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Your ref: CJ/SE/Meldreth
Our ref: 3951167v1

David Thompson
Planning
South Cambs District Council
South Cambridgeshire Hall
Cambourne Business Park
Cambourne
Cambridge
CB23 6EA

13 April 2017

Dear David

MARLEY ETERNIT SITE, WHADDON ROAD, MELDRETH – DESKTOP VIABILITY REVIEW

Further to your request for a letter commenting on the viability of the proposed scheme at this site, we have pleasure in setting out below our view.

This letter is not an RICS (Royal Institution of Chartered Surveyors) “Red Book” compliant valuation report and the figures referred to within this report are not formal valuations. However, we have provided justification for the indicative values and/or component valuation inputs we have used herein where possible.

This advice is provided on a confidential basis to the Council. We therefore request that the contents of this letter should not be disclosed to any third parties (other than the consultants instructed by the Council to review this report) under the Freedom of Information Act 2000 (Sections 41 and 43(2)) or under the Environmental Information Regulations.

We have regard to the NPPF 2012, The Housing White Paper 2017, RICS guidance GN94/12 Viability in Planning and S Cambs Planning Policy in considering the proposed scheme.

Background and Introduction

We have had sight of the initial viability report undertaken by Grasscroft Development Solutions on behalf of the Applicant, Footprint Land and Development Ltd.

We have also had sight of the contamination report review, together with correspondence between the parties.

The application site is located on Whaddon Road, to the north west of Meldreth and is owned and occupied by the Marley Eternit Group (MEG). The entire site area extends to 62 acres of which approximately 36 acres comprise a variety of industrial buildings of varying age and specification. The existing buildings are understood to have been vacant since 2008 and total 144,439sqft. The existing use is predominantly manufacturing based with storage and office use scattered throughout the site. A Site Plan is attached as **Appendix 1**.

We understand that the proposed mixed use development seeks to retain the existing manufacturing facility on the site and, in addition, proposes a residential development of 150 dwellings and a new 25,000sqft industrial unit (required by MEG to ensure their continued operation on the site). The new factory building is to be built from a combination of the proceeds of the land sale for residential purposes and private investment from MEG. However, we understand this is not an agreed position with the Council and that for now this element has been removed from the viability appraisal.

The key issue is that the site is contaminated and will incur significant remediation costs in order to enable the site to be redeveloped.

In their initial report the Applicant supplied the following schedule of accommodation for the proposed housing:

Proposed Market Housing

Name	Type	No of Beds	No of Units	Unit Size (sqft)	Total Sales area sqft
House Type 1.0	2.5 storey	3	46	1,075	49,450
House Type 2.0	2 storey	3	36	885	31,860
House Type 2.1	2 storey	3	48	1,075	51,600
House Type 3.0	2 storey	4	5	1,230	6,150
House Type 4.0	2 storey	4	15	1,458	21,870
Total			150		160,930

We note subsequently that the Council did not accept the 3 and 4 bed housing mix and modelled their own mixes as follows:

70/30 split

Affordable Rented

- 16 x 1 beds
- 20 x 2 beds
- 5 x 3 beds
- 1 x 4 beds

Intermediate/Shared Ownership

- 9 x 2 beds
- 9 x 3 beds

50/50 split

Affordable Rented

- 10 x 1 beds
- 15 x 2 beds
- 4 x 3 beds
- 1 x 4 bed

Intermediate/Shared Ownership

- 15 x 2 beds
- 15 x 3beds

We are in receipt of a financial viability appraisal which details a revised mix of units, which we accept for the purposes of this letter but emphasise that the inputs are not Carter Jonas' and we have relied on those put forward by the Applicant as being correct further to their discussions with the Council.

The revenue generated by the Applicant's mix of units (private and affordable) is detailed below:

Proposed Revenue from Market and Affordable Housing

Name	Beds	No of units	GDV £
Apartment Type 1.0		16	£3,280,000
House Type 1.1		39	£9,750,000
House Type 1.0		13	£4,095,000
House Type 2.0		7	£2,100,000
House Type 2.1		16	£5,600,000
House Type 3.0		15	£6,000,000
House Type 4.0		22	£10,230,000
House Type 1.0 AF Rent		5	£551,250
House Type 2.0 AF Rent		5	£525,000
House Type 3.0 AF Rent		5	£700,000
House Type 2.1 Intermediate		4	£980,000
House Type 4.0 Intermediate		3	£976,500
TOTAL		150	£44,787,750

We understand that the Applicant has looked at 30% for each of 1, 2, 3 and 4 bed with 10% flex across the scheme.

We have briefly considered the housing values in the local market and attach our comparable evidence at **Appendix 2**. We consider the values to be in line with those in the Applicant's appraisal.

We have modelled the residential sales in Argus and consider that a conservative 25% would be sold off plan in the current market given the nature of the site.

We note the applicant has not allowed for ground rents on the apartments and we have included some at £250 each per annum per unit capitalised at 5%.

COSTS

Construction Costs

We note the Applicant has used a build cost of £102.17psqf for the construction cost (derived from BCIS build cost data). We have evaluated this against RICS BCIS and consider this to be reasonable. We have attached the BCIS output as **Appendix 3**.

We note the Applicant has used the following assumptions regarding other standard inputs into their financial viability appraisal and we comment accordingly:

Input	Rate	CJ Comment	CJ recommend
Stamp Duty Land Tax	4.90%	Agree - industry standard	
Site Legal Fees	1%	Agree - industry standard	
Site Agency Fees	0.75%	Agree - industry standard	
Contingency	5%	Acceptable - standard level of input	
Professional Fees	7.50%	Acceptable - range normally between 8 - 12%	
Marketing	0%	The applicant has not included a marketing figure.	1.5%
Direct Sale Agents Fee	3.75%	This is high. The range is usually 1 – 1.5%.	1%
Direct Sale Legal Fee	0.30%	Acceptable	
Interest on Debt	6.40%	Acceptable – falls within accepted range of 6 – 7%	
Profit on GDV/Cost	20% / 25%	Acceptable – this is a high risk scheme with many unknowns	

We table other costs which appear in the appraisal, which are not standard, as follows:

Abnormal Costs and Additional Costs

Input	Rate
Chemical resistant water supply pipes	£84,900
Surface Water Attenuation	£262,500
Clean Cover to Gardens	£123,500
Chemical resistant membrane to dwellings	£231,500
S278/Off Site Works	£578,500
Utility Costs	£200,000
Acoustic Fencing/Bunding	£75,000
Public Open Space (leap)	£100,000
New Car Park for Social Club	£125,000
TOTAL	£1,780,900

We are aware that MLM Group have interrogated the Contamination Costs attributed to this scheme which are for Demolition, Remediation and Plateau which total £7,025,389 and that a report has been issued on this. This cost is not in the viability appraisal. There is also a cost for piled foundations at £1,207,000 which we understand may not be required. The total including the tabled figures above is £10,013,286.

We have had sight of the Statement of Common Ground made by Wardell Armstrong regarding the differences between MLM's figures and Grasscroft which concludes that the difference between the two once certain items are added back in to the MLM schedule is very close.

We note that piled foundations may not be considered necessary, which would negate £1,207,000 of cost and that a raft type of foundation could likely be used.

The other opportunity would be if Marley contribute £1.405m towards contamination.

SITE VALUE BENCHMARK

We note that the Applicant has adopted a minimum land value of £2,188,500 based on a gross site area of 14.59 acres. This has been derived from various CIL viability studies and we will accept this for the purposes of this report. The sum equates to £150,000 per acre. The Applicant also cites a minimum land value of £1,157,483.

S106 - EDUCATION

We note there is a sum included for Education of £1,036,636. However it would be for the Council to confirm whether this figure is correct. We note that in previous correspondence it has been suggested this figure be taken out. For the purposes of this letter we have retained it in our appraisal.

APPRAISAL OUTPUT

We have attached the applicant's appraisal at **Appendix 4**. The Residual Land Value (RLV) of this 15% scheme is £11.1m.

We have modelled our own appraisal in Argus Developer, which is an industry standard financial modelling programme. We arrive at an RLV of £11.42m. This is very close to the Applicants appraisal output.

If we remove the £10.013m of remediation costs from the £11.42m RLV this leaves an RLV of £1.4m which would be slightly above the Applicants minimum land value on page 15 of their report, stated as £1,157,483. Therefore 15% affordable housing would be able to be viably provided and with the slight improvement in RLV in our appraisal, this would provide 16% affordable housing.

Additional Affordable Housing

It is suggested by the Applicant that if Marley contribute £1.405m towards remediation the affordable housing offer could be 25%.

Also, if the cost of piled foundations was removed this would also enable the scheme to deliver additional affordable housing.

We understand it is likely that one or a combination of the above will happen.

CONCLUSION AND RECOMMENDATION

We have examined the documentation supplied to us and have modelled the Applicants assumptions in Argus Developer. We are very close to the output RLV of the Applicant and exceed it slightly at £11.4m as opposed to the Applicant's £11.1m. Based on information supplied to us, we conclude that the scheme could viably afford to provide 15% affordable housing and with our slightly revised figures could provide 16% affordable housing.

We consider there is a strong possibility that either the piled foundations will not be required or that Marley will contribute £1.405m towards the clean-up of the site, or that both could happen.

Should only one of these possibilities happen then the site could provide 25% affordable housing. If both happen, the scope is greater.

We therefore consider the Council should seek a minimum 25% affordable housing on site subject to a review. We are aware there are many unknowns and we consider that a review would be a fair mechanism for both parties in order to obtain the maximum viable amount of affordable housing on site.

We trust you will find this report in order, however, should you require further testing or commentary, please do not hesitate to contact me.

Yours sincerely



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Attached: Appendix 1 – Site Plan

Appendix 2 – Comparable Evidence

Appendix 3 – BCIS data

Appendix 4 – Applicant's Appraisal

Appendix 5 – Carter Jonas Appraisal

APPENDIX 1:



Key

- existing trees
- proposed new trees
- new pavements / cycle access
- ▨ proposed vehicle access to sports and school sites
- ▩ proposed vehicle access to distributed housing

DRAWN BY: [Name]
 CHECKED BY: [Name]
 APPROVED BY: [Name]

APPENDIX 2:

APPENDIX 2

Comparable Evidence

Victoria Heights, Meldreth:

A new build development by Granary Development; around 2.19 miles from the proposed Site and situated in the village of Melbourn. The recent sales have mainly comprised 5 bedroom houses, though there is a 4 bedroom house which will provide useful evidence when assessing the values proposed by the applicant.

Type	Plot No.	No. beds	Sq ft	Sale Price	Date of Sale	£PSF
House	7	5	2,950	£850,000	Dec-16	£288
House	3	5	2,950	£785,000	Nov-16	£266
House	64	4	1533	£525,000	Dec-16	£342

The 4 bedroom house provides a useful benchmark for the values provided by **Grasscroft Development Solutions (GDS)** for the proposed site:

No.beds	No. units	Sq Ft	Net Value per unit	£PSF
4	5	1230	£400,000	£325
4	15	1458	£465,000	£319

The rates for the proposed units appear credible, and are slightly discounted from the Victoria Heights scheme – sensible given the location/composition of the Site. Melbourn is also in a closer proximity to Royston which will marginally inflate values of properties in this location.

Other Comparables:

- **Orchard Cottage, Mill Lane, Barrington** – A two double bedroom new build property on the market for £400,000. The property measures approximately 825 sq ft, and is approximately 2.57 miles from the Site. Assuming a sale of the asking price, the property equates to £484 per sq ft. Barrington as a location is considered comparable to Meredith, and the higher rate per sq ft is attributable to both the size of the property and village location – we would expect to see a lower rate per sq ft for the three/four bedroom houses proposed for the Site.
- **5 Marys Way, Meldreth, Royston, SG8** – A four bedroom detached house built in circa 2010, in close proximity (800m) to the proposed Site. The sale of the property was agreed in December 2016 at £577,500; the accommodation measures approximately 1646 sq ft which equates to £350 per sq ft. This is a very useful comparable for the site given it is has recently been agreed, in very close proximity to the Site and is a newish build. The £PSF rate is slightly higher than those proposed at the Site, which we would expect given the cul de sac location and no commercial buildings on the same plot of land.

- **3 Marys Way, Meldreth, Royston, SG8** – A four bedroom detached house built in circa 2010, in close proximity (800m) to the proposed Site. The sale of the property has been agreed in March 2017 at £595,000. The accommodation measures to approximately 1646 sq ft, which equates to £361 per sq ft. Again, this is a useful comparable given it is recently sold, a newish build and in very close proximity to the Site. The £PSF rate is slightly higher than those proposed at the Site, which we would expect given the cul de sac location and no commercial buildings on the same plot of land.
- **56 The Moor, Melbourn, Royston, SG8** – An extended three/four bedroom detached house built in circa 1970, approximately 1.2 miles from the Site. The sale of this property completed in December 2016 at £415,000. The accommodation measures 1313 sq ft, which equates to £316 per sq ft. This property appears to be in a good, though dated condition. We would expect the £PSF rate of the new builds to be similar to this £PSF rate – there is a premium with any new build property but given the Site’s composition this will inevitably be diluted.
- **22 Flambards Close, Meldreth, Royston, SG8** – A three bedroom detached house built in circa 1970, approximately 0.9 miles from the Site. The sale of this property was agreed in March 2017 at £382,000. The property measures 1149 sq ft, equating to £332 per sq ft. The property appears to be in a good internal condition, and could benefit from some updating and modernising in places. The rate £PSF is line with the estimates for the Site, which appears logical given that the new houses are new builds attracting a premium, but are disadvantaged in terms of location.

Conclusion

Having assessed the recent sales of new build and second hand properties in close proximity to the Site, the values and £psf rates included in the report appear in line with the transactions and provide an accurate forecast for sales of the units. There is a reasonable demand for new build properties in the area, especially for four bedroom house, highlighted by the two recently been sold on St Marys Way 800m from the Site.

APPENDIX 3:

£/m2 study

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

Last updated: 01-Apr-2017 12:19

› Rebased to 2Q 2017 (291; forecast) and South Cambridgeshire (100; sample 19)

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m ² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
810. Housing, mixed developments (15)	1,125	544	973	1,094	1,245	2,555	1157
810.1 Estate housing							
Generally (15)	1,099	540	940	1,069	1,212	3,547	1869
Single storey (15)	1,224	631	1,055	1,188	1,389	2,070	314
2-storey (15)	1,071	540	928	1,048	1,180	2,129	1417
3-storey (15)	1,084	699	886	1,023	1,206	2,243	135
4-storey or above (20)	2,270	1,180	-	2,082	-	3,547	3
810.11 Estate housing detached (15)	1,257	837	1,008	1,261	1,409	2,082	18
810.12 Estate housing semi detached							
Generally (15)	1,103	553	948	1,080	1,225	2,070	440
Single storey (15)	1,276	773	1,092	1,267	1,425	2,070	78
2-storey (15)	1,069	553	939	1,048	1,182	1,893	343
3-storey (15)	1,019	751	846	1,001	1,100	1,607	19
810.13 Estate housing terraced							
Generally (15)	1,114	543	934	1,071	1,246	3,547	404
Single storey (15)	1,200	834	1,002	1,117	1,416	1,812	53
2-storey (15)	1,096	543	932	1,070	1,209	2,129	291
3-storey (15)	1,085	707	886	1,012	1,158	2,243	59
4-storey or above (5)	3,547	-	-	-	-	-	1
816. Flats (apartments)							
Generally (15)	1,310	634	1,093	1,249	1,481	4,450	937
1-2 storey (15)	1,244	728	1,078	1,198	1,367	2,378	227
3-5 storey (15)	1,287	634	1,083	1,237	1,467	2,549	629
6+ storey (15)	1,683	960	1,373	1,621	1,778	4,450	77

APPENDIX 4:

REVENUE

File: 15% Aff Hse No S106

Apartment Type 1.0	16 units at 205,000.00 ea.	3,280,000
House Type 1.1	39 units at 250,000.00 ea.	9,750,000
House Type 1.0	13 units at 315,000.00 ea.	4,095,000
House Type 2.0	7 units at 300,000.00 ea.	2,100,000
House Type 2.1	16 units at 350,000.00 ea.	5,600,000
House Type 3.0	15 units at 400,000.00 ea.	6,000,000
House Type 4.0	22 units at 465,000.00 ea.	10,230,000
House Type 1.0 - Affordable Rent	5 units at 110,250.00 ea. -E	551,250
House Type 2.0 - Affordable Rent	5 units at 105,000.00 ea. -E	525,000
House Type 3.0 - Affordable Rent	5 units at 140,000.00 ea. -E	700,000
House Type 2.1 - Intermediate	4 units at 245,000.00 ea. -E	980,000
House Type 4.0 - Intermediate	3 units at 325,500.00 ea. -E	976,500
		REVENUE
		44,787,750

(Revenue Totals labelled -E do not attract Fees)

COSTS

Site Value		11,104,000
Site Stamp Duty	at 4.90%	544,096
Site Legal Fees	at 1.00%	111,040
Site Agency Fees	at 0.75%	83,280
		Site Costs
		11,842,416
S106 - Education		1,036,636
		Initial Payments
		1,036,636
Residential	151,278.00 sq-ft at 102.17 psf	15,456,073
Chemical Resistant Water Supply Pipes		84,900
Surface Water Attenuation		262,500
Clean Cover To Gardens		123,500
Chemical Resistant Membrane To Dwellings		231,500
S278/ Off Site Works		578,500

Utility Costs		200,000	
Acoustic Fencing/ Bunding		75,000	
Public Open Space (leap)		100,000	
New Car Park For Social Club		125,000	
Contingency	at 5.00%	861,849	
Professional Fees	at 7.50%	1,292,773	
		Build Costs	19,391,595
Direct Sale Agents Fee	at 3.75%	1,539,563	
Direct Sale Legal Fees	at 0.30%	123,165	
		Disposal Fees	1,662,728
INTEREST	(See CASHFLOW)		1,895,362
6.40% pa	on Debt charged Quarterly and compounded Quarterly		
Site Costs	Month 1 (Jul 16)		
Initial Payments	Month 1 (Jul 16)		
Residential (bld.)	Month 4 to 39 (Oct 16 - Sep 19)		
Chemical Resistant Water Supply Pipes	Month 3 to 30 (Sep 16 - Dec 18)		
Surface Water Attenuation	Month 1 to 3 (Jul 16 - Sep 16)		
Clean Cover To Gardens	Month 3 to 30 (Sep 16 - Dec 18)		
Chemical Resistant Membrane To Dwellings	Month 3 to 30 (Sep 16 - Dec 18)		
S278/ Off Site Works	Month 1 to 3 (Jul 16 - Sep 16)		
Utility Costs	Month 1 (Jul 16)		
Acoustic Fencing/ Bunding	Month 3 to 8 (Sep 16 - Feb 17)		
Public Open Space (leap)	Month 12 to 14 (Jun 17 - Aug 17)		
New Car Park For Social Club	Month 1 to 2 (Jul 16 - Aug 16)		
Apartment Type 1.0 (sale)	Month 11 to 44 (May 17 - Feb 20)		
House Type 1.1 (sale)	Month 9 to 44 (Mar 17 - Feb 20)		
House Type 1.0 (sale)	Month 9 to 44 (Mar 17 - Feb 20)		
House Type 2.0 (sale)	Month 9 to 44 (Mar 17 - Feb 20)		
House Type 2.1 (sale)	Month 9 to 44 (Mar 17 - Feb 20)		
House Type 3.0 (sale)	Month 9 to 44 (Mar 17 - Feb 20)		
House Type 4.0 (sale)	Month 9 to 44 (Mar 17 - Feb 20)		

House Type 1.0 - Affordable Rent (sale)	Month 9 to 44 (Mar 17 - Feb 20)
House Type 2.0 - Affordable Rent (sale)	Month 9 to 44 (Mar 17 - Feb 20)
House Type 3.0 - Affordable Rent (sale)	Month 9 to 44 (Mar 17 - Feb 20)
House Type 2.1 - Intermediate (sale)	Month 9 to 44 (Mar 17 - Feb 20)
House Type 4.0 - Intermediate (sale)	Month 9 to 44 (Mar 17 - Feb 20)

PROFIT	8,959,014	COSTS	35,828,736
PROFIT/SALE	20.00%	PROFIT/COST	25.01%

APPENDIX 5:

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	Unit Price	Gross Sales
Revenue	1	41,055,000	41,055,000
Affordable	1	3,732,750	<u>3,732,750</u>
Totals	2		44,787,750

Rental Area Summary

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rent	16	250	4,000	4,000

Investment Valuation

Ground Rent					
Current Rent	4,000	YP @	5.0000%	20.0000	80,000

GROSS DEVELOPMENT VALUE 44,867,750

Purchaser's Costs	(5,440)	(5,440)
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NET DEVELOPMENT VALUE 44,862,310

Income from Tenants	3,667
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NET REALISATION 44,865,977

OUTLAY

ACQUISITION COSTS

Residualised Price		11,424,117	11,424,117
Stamp Duty	4.90%	559,782	
Agent Fee	1.00%	114,241	
Legal Fee	0.75%	85,681	
			759,704

CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost	
Revenue	1 un	15,456,073	15,456,073	15,456,073
Contingency		5.00%	772,804	
S278			578,500	
S106 Education			1,036,636	
				2,387,940

Other Construction

Chemical resist Water supply pipes	84,900
Surface water atten	262,500
Clean Cover to Gardens	123,500
Chemical resistant membrane to dwell	231,500
Utility Costs	200,000
Acoustic fencing/bunding	75,000
Public Open Space	100,000
New Car Park for Social Club	125,000
	1,202,400

PROFESSIONAL FEES

Architect	7.50%	1,165,573	1,165,573
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MARKETING & LETTING

Marketing	1.50%	615,825	615,825
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DISPOSAL FEES

Sales Agent Fee	1.00%	448,623	
Sales Legal Fee	0.30%	134,587	
			583,210

Additional Costs

Finance 6.4%	2,297,939	2,297,939
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TOTAL COSTS 35,892,781

PROFIT 8,973,196

Performance Measures

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%
Development Yield% (on Rent)	0.01%
Equivalent Yield% (Nominal)	5.00%
Equivalent Yield% (True)	5.16%
IRR	9.47%
Rent Cover	N/A
Profit Erosion (finance rate 0.000%)	N/A