

DEVELOPMENT APPRAISAL REPORT

IN RESPECT OF

**THE GREEN
CHEADLE**

on behalf of

**Piper Homes
Land Development and Estates Limited
132 Widney Lane
Solihull
B91 3LH**

**Date: July 2011
File No: TL705b**

CONTENTS

	Page No.
1.0 INSTRUCTIONS	2.
2.0 APPRAISAL ASSUMPTIONS	2.
3.0 COST ASSUMPTIONS	3.
4.0 VALUES	5.
5.0 APPRAISAL RESULTS AND ANALYSIS	6.
6.0 CONCLUSIONS	7.

ANNEXES

ANNEX I BASE DEVELOPMENT APPRAISAL SUMMARY SHEET

1.0 INSTRUCTIONS

Thomas Lister are instructed in the preparation of Development Appraisals in respect of the proposed mixed use development of the site known as "The Green, Cheadle".

The appraisal is required to assess the viability of the provision of industrial use within the proposed residential site at The Green to provide a mixed use development of up to 50% commercial/industrial and 50% residential.

The report will also assess the extent of affordable housing that may viably be accommodated within the site, either as a wholly residential development or as a mixed use scheme.

2.0 APPRAISAL ASSUMPTIONS

A standard residual development appraisal approach has been adopted which ascertains the price that a developer could afford to pay for the site based on a particular quantum of development. This residual land value is then assessed against the value that might be anticipated for the site from a comparable evidence perspective. If a positive figure results, then the appraised development is viable and if negative, then the development is non-viable and would not be brought forward until such time as either values rose or costs fell to the extent that the scheme became viable.

A residential scheme is proposed by Piper Homes, comprising 49 houses.

In order to test the viability of a mixed use scheme, it has been assumed that the entire site is developable and that a pro rata residential density will be adopted over the site. Industrial development has been assumed to comprise the remaining proportion of a mixed use scheme at a density of 3,446 sq.m. per hectare.

A base scheme has been adopted assuming a 50:50 split between residential and industrial development within a mixed use comprehensive scheme. Reduced proportions of industrial development are then applied to assess the affect that this has on overall viability.

THE GREEN, CHEADLE

On behalf of Piper Homes

Those cost and value assumptions that have been applied are set out below;

3.0 COST ASSUMPTIONS

Land Value – The land value derived is automatically calculated as the residual amount which a developer could afford to pay for a site, in order to develop out the appraised scheme and taking into account all those other costs and value assumptions utilised within the appraisal model.

Acquisition Costs – Acquisition costs have been applied based upon stamp duty land tax and purchasers legal costs associated with acquisition of the land and calculated at the appropriate rate for stamp duty, including 1.75% legal and surveyors fees.

Site Remediation – Site remediation costs relating to the treatment of Japanese Knotweed and those abnormal costs associated with the site, including the provision of piled foundations and gas mitigation issues have been assessed at an assumed rate of £3,000 per residential plot over the entire development, equating to a rate of £45,794 per acre, a sum which is considered to be appropriate for a site of the subject nature.

Infrastructure Costs – Site infrastructure costs relate to the provision of highway and services. It is considered likely that such costs would be increased on this site, with the proposed mixed use nature of the development and as such have been assumed at around £50,000.

Off Site Services – The cost of off site services for the site has been assumed at a set rate of £50,000. This is a sum which is considered appropriate for a proposed development of the size and nature and the consideration of a scheme of this scale and in this location.

Construction Costs – Residential construction costs have been assumed at a rate of £850 per sq.m. (£78.97 per sq.ft.). This sum is considered likely to prove realistic, all things taken into account. It is however noted that this lies at the lower end of the scale which could rise up to circa. £1,000 per sq.m. for a site of the subject nature..

THE GREEN, CHEADLE

On behalf of Piper Homes

Industrial construction costs have been assumed at a rate of £45 per sq.ft. such sum being considered appropriate from other sites appraised in recent months.

Professional Fees – Professional fees have been assumed at a rate of 10% of construction costs, such sum comprising architects fees, mechanical and engineering fees, structural engineers, quantity surveyor, project manager and construction design and management consultants.

Contingency – A contingency rate of 5% has been adopted which is not untypical for schemes of the subject nature.

Statutory Costs – Assumed at a rate of £30,000, a sum considered appropriate from analysis of sites of a similar nature. This relates to Building Regulation fees and Planning Consent.

Section 106 Payments – Section 106 payments have been calculated and provided by the Local Planning Authority. The total sum of £103,306 in respect of public open space for the provision of 49 units and additionally the sum of £30 for recycling per residential unit have been utilised and apportioned across the proportion of market housing within the scheme.

Funding Costs – These are those costs associated with the obtaining of funding from financial institutions within the present market.

Sale Fees – Sale fees of 2% are considered standard for a scheme of this nature.

Letting Fees – Letting fees have been assumed at a rate of 10%, a figure pretty consistently utilised throughout the industry.

Commercial Marketing – The rate of 0.25% has been applied to allow for an advertising budget for marketing of the scheme.

Interest – A cashflow has been created, taking account of the timescales within the project programme for expenditure and anticipated receipts. An interest rate on debt has been assumed at a rate of 7%, considered appropriate in the present financial market, despite the

THE GREEN, CHEADLE

On behalf of Piper Homes

Bank of England base rate being at a record low of 0.5%. Interest on accruals has been assumed at 3% based on the best rates relatively achievable within the present market.

Profit – Developers profit has been assessed based upon 15% of value, this same profit figure equates 16.8% profit on costs for the base scheme.

4.0 VALUES

Values and sales rates for the scheme have been provided by Piper Homes in respect of the residential element based upon rates achieved within the locality. Industrial values derived from previous work undertaken by Thomas Lister in respect of the local industrial market have been utilised. The following sets out further detail;

Market Housing – A capital value of £200 per sq.ft. has been applied as an average rate across the market housing within the scheme.

Applying the £200 per sq.ft. provides an average value for a 2 bed terraced house of 650 sq.ft. of £130,000, a 3 bed terraced house of 800 sq.ft. of £160,000, a 3 bed semi detached house of circa. 875 sq.ft. of £175,000 and a 4 bed detached house at £240,000.

It is considered appropriate within the present market to assume sales rates at around 2 units per month after taking into account a likely initial 6 month delay.

Affordable Housing – Affordable housing values have been assumed at a rate of 65% of that attributable to market housing. This takes into account the required 70% rented and 30% low cost housing, which the Local Planning Authority has suggested is appropriate.

It has been assumed that no grant would be achievable for the affordable housing element of the scheme.

Industrial Values – Rental values of £4.50 per sq.ft. have been assumed to which a yield of 10% has been applied, providing a capital value of £45 per sq.ft..

Industrial take up rates have been assumed at a rate of 1,000 sq.ft. per month.

THE GREEN, CHEADLE

On behalf of Piper Homes

5.0 APPRAISAL RESULTS AND ANALYSIS

Applying the above assumptions to the base scheme, i.e. 50% of the site to be utilised for industrial units and 33% affordable housing provision, a residual land value is derived of £215,707. This suggests that a developer would only be prepared to pay a rate per acre for the site of £67,199, whereas the vendor would expect from a comparable land value approach a sum nearer £963,000 (50% industrial land @ £150,000 per acre and 50% residential @ £450,000 per acre), suggesting an overall shortfall of £745,293 and the scheme would evidently not be developed out.

Sensitivity analysis has been applied to this base assumption, taking into account possible build cost/variance of 2.5% and 5% and also value increases/decreases of 2.5% and 5% respectively. A table showing the results of this exercise is provided below;

Build Costs	-5.00%	-2.50%	+0.00%	+2.50%	+5.00%
Values					
-5.00%	£185,841	£111,985	£36,304	(£40,818)	(£119,269)
-2.50%	£270,455	£200,774	£127,066	£51,384	(£25,186)
+0.00%	£358,617	£285,103	£215,707	£142,146	£66,464
+2.50%	£446,779	£373,265	£299,751	£230,641	£155,696
+5.00%	£529,883	£461,428	£387,914	£314,400	£245,574

Sensitivity Analysis of Residual Land Value to Changes in Build Cost and Sales Values

It is noted that the best case scenario applying a 5% reduction in build costs and 5% increase in scheme value still renders the base scheme unviable producing a residual value of only £529,883 against that receipt anticipated by a vendor of £963,000. The scheme on this basis would still not proceed.

Sensitivity analysis has also been prepared based upon different proportions of residential/industrial accommodation to be developed out and the proportion of social housing to be provided in respect of the residential element. The results are provided in the following table;

THE GREEN, CHEADLE

On behalf of Piper Homes

Anticipated Land Value	£481,500	£722,250	£963,000	£1,203,750	£1,444,500
Residential %	0.00%	25.00%	50.00%	75.00%	100.00%
Social Hsg %					
0.00%	(£787,857)	(£82,186)	£546,184	£1,181,492	£1,816,809
5.00%	(£787,857)	(£109,028)	£499,912	£1,104,991	£1,714,807
15.00%	(£787,857)	(£165,140)	£396,939	£951,989	£1,510,802
25.00%	(£787,857)	(£221,251)	£293,967	£798,988	£1,306,799
33.00%	(£787,857)	(£265,004)	£215,707	£676,587	£1,143,596

Sensitivity to Residential / Industrial Split and Affordable Housing %

It is noted that a mixed use scheme comprising 50% industrial development would not facilitate the provision of any social housing, again producing a residual value of only circa. £550,000, significantly less than the £963,000 anticipated by a vendor.

In the event that the site were sold with the prospect of 75% residential element and 25% industrial, then a perspective vendor would anticipate a site value in the order of circa. £1.2 million and it is noted that even with nil social housing element, a residual value of only circa. £1.18 million is achieved. It is conceivable that a negotiated settlement would ensue but no social housing could be provided.

In the event that an entirely residential scheme were anticipated, then a vendor would anticipate a capital receipt in the region of £1.44 million. It is noted that the provision of 33% affordable housing only provides a residual value of circa. £1.14 million, which if reduced to 25% social housing element provides circa. £1.31 million residual value and at 15% provides £1.51 million, hence social housing could only be provided at between 15% and 25%, with nil industrial element in order for the scheme to be viable.

6.0 CONCLUSION

It is quite clear that from a financial development appraisal perspective alone, the inclusion of industrial accommodation within the proposed residential scheme is entirely unviable. It is also clear that it would not be viable to provide 33% affordable housing within the site and that in order to be viable, an affordable housing element of around 20% maximum would be possible, assuming affordable housing provision to comprise 70% rental and 30% low cost housing elements within a 100% residential scheme.

THE GREEN, CHEADLE

On behalf of Piper Homes

The inclusion of industrial use within the scheme would add additional constraints/difficulties to the prospect of delivery, with the issue of shared access and buffer zones between uses, together with other planning and design issues. No account has been taken within the appraisal of the effect that adjoining industrial uses would have on residential values within the scheme.

It is also worth noting that from previous market assessment work undertaken by Thomas Lister in February 2011, it is considered that there would be minimal if any demand for alternative commercial uses within the scheme (e.g. B1a office use).

In the circumstances, in order for any scheme to be delivered upon the site within the present market, it is considered that a wholly residential proposal together with a reduced affordable housing provision of no more than 20% would be required.



.....

Date:28th July 2011.....

Andrew Croot, MRICS
 Thomas Lister Limited
 11 The Courtyard
 Buntsford Gate
 Bromsgrove
 B60 3DJ

THE GREEN, CHEADLE

On behalf of Piper Homes

ANNEX I - BASE DEVELOPMENT APPRAISAL SUMMARY SHEET

THE GREEN, CHEADLE

On behalf of Piper Homes



CLIENT :	Piper Homes			START DATE	Aug-11	
JOB :	The Green, Cheadle					
REF :	TL705b					
COST				TOTAL		
Land Value				£215,707	Aug-11	Aug-11
Acquisition Costs			2.75%	£5,932		
Site Remediation	3.21 acres	£147,000		£147,000	Nov-11	Feb-12
Infrastructure				£50,000	Feb-12	May-12
Off Site Services				£50,000	Feb-12	May-12
Market Houses	16 units	15,109 sq ft	£78.97	£1,193,072	May-12	Feb-13
Market Flats		0 sq ft	£78.97	£0	May-12	Feb-13
Affordable Houses	8 units	7,442 sq ft	£78.97	£587,632	May-12	Feb-13
Affordable Flats		0 sq ft	£78.97	£0	May-12	Feb-13
B2/B8	50.00% of site	24,075 sq ft	£45.00	£1,083,375	May-12	Aug-12
B1a		0 sq ft	£110.00	£0	May-12	Aug-12
B1a/D1		0 sq ft	£100.00	£0	May-12	Aug-12
	4,331 m2	46,625 sq ft				
Professional Fees			10.00%	£311,108		
Contingency			5.00%	£171,109		
Statutory Costs				£30,000	Nov-11	Nov-11
S106			per market unit £3,147	£51,653	Feb-13	May-13
Funding Costs			0.25%	£12,534	Nov-11	Feb-12
Sale Fees			2%	£100,271		
Letting Fees			10.00%	£10,834		
Commercial Marketing			0.25%	£12,534	Aug-12	Nov-12
Residential Marketing			per unit £2,000	£32,830	May-12	Aug-12
				<u>£4,065,592</u>		
VALUE				TOTAL		
Value	Net	Area	Rental	Yield	Capital Value	purchasers costs 5.75%
Market Houses	100%	15,109 sq ft			£200.00	£3,021,700 Nov-12 Aug-13
Market Flats	85%	0 sq ft				£0 Nov-12 Aug-13
Affordable Houses	100%	7,442 sq ft			£130.00	£967,395 May-13 May-13
Affordable Flats	85%	0 sq ft				£0 May-13 May-13
B2/B8	100%	24,075 sq ft	£4.50	10.00%	£45.00	£1,024,468 Feb-13 Feb-15
B1a	100%	0 sq ft				£0 Feb-13 Feb-13
B1a/D1	100%	0 sq ft				£0 Nov-14 Nov-14
		46,625 sq ft	£108,338			<u>£5,013,563</u>
Interest	on debt		7.00%		£195,937	
	on accruals		3.00%			
Profit on value			15.00%		£752,034	
	On Cost		16.80%			
Total Cost (exc land)					£4,797,856	
Total Income					£5,013,563	
Residual Sum					£221,639	
Residual Land Value Derived				£215,707		
Rate per acre				£67,199		
COMPARABLE LAND VALUE APPROACH				£963,000		
Scheme Surplus/Deficit				-£747,293		

THE GREEN, CHEADLE

On behalf of Piper Homes