4th May 2022

Dear Sirs

Re: Detailed Planning Application – Royal Clarence, Exeter

We have been instructed by Exeter City Council to prepare an independent viability assessment for the above planning application. The purpose of the independent assessment is to assess what level of developer contributions, namely affordable housing, the proposed residential development on this site and in this market can justify on the grounds of viability.

This report has 2 attachments:

- Appendix 1 - Updated Submitted Appraisal Schedule
- Appendix 2 - Summary Appraisal Data

TDA is a not for profit organisation and is not incentivised in any way in the production of the independent viability assessment. Our report is based on the current planning regulations, National Planning Policy Framework (NPPF), Planning Practice Guidance (PPG) and the RICS's recently published professional statement on viability.

You are familiar with the details and history of the application. In summary it is a detailed listed building application for a fire damaged former hotel that is proposed to consist of 23 new apartments and commercial space on the ground floor. The viability assessment concludes that various other development options were considered and that a hotel use would not likely be viable. It would seem that some effort was made to market this as a hotel and there was limited interest. We limit our comments to the appraisal of the residential led scheme. This is an excellent location in a high value area with an extremely pleasant outlook. The scheme, it would seem, is acceptable to Historic England and the LPA.

It is not unusual for these complex sites to show marginal viability. Conversions of listed buildings especially those that have had extensive fire damage is complex. However, this is a very high value location and a mixed use scheme consisting of 23 apartments with a Pub and Restaurant on the ground floor. The nature of this location is also high value for commercial leisure uses around the Cathedral and green in the very heart of this successful City. The submitted viability assessment combines the commercial and residential components.

Statutory and Regulatory Framework

The National Planning Policy Framework (NPPF) was first introduced in 2012. This emphasised the need to create *sustainable* development and discussed how viability appraisals could be used to demonstrate what levels of developer contributions, most notably affordable housing, a proposed development could justify.

In July 2012 the RICS published its first guidance note on the topic entitled "Financial viability in planning." The aim of the guidance note was to assist in the interpretation and application of the NPPF 2012.

RICS has recently published "Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England, 1st edition, March 2021.

The NPPF was revised in 2021, as was the Planning Practice Guidance (PPG). Both were further updated in February and May 2019 respectively. At the same time a long-awaited appeal case was determined at the High Court; the Parkhurst Road Limited v. Secretary of State for Housing Communities and Local Government & London Borough of Islington. As a High Court decision this has set a clear precedent.

The latest NPPF and PPG, as well as the High Court decision, all clearly state that development proposals must abide by local planning authorities' planning guidelines. Hitherto, as stated by the Judge in the High Court case, the RICS 2012 guidance notes were capable of misinterpretation and ambiguity.

Following revisions of the NPPF and PPG the RICS has released a professional statement entitled, "Financial viability in planning: conduct and reporting." This is the first edition of this *professional statement* and it is distinct from the RICS's 2012 *guidance note* on the topic.

The changes brought about by the above are welcomed by many in the profession and will allow for clearer, less ambiguous interpretation of planning laws and, at the local level, planning policies.

The PPG make it clear, on several occasions, that "the price paid for land is not a relevant justification for failing to accord with relevant policies in the plan." (para. 002)

In summary the NPPF and PPG state:

1. Price paid for land should not be a justification for non-compliance with policies
2. Benchmark land value must be existing use value (EUV) plus a premium, ie. EUV+
3. EUV is not the price paid for the land and should disregard hope value
4. The premium (the 'plus' part of EUV+) is described as a premium which "should provide a reasonable incentive… for a landowner to bring forward land for development while allowing a significant contribution to comply with policy requirements."
5. Abnormal costs and site-specific infrastructure costs should be taken into account when defining benchmark land vale (BLV)
6. The total cost of developer contributions, including affordable housing, community infrastructure levy and any other policies should be taken into account when arriving at a BLV

7. An acceptable level of developer's profit is 15 – 20% of GDV

The 2021 RICS professional statement recognises the need for:

- Impartiality
- Objectivity and
- Transparency

It identifies the existing use value (EUV) as the starting point for assessing the uplift in value required to incentive the release the land.

Important to note is the continued interpretation of EUV. IN the 2021 statement the following is particularly relevant :
"5.1.4 Two important differences between market value and BLV are the methods and the resulting evidence base. The market value is normally calculated using the methods proposed in Valuation of development property, RICS guidance note, which states that the two normal approaches are the residual approach and the direct comparison approach. The PPG states that the BLV is primarily based on the EUV plus a premium. The evidence base for the market value is grounded in comparative values and costs of the developed property in a residual valuation, and in direct analysis of land transactions in the market comparison approach. The PPG reduces the status of comparable land transactions to that of a cross-check of the BLV. Land values determined by a policy-compliant residual approach or by policy compliant direct comparison can be used to cross-check the BLV, but the primary approach is the EUV plus a premium".

We can confirm that, in carrying out this independent viability assessment, we have acted objectively, impartially, without interference and with reference to all appropriate available sources of information.

We can further confirm that there is no conflict of interest in performing this task. TDA is asked to review viability appraisals received by DNPA for which it receives a pre-agreed, flat fee. In producing its advice on such viability appraisals the TDA acts impartially and objectively and without any contingent fee. Each piece of work stands alone.

Similarly, in producing this report we have no performance-related, incentivised or contingent fee.

In the interests of transparency this report is prepared with full knowledge that it may be made available to the public. This accords with the 2021 RICS professional statement.

Intention
Exeter City Council are best placed to decide what the full obligations should be. Our intention is to review the submitted appraisal and prepare are own using many of the core assumptions as suitably reviewed to reach a potential surplus on the development which can be used to meet Planning Policy obligations.

General Comments in Relation to the Submitted Viability

There are a few issues that we first need to address in the submitted viability assessment before we consider the key components of the assessment. These are:

1. The ostensible reason for this assessment is to consider the residential elements and thus we will produce an appraisal which strips out the commercial elements which will not incur an affordable housing contribution
2. The schedule of areas attached to the assessment of GDV does not accord with the schedule of areas provided by the architect and this has been corrected which means an increase in GDV on the rates advised as most areas are understated
3. The benchmark rate of build cost per square metre is also understated as the quoted GIA area at 4,359 sqm GIA whereas the detailed architects schedule of areas is 3,769 sqm this inflates the build cost to £3,128 per sqm – this does seem substantially higher than the upper quartile stated
4. The Construction inflation element has been miscalculated it is stated at 2.38% but the amount added is actually 3.32% this we will correct
5. The difference between tender inflation and construction inflation needs to be explained by the applicants valuers because on the face of it this seems to be adding the same inflation twice, for the moment we have left this untouched but we need to see an explanation to understand the difference
6. Holding costs – we do not believe this is an allowable entry and is already reflected in the land value which is part of the financing allowance – this is deducted

Gross Development Value

This is a very high value location and broadly we are content with the GDV's provided by Knight Frank. However, as stated above the areas are understated when compared with the architects schedule and thus using the same rate per square meter as provided will mean an increase on GDV.

There are some good comparables from the immediate area and these suggest that for the right product an apartment in this location can exceed £1m.Flat 1, 24 Cathedral Yard sold for £1.101m in September 2018. This equates to £6,149 per sqm. Tis predates the impact of Covid and had no external terrace or its own defensible space. It is more than possible that all the units on the 4th floor may well significantly exceed the forecast prices. They all have significant terrace areas.

The property market is currently extremely active at present as buyers struggle to find product and the attractiveness and practicality of working from home means that there is a wider range of buyers for premium property. This is making for some lockdown heat in the market that has taken many by surprise. There are so many variables in the marketplace with Covid, Brexit and various locations in Somerset and East Devon being impacted by phosphates and a significant reduction in supply of new housing units that is likely to impact on local prices even in Exeter.

Deferred contributions is a strong and fair route for this sort of location after having allowed a development return and existing use value with then actual sales performance. This is considered in more detail in the conclusion/summary.

Benchmark Land Value

The revised PPG provides much sought-after clarity on the calculation of the land value to be used in assessing viability appraisals. The land value in this context is termed the benchmark land value. The phrase is almost exclusively reserved for viability assessments and is not a phrase or level of assessment that is used in (many) other aspects of surveying or valuation.

The benchmark land value is not the price a developer or applicant has paid or will pay for the land or property. Para. 002 of the PPG states that, “the price paid for land is not a justification for failing to accord with relevant policies in the plan.”

The RICS professional statement (May 2019) further reinforces this point by stating that, “Price paid is not allowable evidence for the assessment of BLV and cannot be used to justify failing to comply with policy.”

The PPG makes it clear that a benchmark land value must be based on the existing use value (EUV) plus a premium, often called the EUV+ method. The premium, the ‘plus’ element of the benchmark land value, is described as a premium which “should provide a reasonable incentive ... for a landowner to bring forward land for development while allowing a significant contribution to comply with policy requirements.” (PPG para. 016).

The PPG also stresses that the EUV should disregard hope value.

As such, the benchmark land value must allow a sufficient contribution to comply with policy requirements.

Summary of benchmark land value:

1. Not the price paid for land
2. Disregards hope value
3. Abnormal costs accounted for in the assessment of the benchmark land value
4. The total cost of developer contributions, including affordable housing, community infrastructure levy and any other policies should be taken into account when arriving at a BLV
5. EUV+

Assessment of benchmark land value

This is a more complex issue in this case. The land value is existing use value. It has been demonstrated in the viability assessment and planning statement that effort has been made to the market the site as a hotel but this has not yielded a sale. This reflects, as reported, a lack of demand and also the complexity and expense of restoring a Grade II listed building. This is the justification for promoting a residential use on the site. It is, therefore, reasonable to assume that the site has very limited if indeed any value as a hotel site. A notional amount of land value suitable to incentivise the site owner to sell the site is of course reasonable.

There is value in the ground floors where restaurants, cafes and bars/pubs do have value in this location. This can, we suggest, be part and parcel of the former hotel permission.

The appraisal indicates a land purchase price of £500,000 which will by inference include an element of hope value for the likelihood of residential. It is unlikely a land purchase would have been made without at least the consideration of a residential option even as a contingency. This needs to be disregarded in accordance with the PPG and RICs guidance.

We suggest the following is a reasonable apportionment of the land cost of £500,000 based on an apportionment of GDV:

- Commercial elements Hotel – nil
- Commercial elements pub/restaurant - £86,500
- Residential Hope Value - £413,500

So in assessing the EUV the base position is £86,500 as above but an allowance has to be made to incentivise the landowner to sell the site even if on paper the property is a listed liability.

Incentive to sell	£ 150,000
Commercial Pub/Restaurant (above)	£ 86,500
Benchmark Land Value	**£ 236,500**

Developer's Profit

The PPG is clear in that it states, in para. 018 that as part of the standardised inputs for viability testing profit should be 15 – 20% of GDV. The RICS has stated in its 2012 guidance that profit should be risk-adjusted. Not all schemes should attract the maximum 20% of GDV. A larger, multi-phase scheme will justify a higher level of risk than a small scheme in a desirable location, for instance.

The submitted profit on cost is stated at 16.82% which is reasonable in the circumstances.

Costs

As a headline cost the rate of £2,828 per square metre adjusted for the error in construction inflation element as already identified. This is higher than the upper quartile presented but this is understandable given the listed nature of the building for which we believe some works have been undertaken and some new piling has already been made. However, the structural report suggests these piles may not be useable. BCIS rates per square metre for new build housing with shops, offices, workshops or the like shows a median of £1,830 and an upper quartile of £2,326. The Rehab/Conversion £/m2 under entry 818 lists the upper quartile at £2,797 per sqm So on balance the headline cost at £2,828 is satisfactory. It is important to note that the headline cost of £2,828 is as quoted on page 15 of the submitted viability assessment and this is against all anticipated costs. So the BCIS is a general guide only as this excludes external works, fees and contingencies. If these were added back on say the mid point of the new build at £2,326 and refurb upper quartiles then they will be close to the quoted £2,828 so this rate is accepted for the purposes of this assessment.

Generally, though, it is worth pointing out that this is Garde II listed building and the elevation treatment is fairly simple other than perhaps the rood detail with the name of Royal Clarence. The insertion of a frame within the building footprint is really very closely akin to new build with a allowance made to retain and secure the Grade II listed façade. In some respects this is a simpler build than a full refurbishment/redevelopment of the previous Grade II structure.

However, we suggest the build costs are reasonable where they solely relate to the residential element. We do think the overall rate for every square metre assumes that the pub and restaurant will be shell and fitout. We suggest that this is not normal for a development of this type and the build cost should be reduced to reflect this. I would expect shell space to be circa £1250 per sqm in normal circumstances. BCIS suggests a higher rate if we are to stick to the upper quartile principle then BCIS suggests £2,045 per sqm. BCIS £/m2 study enclosed at Appendix A.

The other two aspects as considered above are that the commercial elements should really be stripped out so that the residential elements are considered on a stand-alone basis.

Finance

This seems sensible. It has simply been amended pro-rata in Appendix B and Appendix C to exclude the commercial elements.

Sensitivity Appraisals

4.3 of the Assessing viability in planning under the National Planning Policy Framework 2019 for England Guidance Note England 1st edition, March 2021 states

" It is mandatory in the Financial viability in planning: conduct and reporting RICS professional statement that FVAs include sensitivity analysis to examine the effect of changes in key inputs. Where projection models are used, this is particularly important given the reliance on forecasting costs and values".

The site coverage, massing and typology are considered to be a reasonably optimised solution.

The Sensitivity analysis is enclosed at Appendix C. This seeks to deduct and add 2.5% incrementally to costs and values. The result is for example a reduction in costs by 10% and an increase in sales by 10% would equate to a surplus of £5,649,102 and likewise an increase in costs by 10% and a reduction in sales by 10% would equate to a surplus for contributions of £777,791.

Affordable Housing

Policy is contained within the "Affordable Housing Supplementary Planning Document April 2014. Policy is as follows:

Policy CP7: On sites capable of providing 3 or more additional dwellings (irrespective of the number of dwellings proposed) 35% of the total housing provision should be made available as affordable housing for households whose housing needs are not met by the market. At least 70% of the affordable housing should be provided as social rented housing. The overall percentage of affordable housing and the tenure split will be subject to considerations of viability and feasibility. Where it is not possible for viability reasons to provide the full requirement of social rented housing, affordable rent provision would be considered, let as far as possible at social rented levels. The remaining balance of the affordable housing should be delivered as intermediate affordable housing.

This scheme has 23 units so the affordable requirement would be for 8 units. However, the nature of this site and the likelihood that the service charge payments for future maintenance may be well much higher than for a traditional new build. It is suggested a commuted sum payment would be sensible in this situation. As stated before the intention of this viability exercise is to ascertain the surplus that is available to meet the needs fo the affordable housing policy together with the other likely contributions such as highways, community space, CIL and education.

Summary

We have carried out an arms-length, independent viability assessment in accordance with the revised NPPF and PPG as well as the RICS professional statement issued in March 2021.

We have assessed the existing use value as in the report and we would be prepared to reconsider with suitable evidence. If there is any disagreement regarding the EUV, which feeds into the benchmark land value, then we would suggest that a RICS Red Book valuation of the site, reflecting its existing use, is carried out. We would need to see and agree the terms of the instruction to ensure that the valuation is in accordance with the NPPF and PPG.

Our appraisal, enclosed at Appendix B, uses the build costs and values as submitted in the appraisal as amended by the assumptions stated in this report and our version of the applicants appraisal with summary notes. This appraisal is contained at Appendix B. This shows a potential surplus of £3.213m towards contributions.

Firstly a commuted sum payment would be the cleanest option and would likely yield more affordable units off site than on site.

We appreciate that this is a complex scheme though in a prime location and the Council may wish to give the Developer every opportunity to commit to this redevelopment. Therefore, a deferred contribution model based on sales may be appropriate. The model would be linked to GDV and paid at either the earlier of the sale of the 13th Unit (half way through sales) or 12 months from the first sale. The agreed commuted sum (base contribution) will be advised by the LPA case officer and can only be the higher of the base contribution or by multiplying any increase achieved on the first sale against the base contribution. This will help the Developers cashflow and also provide the potential for an uplift on contributions for the Council should values increase which as this report concludes is possible.

We would like to thank you for considering the TDA to advise on this matter and we are happy to discuss any of the above.

Yours sincerely,

Tim Bacon MRICS
For and ON Behalf of the Torbay Development Agency

BCIS® RICS®

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 07-May-2022 00:43

› Rebased to Exeter (100; sample 38)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
512. Restaurants (25)	3,416	2,083	-	-	-	4,749	2
517. Public houses, licensed premises							
Generally (30)	2,431	1,499	2,230	2,377	2,666	3,436	19
Up to 500m2 GFA (30)	2,425	2,167	-	2,342	-	2,847	4
500 to 2000m2 GFA (30)	2,433	1,499	2,230	2,377	2,666	3,436	15
Shell only							
512. Restaurants (20)	1,975	1,729	1,903	2,011	2,045	2,184	7
517. Public houses, licensed premises (30)	805	-	-	-	-	-	1
Rehabilitation/Conversion							
512. Restaurants (25)	3,353	1,325	2,232	2,997	3,130	7,083	5
517. Public houses, licensed premises (15)	1,948	1,103	-	1,704	-	3,280	4

BCIS®

RICS®

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 07-May-2022 00:43

› Rebased to Exeter (100; sample 38)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
810. Housing, mixed developments (15)	1,386	759	1,215	1,348	1,510	3,129	1216
810.1 Estate housing							
Generally (15)	1,388	676	1,183	1,337	1,516	4,801	1464
Single storey (15)	1,561	885	1,328	1,509	1,729	4,801	238
2-storey (15)	1,341	676	1,165	1,306	1,463	2,910	1130
3-storey (15)	1,432	865	1,147	1,373	1,610	2,847	91
4-storey or above (15)	2,920	1,419	2,347	2,620	3,900	4,316	5
810.11 Estate housing detached (15)	1,786	1,025	1,407	1,547	1,798	4,801	22
810.12 Estate housing semi detached							
Generally (15)	1,386	820	1,189	1,356	1,516	2,555	352
Single storey (15)	1,540	1,016	1,337	1,517	1,699	2,555	73
2-storey (15)	1,347	820	1,187	1,321	1,475	2,381	266
3-storey (15)	1,319	983	1,048	1,298	1,408	1,992	13
810.13 Estate housing terraced							
Generally (15)	1,431	865	1,162	1,346	1,577	4,316	260
Single storey (15)	1,651	1,052	1,380	1,693	1,918	2,270	19
2-storey (15)	1,375	871	1,155	1,322	1,511	2,910	197
3-storey (15)	1,461	865	1,141	1,351	1,668	2,847	42
4-storey or above (10)	4,108	3,900	-	-	-	4,316	2
816. Flats (apartments)							
Generally (15)	1,633	807	1,360	1,549	1,843	5,610	848
1-2 storey (15)	1,550	948	1,309	1,480	1,735	2,860	189
3-5 storey (15)	1,608	807	1,357	1,535	1,821	3,405	560
6 storey or above (15)	1,941	1,182	1,579	1,833	2,069	5,610	96
818. Housing with shops, offices, workshops or the like (15)	2,028	824	1,614	1,830	2,326	5,004	84
Rehabilitation/Conversion							
810. Housing, mixed developments (15)	1,382	371	898	1,720	1,950	1,972	5

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
810.1 Estate housing (25)	943	317	549	745	1,061	4,107	44
810.11 Estate housing detached (30)	333	291	-	-	-	374	2
810.12 Estate housing semi detached (25)	1,102	464	668	769	1,249	2,604	8
810.13 Estate housing terraced (20)	848	519	735	832	988	1,140	7
816. Flats (apartments)							
Generally (15)	1,700	496	1,003	1,339	1,690	5,866	78
1-2 storey (15)	2,214	725	1,119	1,405	2,550	5,866	17
3-5 storey (15)	1,431	496	1,014	1,270	1,539	5,430	45
6 storey or above (15)	1,976	572	919	1,342	2,732	4,917	15
818. Housing with shops, offices, workshops or the like (15)	2,247	583	1,388	1,899	2,797	4,546	11

Appendix B

Royal Clarence Hotel - Residential Only

Corrections highlighted in yellow

APPRAISAL SUMMARY

Appraisal Summary

Residential			**13,785,000**	
Commercial				
Restaurant			**0**	Excluded
Well House			**0**	Excluded
CONSTRUCTION COSTS				
Facilitating Works Estimate			-	Taken as whole sum
Building Works Estimate			-	Taken as whole sum
Main Contractors prelims			-	Taken as whole sum
Sub Total			**-**	Taken as whole sum
Main Contractors OHP			-	Taken as whole sum
Works Cost Estimate			-	Taken as whole sum
Project/design team fee			-	Taken as whole sum
Sub Total			**-**	Taken as whole sum
Risk Allowances			-	Taken as whole sum
Cost limit excl inflation			-	Taken as whole sum
Tender Inflation		1.41%	-	Taken as whole sum
Construction Cost (excluding construction inflation)			-	Taken as whole sum
Construction inflation estimate		2.38%	0	Taken as whole sum
Construction Cost (including inflation)	2865	2838	**8,130,870**	-
	Area	£/sqm		
FEES				
Warranties/Insurances			50,000	
S106/CIL/offsite			-	Excluded
Sales & Marketing OM Resi		1%	137,850	
Sales & Marketing Commercial		2%	-	Excluded
Site purchase			150,000	Adjusted
Acquisition fees, stamp duty, legals			50,000	
Hold Costs (£60kpa 1.5 yrs)			-	Excluded
Sub Total			387,850	
Appraisal				
Development Revenue			13,785,000	
Total Costs			8,518,720	
Financing Costs Say			620,330	Reduced prorata on GDV
Allowing the stated profit Margin		16.82%	1,432,503	
Balance from which contributions can be deducted			3,213,447	

Appendix C - Royal Clarence

SENSITIVITY ANALYSIS

Table of Potential Surplus After Costs, Finance and Profit - Residential Only										
			Costs							
Sales		**-10%**	**-7.5%**	**-5.0%**	**-2.5%**	**0.0%**	**2.5%**	**5.0%**	**7.5%**	**10.0%**
	-10%	2,892,102	2,627,813	2,363,524	2,099,236	1,834,947	1,570,658	1,306,369	1,042,080	777,791
	-7.5%	3,236,727	2,972,438	2,708,149	2,443,861	2,179,572	1,915,283	1,650,994	1,386,705	1,122,416
	-5.0%	3,581,352	3,317,063	3,052,774	2,788,486	2,524,197	2,259,908	1,995,619	1,731,330	1,467,041
	-2.5%	3,925,977	3,661,688	3,397,399	3,133,111	2,868,822	2,604,533	2,340,244	2,075,955	1,811,666
	0.0%	4,270,602	4,006,313	3,742,024	3,477,736	3,213,447	2,949,158	2,684,869	2,420,580	2,156,291
	2.5%	4,615,227	4,350,938	4,086,649	3,822,361	3,558,072	3,293,783	3,029,494	2,765,205	2,500,916
	5.0%	4,959,852	4,695,563	4,431,274	4,166,986	3,902,697	3,638,408	3,374,119	3,109,830	2,845,541
	7.5%	5,304,477	5,040,188	4,775,899	4,511,611	4,247,322	3,983,033	3,718,744	3,454,455	3,190,166
	10.0%	5,649,102	5,384,813	5,120,524	4,856,236	4,591,947	4,327,658	4,063,369	3,799,080	3,534,791

Please note all costs and values are increased/decreased by the stated %