

## VIABILITY ASSESSMENT OF DEVELOPMENT AT

**PROPERTY:** MILLWARD COMMUNITY HALL, SALISBURY STREET, LEEK, ST13 5EE

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**CLIENT:** Charles Wainwright Developments Ltd  
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**Date of  
Report** 19 June 2017

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## 1. Instructions and background

Butters John Bee is instructed to undertake a viability assessment (valuation appraisal) of a proposed residential redevelopment of Millward Community Hall, Salisbury Street, Leek, Staffordshire Moorlands, ST13 5EE by Michael Askew of Knights Solicitors on behalf of the Charles Wainwright Developments Ltd (The Client). Page | 3

A copy of the instruction via email can be found at Appendix A together with our Terms of Engagement.

I can confirm that Butters John Bee is an established multi-disciplinary Surveying practice which includes expertise in development appraisals, residential valuation and residential estate agency. We have the required knowledge, experience and qualifications to undertake the viability assessment for the proposed development at the subject property. The property was inspected by Ian Lowe BSc (Hons) MRICS, RICS Registered Valuer on 22 March 2017 who is experienced and competent to prepare this type of valuation/appraisal. Additional residential market advice has been provided by our Hanley Estate Agency Branch who have direct experience of letting and selling residential flats and apartments in Leek and the surrounding areas.

We confirm we have no conflicts of interest arising from our undertaking of this valuation and that our Professional Indemnity Insurance limited is £5,000,000.

This appraisal is undertaken with reference to the RICS Financial viability in planning guidance note (1<sup>st</sup> edition) 2012. In particular, we adapt the following guidance note definitions and directions:

**Definition of viability: An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project.**

**It goes on to explain.....Fundamental issue of whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements.**

**Site value definition: Site Value should equate to the market value subject to the following assumption: that the value has regard to the development plan policies and all other material planning considerations and disregards which are contrary to the development plan.**

## **2. Description of site location**

Millward Hall is comprised of a two storey detached building (principle building), detached garage and surrounding hardstanding. The site area is approximately 0.078 HA (0.19 Acres) and a Land Registry plan can be found at Appendix B.

We estimate the principle building was built between 1930 and 1940 and used as an extension to the (former) adjacent school. It originally provided housecraft and handicraft rooms on the ground floor with an assembly hall, which was also used as a gymnasium, on the first floor. The primary construction is as follows:

- Solid brick elevation walls provide the primary structural form.
- Ground and first floor is formed from concrete.
- The roof is hipped with tiled covering. The structural roof material could not be determined at our site inspection as it is concealed with boarding which forms a shaped ceiling to the first floor spaces.
- Fenestrations are white UPVC frames with double glazing that provide (uniform) equal spaced vertical features to the character of the building.
- Internal stairs are formed from concrete.

The building is of rectangular shape with a GEA length of appx 30.50m and width/depth of 8.66m. The ground floor has been used as offices and the first floor has been used as a community hall with a passenger lift serving ground to first floor access. We understand the building closed as Millward Hall Community Centre in March 2015 and has been vacant since. Furthermore, the property was sold at Butters John Bee property auction in July 2016. A copy of the Auction sales particulars are provided at Appendix C.

The site is also of rectangular shape with long frontage to Salisbury Street and a relatively short depth. An O.S. Plan can be found at Appendix D. The principle building occupies a position to the south part of the plot with the surrounding areas tarmac surface areas and also a single garage is located at the northern boundary.

The property is located close to the centre of Leek and off Salisbury Avenue which is a connected road between High Street/St Edwards Street, West Street and Broad Street (via Sneyd Street). The immediate area is comprised of part residential terraced housing and flat developments with some commercial use. Opposite is a car mechanic/garage and to the north is a cooperative store. The centre of Leek is approximately 5 mins away by car or walking.

### **3. Planning policy context**

We understand the current planning use is class D2, community centre with ancillary offices. The property is not recorded as listed however we understand the property is located within Leek Town conservation area.

The local planning authority is Staffs Moorlands District Council and we have noted that Under Policy H2, for any residential development that would provide more than 14 units there would be a requirement for 33% of the total number of units to be affordable. This results in a planning requirement that 5 units of the Millward Hall development are affordable housing units.

### **4. Description of scheme**

The scheme can be best described as a redevelopment of the existing building to 16 residential flats. The external envelope of the existing building is generally retained with an additional proportionate extension built to the right side gable, a new roof structure installed which enables additional internal floor to be built and small external enclosed gardens at ground floor. The internal elements are extensively remodelled to provide 16 flats over four floors. The internal works involve the removal of the existing first floor and construction of a new first, second and third floor as well as the construction of the aforementioned flats. The proposed external works, remodelling of

the internal floors and design and layout of the 16 flats are shown at Appendix E (architectural designs and layout).

The development provides 16 flats with habitable areas ranging from 36.00 m<sup>2</sup> (387 f<sup>2</sup>) to 46.80 (503 f<sup>2</sup>) with all flats benefiting from 2 bedroom and certain larger flats benefiting from a spare room/office room. A schedule of flats and areas can be found at Appendix F.

The existing hardstanding areas will be repaired and 10 parking spaces will be provided. The existing detached garage will be demolished and a new bin store created in approximately the same position. We understand the access/egress to and from the site will be the same or similar to the existing access.

We understand the design and specification of the fixtures and fittings to each flat will be of good standard in order to attract occupiers and purchasers of the leasehold interest for each flat which we believe will be a combination of investors and owner occupiers. Our appraisal is calculated on the assumption each flat will be sold by the developer on a leasehold basis following practical completion.

## **5. Market information summary**

Leek is a popular market town located south of the Peak District with the nearest City being Stoke on Trent (appx 8 miles to the south east) and surrounding towns of Buxton, Ashbourne, Macclesfield and Congleton within an approximate radius of 30 minutes driving time. The population of the town has grown in recent years with workforce considering the town within commuting distance to Manchester and surrounding areas. The town is reasonably prosperous with a retail and public services offer to meet the needs of the population. A map showing the town and surrounding regional cities and towns can be found at Appendix G.

The town benefits from a variety of new and old architecture and buildings such as former cotton mills have been redeveloped in recent years to provide residential dwellings. The subject property is located centrally but within the western half of the town and within the vicinity are examples of successful development projects that re-

use older buildings to provide residential flats. These include Britannia Chambers and Davenport Court both within 200m of Millward Hall.

In general terms the exterior of Millward Hall presents well and with the assumption the development will keep the building in current character we believe the flats will be attractive to tenant/occupiers and leasehold purchasers alike. Page | 7

## Market values and comparable evidence

From our local knowledge we believe the majority of flats are purchased by investors and then rented out to private tenants. As already stated there have been development of flats in recent years including refurbishment of existing buildings and new build. Butters John Bee have marketed a number of flats within the vicinity and we are aware of completed lettings which indicate a rental value of the flats at Millward Hall would be between £475 and £525 per month depending on the position, floor area and quality of fixtures and fittings etc. For the purpose of the report we have value the market rent at £500 per month.

We have researched and identified sale transactions within the last 12 months of flats within Leek, particularly close to Salisbury Street. We have found a lack of consistent comparable evidence to rely on because most nearby flats were sold just after practical completion and we believe the majority are still held by investors. The lack of comparable evidence results in risk of accuracy of data. Transactions that have completed recently indicate a market value of between £70,000 and £110,000. Based on our knowledge of the Leek market we have adopted a pricing allocation of £95,000 for the smaller (central flats) and £105,000 for the larger (end) flats which benefit from an additional room which can be used as an office or other accommodation, or private garden. At a market rent of £6000 per annum each flat would represent a yield of 6.32% and 5.45% respectively on purchase price to an investor which is reasonable in the current market.

We recognise the above stated pricing is at the higher end of the available evidence however we are of the opinion this is justified based on the location, level of internal specification (assumption) and the quality and character of the external envelope.

## **6. Build cost and programme**

We have been provided with design of the flat layouts, elevation drawings and a plan indicating works to the external hard standing areas. We have also been provided with a verbal description of the project and construction works by Mr Carl Croft, project architect. We have adopted a construction cost of £1371 per m<sup>2</sup> (£58,000 per flat) which is based upon analysis of BCIS datasets and specific comparison descriptions of redevelopment of buildings for flat purposes. We have also taken into account the likely higher build costs required to ensure the external appearance of the building and level of internal specification preserves or enhances the character and appearance of the conservation area. Page | 8

We have also been minded to reflect the following significant construction phases:

- Initial strip out.
- Removal of first floor and installation of 3 new floors to provide 16 flats over 4 floors.
- The removal of the existing roof structure and installation of new raised roof with covering.

Project period for construction has been assumed at 17 months and finance rate is 5.5%.

The property was purchased in July 2016 for £240,000. The purchase was at auction with no conditions and open to market demand and forces. We can find no reason to deviate from the same land price for the appraisal calculations given the relatively short space of time between sale and date of this report (10 months) and our opinion the market has been static in the intervening period.

We have allocated a price of £65,000 within the gross development value in relation to an affordable house/flat unit. The value is based on the total cost (including construction, site purchase and fees) to achieve the flat.



## 7. Methodology and approach

We have used the residual method of valuation as advised by the RICS Financial viability in planning guidance note (1<sup>st</sup> edition) 2012. In order to calculate the valuation, we have inspected the property, received sufficient information for the project development and investigated the current market for residential flats in Leek.

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We have adopted a cautious approach to establishing the gross development value by adopting pricing at the higher part of the range and investigated realistic construction costs based on available design data and reliable source of cost data.

Finally we have prepared two valuations; 1) Based on x1 affordable unit, 2) based on x5 affordable units representing 33% allocation as per Policy H2.

## 8. Outputs and results

The residual valuations can be found at Appendix H. The valuation provides sufficient data to indicate viability.

**Valuation 1** (x1 affordable unit) confirms a developers' profit of around £106,000 from a gross development cost of around £1.4million. The profit represents achieving a return of 7.41% on costs and 6.90% on gross development value.

In our opinion commercial developers of a construction project of this type and scale require a return on cost of between 15% and 20% in order reflect the risks associated with real estate development. A return on cost (the usual indicator) of 7.41% presents an unacceptable return and risk to a developer and renders the project borderline unviable.

**Valuation 2** (x5 affordable units) confirms the project will result in a loss of £11,309 with no return on cost or development value. Unfortunately the project does not contain a quantum of units sufficient to absorb such a reduction in development value and renders the project unfeasible.

## 9. Sensitivity analysis

We have undertaken a sensitivity analysis and found the primary input data that present the most risk is as follows:

- Market change to residential flat rents and leasehold values affecting the achievable price over the project period of 18 months and thus eroding gross development value. Page | 10
- Unforeseen construction costs associated with removal of existing floors and installation of 3 new floors.
- The scale of development, i.e. 16 units presents a risk to the developer due to a lack of covering costs over a wider number of units.

## **10. Concluding statement**

We have investigated the proposed redevelopment of Millward Hall to 16 residential flats. In our opinion the project will attract market demand from purchasers and occupiers and we have taken care to assess realistic pricing and construction costs based on the information available to us. Whilst the project has merit the residual valuation indicates the viability is borderline with the project sensitive to market changes to market rent and market value of leasehold interests over the project period, and variation to construction costs associated with the internal floor changes.

We believe the calculated rate of return is does not provide a developer with sufficient profit to reflect the risks associated with the profit and therefore the planning obligation to provide an affordable unit is not justified in light of market risk to the developer. However, by removing the requirement for an affordable unit and thus achieving a market price of £95,000, the return on cost would increase to circa 9.4% which would improve the viability risk to a level still below the standard rate of 15% but within an improved tolerance of variation to the price/cost data and an improvement in viability.

END OF REPORT



Signed .....

Date ...19/06/2017.....

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Ian Lowe BSc (Hons), MRICS, RICS Registered Valuer

Associate Director

Butters John Bee