailing market conditions.

Costs of Finance (NO CHANGE)

Finance arrangement and exit fees of 1.5% of 70% of costs have been included.

Viability Outcomes

Appraisal 1 - Proposed 14 unit scheme including section 106 and on-site affordable housing

The appraisal demonstrates the scheme is not viable. The appraisal produces a negative profit margin of **-£580,297** which equates to a negative margin on **-7.33%** profit on Gross Development Value.

Appraisal 2 - Proposed 14 unit scheme excluding s.106 contributions and on-site affordable housing

The appraisal demonstrates that the proposed scheme creates a positive profit outcome. The appraisal produces a profit figure of £779,345 which equates to 8.63% on Gross Development Value (GDV).

This demonstrates that the removal of the section 106 contributions and on-site affordable housing in their entirety is required to improve viability to create a positive profit outcome.

Furthermore an extract of the sensitivity analysis (**Appendix 8**) below for Appraisal 2 demonstrates that even if construction costs were to decrease by 5% and Sales values were to increase by 5% (which is highly unlikely in the foreseeable future), then only a profit margin of 15% is achievable.

Table of Profit Amount and Profit on GDV%

	Sales: Gross Sales				
Construction: Gross Cost	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
-5.000%	£594,182 6.926%	£821,357 9.329%	£1,048,533 11.612%	£1,275,050 13.776%	£1,501,300 15.834%
-2.500%	£459,587 5.357%	£686,763 7.800%	£913,939 10.121%	£1,141,082 12.328%	£1,367,331 14.421%
0.000%	£324,993 3.788%	£552,169 6.272%	£779,345 8.631%	£1,006,521 10.875%	£1,233,362 13.008%
+2.500%	£190,399 2.219%	£417,575 4.743%	£644,751 7.140%	£871,927 9.420%	£1,099,103 11.592%
+5.000%	£55,805 0.651%	£282,981 3.214%	£510,157 5.650%	£737,333 7.966%	£964,509 10.173%

Whilst the 8.63% profit margin is significantly below the widely and generally accepted 15-20% profit on GDV viability threshold, I understand that this is an acceptable profit level for you to undertake the project, on the basis that you are committed to the project in so far as you legally contracted in to purchase the property subject to the receipt of planning permission for the proposed scheme and as such you are prepared to closely manage the construction project and accept the risk of deferring your profit-take until late in the development programme when the scheme is completed and sold off.

Relevant Experience

NP Linnells Property Consultants were established in 1961 and are Gwent's largest firm of Chartered Surveyors and Property Advisors. We specialize in the valuation of commercial, residential and development property and the sale, letting and acquisition of commercial and development property. We also specialize in the development sector advising private developers and housing associations on development and acquisition strategy. Our clients include Hale Homes, National Bank of Kuwait, Bellway Homes, Newbridge Real Estate, Bron Afon HA, Melin HA, Linc-Cymru HA, Hafod HA, Your Space, Project Three Developments Ltd, Swansea Building Society, Handelsbanken, Lloyds Bank, Llanover Estate, Coldbrook Estate amongst others.

Yours sincerely,



Matt Tyler
Partner
RICS Registered Valuer
NP Linnells LLP

Enc.

Appendices

1. Viability Submission dated 17th June 2022
2. Viability Appraisal – with s.106 & affordable housing
3. Viability Appraisal – excluding s.106 & affordable housing
4. Watts & Morgan Sales Appraisal letter & comparable evidence
5. 2023 ACGs
6. BCIS Construction Costs
7. Expedite External Works & Abnormal Costs
8. Sensitivity Analysis of Appraisal 2

