

16-18 Oatlands Drive, Weybridge, KT13 9JL

S106 Management (S106M) is instructed to review the findings of BNP Paribas Real Estate (BNP) in relation to a proposed development at 16-18 Oatlands Drive, ref 2022/3796.

Executive Summary

- BNP have reviewed S106M's appraisal and suggested several adjusted inputs.
- The below table highlights the main differences in the two appraisals:

	Original FVA	Council v2 (100% OM)
GIA	2,752.20	2,752.20
Residential GDV Total	£17,665,000	£18,625,000
Residential GDV psm	£6,419	£6,767
TOTAL GDV	£17,665,000	£18,625,000
Base Build Cost Total	£7,580,100	£7,889,913
Base Build Cost (£/m ²)	£2,245	£2,867
Externals	£1,098,500	£0
Contingencies (%)	8%	5%
Contingencies Total	£606,408	£394,496
Fees %	10%	10%
Fees Total	£818,651	£788,991
Acquisition Costs	£530,000	£263,792
CIL	£417,760	£417,760
Sales & Marketing Fees	£529,950	£558,750
%	3%	3.00%
Legal Fees (total)	£33,000	£0
Interest	£1,198,803	£1,172,627
Finance Rate	8.00%	7.50%
Commercial Build Cost	£0	£0
Commercial Fees	£0	£0
Total Cost	£12,813,172	£11,486,329
Timing Build	24	18

Lead-in Period	12	7
Profit %	20.00%	17.50%
Profit Total	£3,533,000	£3,259,375
Cost + Profit	£16,346,172	£14,745,704
RLV	£1,318,828	£3,879,296
BLV	£4,100,000	£3,250,000
Surplus/Deficit	-£2,781,172	£629,296
Effective Return %	4.25	20.87
Effective Return Total	£751,828	£3,888,671

- BNP conclude that a £0.63m financial contribution can be achieved. This is primarily on the basis of increased residential GDV, lower build costs, a reduced profit allowance and a reduced benchmark land value.
- The below response provides additional information, updating the original Q4 2022 reporting and reviews any changes aiming for agreement on any outstanding points.

1. Proposed development

1.1 Application **2022/3796** proposes 'Development of 2 detached blocks comprising 33 flats with new vehicular access, associated parking, cycle storage, refuse storage and amenity areas with hard and soft landscaping, and associated engineering and infrastructure works, following demolition of existing houses.'

1.2 S106M's original viability report calculated that the development had a Residual Land Value (RLV) of £1,318,828. This figure was -£2,781,172 less than the adopted Benchmark Land Value (BLV) of £4,100,000; thus, it was concluded that the development could not viably provide any contributions towards Affordable Housing.

1.3 The below response reviews both appraisals and provides the further information required to allow a conclusion to these discussions.

2. Review of Assumptions

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2.1 It should be noted from the outset that all concessions made in this review are purely for the purpose of this illustration; should the matter not be resolved at this juncture we reserve the right to return to our original figures in any subsequent appeal.

3. Sales Revenue

- 3.1 S106M originally valued the proposed development at £17,665,000 total GDV (£6,419/m²).
- 3.2 BNP have suggested increased sales values to achieve a total GDV of £18,625,000 (£6,767/m²).
- 3.3 As a point of general commentary, Savills Housing Market Update (April 2023) notes 7 months of consecutive house price falls (-0.8% on an annual basis, -4.6% pre-mini-budget 2022). Savills suggest a -12.5% contraction in London and -11% in the South-East in 2023. Other commentators such as JLL are more optimistic, considering a -5-8% contraction. However, we are not aware of any commentators are suggesting annual price growth in 2023 and we expect this to continue into 2024.
- 3.4 Based on the above we would generally expect asking prices to be negotiated downwards c.5-10% in the current market environment; and in addition, we note the Savile Brown cost review proposes reduced specifications for element of the build including kitchens etc, which would therefore impact pricing. Therefore, BNP's valuation may overstate achievable value in the current environment and even more so if their proposed specification reductions were made.

Table 4 House price forecasts (published November 2022)

Region	2023	2024	2025	2026	2027	5 years to 2027
UK	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%
London	-12.5%	-1.0%	2.0%	6.0%	5.0%	-1.7%
South East	-11.0%	0.0%	3.0%	6.5%	5.5%	3.0%
East of England	-11.0%	0.0%	3.0%	6.5%	5.5%	3.0%
South West	-10.0%	1.0%	3.5%	7.0%	5.5%	6.2%
East Midlands	-9.0%	1.5%	4.0%	7.5%	5.5%	8.9%
West Midlands	-9.0%	1.5%	4.0%	7.5%	5.5%	8.9%
North East	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
Yorks & Humber	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
North West	-8.5%	2.5%	4.5%	7.5%	6.0%	11.7%
Wales	-8.5%	2.0%	4.5%	7.5%	6.0%	11.1%
Scotland	-9.0%	2.0%	4.0%	7.5%	5.5%	9.5%

Source Savills

3.5 However, given the initial more positive signals in economy since the initial S106M viability appraisal was submitted in December 2022, we have adopted the values proposed by BNP. However, clearly the quality and specification will need to be commensurate to support these increased value aspirations.

	Original FVA	Council v1 (100% OM)	S106M Response
GIA	2,752.20	2,752.20	2,752.20
Residential GDV Total	£17,665,000	£18,625,000	£18,625,000
Residential GDV psm	£6,419	£6,767	£6,767

4. **Build Costs**

4.1 S106M's original report included a cost plan by David Parker MRCIS, reporting a total build cost of £7,580,100, plus £1,098,500 in externals (£8,678,600 total).

- 4.2 Saville Brown have reviewed this plan and made various suggested cost savings, amounting to a total build cost (inclusive of externals) of £7,889,913. Savile Brown's suggested cost savings appear to be largely unjustified.
- 4.3 In response to Saville Brown, David Parker MRICS has provided further explanatory notes (**Schedule 1**) on several points to corroborate the costs used, explaining where these costs should be retained.
- 4.4 As such, S106M adjust their figures based on the amended total proposed by David Parker MRICS. This is shown in the below table.

	Original FVA	Council v1 (100% OM)	S106M Response
Base Build Cost Total	£7,580,100	£7,889,913	£7,555,500
Externals	£1,098,500	£0	£1,098,500

5. Contingencies

- 5.1 S106M suggested 8% contingencies given the current rate of inflation, whereas BNP suggested 5%. Although we consider this figure to be low in the current economic environment, S106M have tested 5%.

	Original FVA	Council v1 (100% OM)	S106M Response
Contingencies (%)	8%	5%	5%
Contingencies Total	£606,408	£394,496	£433,930

6. Build Fees

- 6.1 S106M and BNP are in agreement that 10% is a reasonable allowance for build fees.

	Original FVA	Council v1 (100% OM)	S106M Response
Fees %	10%	10%	10%

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Fees total	£818,651	£788,991	£798,943
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7. Acquisition Costs

7.1 Acquisition costs are based upon the presumed BLV. We outline our comments on the adopted BLV below.

	Original FVA	Council v1 (100% OM)	S106M Response
Acquisition Costs	£530,000	£263,792	£340,000

8. CIL/S106 costs

8.1 Both parties have adopted a presumed CIL contribution of £417,760 subject to confirmation by the charging authority.

	Original FVA	Council v1 (100% OM)	S106M Response
CIL	£417,760	£417,760	£417,760

9. Sales fees and Legal fees

9.1 Both parties are in agreement regarding percentage allowances for sales, marketing and legal fees. However, BNP have not made allowances in their appraisal for the agreed legal fees. We therefore maintain our original position of 3% sales and marketing plus £1,000/unit in legal fees.

	Original FVA	Council v1 (100% OM)	S106M Response
Sales & Marketing Fees	£529,950	£558,750	£558,750
%	3%	3.00%	3.00%

Legal Fees (Total)	£33,000	£0	£33,000
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10. Finance Costs

10.1 S106M suggested an 'all-in' finance rate of 8%, whereas BNP have adopted 7.5%. In

March 2023 the Bank of England increased their base rate to 4.25%, this rate increase occurred after BNP put forward their report, so an 'all-in' rate of 7.5% appears low.

Therefore, S106M retain their original position of an 8% 'all-in' finance rate.

10.2 S106M originally adopted a construction timeframe of 24-months, whereas BNP have adopted 18-months. David Parker MRICS cost plan approximated an 18-month contract period, the same has been adopted.

	Original FVA	Council v1 (100% OM)	S106M Response
Interest	£1,198,803	£1,172,627	£1,198,803
Finance Rate	8.00%	7.50%	8%
Timing Build	24	18	18
Lead-in Period	12	7	7

11. Profit

11.1 S106M originally adopted an 20% target return following the assumptions made in the Elmbridge CIL Viability Study (2011), and national guidance on profit (15-20% on GDV) in relation to the risk environment at the time of the report.

11.2 Para 008 PPG Viability is clear that the viability evidence base underlying the local plan is the starting point for any site-specific viability assessment, and if any party seeks to diverge from its assumptions then it must be explained 'what has changed' since this was completed to justify divergence:

How should a viability assessment be treated in decision making?

Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.

11.3 Appeal reference APP/V5570/W/20/3250203 para 24 explicitly notes that the approach of adopting a profit margin in line with the assumption underlying the local plan evidence base is accepted by Inspectors as appropriate. This therefore represents the starting point for any discussion of profit, and any adjustments must be fully explained based on the specific circumstances of the development.

11.4 BNP have adopted a 17.5% return in their appraisal. They refer primarily to their perceived risks associated with the proposed development.

11.5 Given the wider risk environment, with the previously noted projections of considerable house price contraction, rising finance costs and build cost inflation, all of which have been treated reasonably conservatively in the current appraisal, with a contingency below inflation included, our assessment is that 17.5% is a conservative assessment in light of the starting point of the local plan viability study. However, in light of the forgoing we consider an input in excess of 20% to be appropriate.

11.6 As such we maintain a 20% return input.

	Original FVA	Council v1 (100% OM)	S106M Response
Profit %	20.00%	17.50%	20%
Profit Total	£3,533,000	£3,259,375	£3,725,000

12. Benchmark Value

12.1 S106M originally adopted a benchmark land value of £4,100,000 comprising EUV without a premium.

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12.2 BNP have determined an EUV based on sold detached houses located on the same road or close by. In total, the benchmark land value adopted by BNP was £3,250,000.

12.3 PPG states that *'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 fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' ['EUV+'].'*

12.4 We refer to the recent similar viability cases in Elmbridge where a 20% premium on EUV has been agreed by the viability consultant acting for Elmbridge council. BNP's response also recognises the application of a landowner premium. There appears to be considerable precedent for applying a 20% premium in standard cases:

Ref	Premium
91 Cottimore Road	20%
22 Oatlands Avenue	20%
5 Central Avenue	20%

12.5 We note that BNP's comparable properties are not inclusive of detached bungalows, which in our experience would attract a premium.

12.6 S106M have looked at two detached bungalows on Oatlands Drive that have been sold and index linked to the present day:

Address	Price	Sale Date	Size	Indexed Price	£/SQFT
26 Oatlands Drive	£910,000	11.10.2018	1,660 SQ FT	£1,090,403.41	£656.87
37 Oatlands	£710,000	17.01.2020	1,155 SQ FT	£816,380.47	£706.82

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Drive					
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12.7 Given the existing detached bungalow at *16 Oatlands Drive* is significantly larger at 2,562 SQ FT, we believe the value of £1.3m (£507.41/SQFT) to be undervaluing the property. Therefore, we suggest a figure of £1.5m (£585.48/SQFT), as it is of similar size to some of the other comparables provided by BNP at *33 & 13 Oatlands Drive*.

12.8 On this basis, we propose an increase to the value of the bungalow:

Address	Price
16 Oatlands Drive	£1,500,000
18 Oatlands Drive	£1,950,000
Total	£3,450,000

12.9 On the basis that we consider the BLV to be £3,450,000 – when considering a 20% premium, we arrive at a figure of £4,140,000.

	Original FVA	Council v1 (100% OM)	S106M Response
BLV	£4,100,000	£3,250,000	£4,140,000

13. Conclusion

13.1 To conclude, S106M and BNP are largely in agreement over the inputs to be used in this appraisal.

13.2 The main updates relate to a compromise suggested on sales values, adjusting the cost plan provided by David Parker MRICS based on reductions, an amended buildout period, a compromise profit level suggested and a compromise on the differences of opinion on the existing use value of the site.

13.3 The apparent results of the revised appraisal are summarised below:

	Original FVA	Council v1 (100% OM)	S106M Response
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GIA	2,752.20	2,752.20	2,752.20
Residential GDV Total	£17,665,000	£18,625,000	£18,625,000
Residential GDV psm	£6,419	£6,767	£6,767
Ground Rent	£0	£0	£0
Commercial GDV Total	£0	£0	£0
Purchaser's Costs	£0	£0	£0
TOTAL GDV	£17,665,000	£18,625,000	£18,625,000
Base Build Cost Total	£7,580,100	£7,889,913	£7,555,500
Base Build Cost (£/m2)	£2,245	£2,867	£2,745
Externals	£1,098,500	£0	£1,098,500
Contingencies (%)	8%	5%	5%
Contingencies Total	£606,408	£394,496	£433,930
Fees %	10%	10%	10%
Fees Total	£818,651	£788,991	£798,943
Acquisition Costs	£530,000	£263,792	£340,000
CIL	£417,760	£417,760	£417,760
S106	£0	£0	£0
Affordable Housing	£0	£0	£0
Sales & Marketing Fees	£529,950	£558,750	£558,750
%	3%	3.00%	3.00%
Legal Fees (Total)	£33,000	£0	£33,000
Arrangement Fee	£0	£0	£0
misc Finance	£0	£0	£0

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Interest	£1,198,803	£1,172,627	£1,198,803
Finance Rate	8.00%	7.50%	8%
Commercial Build Cost	£0	£0	£0
Commercial Fees	£0	£0	£0
Total Cost	£12,813,172	£11,486,329	£12,435,186
Timing Build	24	18	18
Lead-in Period	12	7	7
Profit %	20.00%	17.50%	20.00%
Profit Total	£3,533,000	£3,259,375	£3,725,000
Cost + Profit	£16,346,172	£14,745,704	£16,160,186
RLV	£1,318,828	£3,879,296	£2,464,814
BLV	£4,100,000	£3,250,000	£4,140,000
Surplus / Feficit	-£2,781,172	£629,296	-£1,675,186

13.4 This results in a deficit of -£1,675,186. We note that this is primarily on the basis of the cost discussion, profit margin and maintenance of landowner premium.

We look forward to your thoughts.

Best regards,

S106 Management.