1st March 2018

THE GEORGIAN HOTEL, 37-41 HIGH STREET, HASLEMERE, SURREY GU27 2JY

VIABILITY ASSESSMENT REPORT: REVISED

STRICTLY PRIVATE AND CONFIDENTIAL

Prepared for:

Lannister House (1782) Limited

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Provided by:

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1. Executive Summary

Savills has been instructed by Lannister House (1782) Ltd to provide a Viability Assessment relating to a full planning application:

"Refurbishment of the hotel to provide a 12-bedroom boutique hotel, including food and beverage and a new access to the High Street; demolition of the linkway building; change of use and extension of the building to the rear from hotel bedroom and spa to provide 16 flats; and the erection of 3 no. 4 bedroom mews cottages; with ancillary parking and landscaping".

This viability report has been submitted on 1st March 2018 to Waverley Borough Council (The Council) as part of the planning application at The Georgian Hotel, 37-41 High Street, Haslemere, Surrey GU27 2JY.

We have assessed the development economics of the proposed scheme in order to identify the level of affordable housing / Section 106 contributions the scheme can sustain. We have appraised the scheme on Argus Developer (Version 6) and have based our appraisal upon the floor areas prepared by A4 Design.

We have followed the RICS Professional Guidance Note "Financial Viability in Planning" GN94/2012 (1st Ed) which sets out the principle in determining financial viability.

In line with the guidance, site-specific financial viabilities are a material consideration in determining how much and what type of affordable housing should be required in residential and mixed-use developments as such, viability appraisals can and should be used to analyse and justify planning applications to ensure that Section 106 requirements do not make a scheme unviable.

If a scheme is being rendered unviable because of Section 106 requirements, it may be appropriate to look at reducing the burden of those requirements in order to facilitate the development's viability.

After running through the process of testing the level of viability of the proposed scheme, it has become apparent that the site is unable to support the requisite level of affordable housing contribution including the provision of a commuted sum, while still achieving an appropriate level of developer's profit.

2. Introduction

2.1. Client Instruction

We have been instructed to examine the development economics of this scheme to determine whether or not the development can sustain a level of affordable housing and any Section 106 contributions, whilst remaining viable. We have undertaken our assessment using Argus Developer (Version 6).

2.2. Confidentiality

Due to the commercially sensitive nature of some of the information provided as part of the viability assessment, this report is provided on a strictly private and confidential basis. We understand the report will be submitted to Waverley Borough Council as a supporting document relating to the proposed development. The report must not be recited or referred to in any document, or copied or made available (in whole or in part) to any other person (save the consultants instructed by the Council to review the report) without our prior express written consent.

2.3. Report Limitations

Although this report has been prepared in accordance with Royal Institution of Chartered Surveyors' ("RICS Valuation") – Global Standards 2017 incorporating the IVSC International Valuation Standards issued June 2017 and effective from 1 July 2017 (the "**Red Book**"), advice given expressly in preparation for, or during the course of negotiations or possible litigation does not form part of a formal "Red Book" valuation and should not be relied upon as such.

2.4. Date of Appraisal

The date of appraisal is the date of this report. Subject to all site specific variables remaining the same and there being no fundamental market changes the appraisal remains valid for a period of three months after which we reserve the right to review our position.

2.5. Information Provided

We have been provided with and relied upon the following information from the Applicant:

- Proposed indicative schedule and site plans prepared by A4 Design which is found at **Appendix 2** of this report
- Cost plan for the proposed scheme prepared by Stace LLP which is found at **Appendix 4** of this report.

3. Subject

3.1. Site Location

The Property lies within Haslemere town centre, Haslemere is a market town lying south of the A3 at the junction with Hindhead. The Property lies in the administrative district of Waverley Borough Council.

Approximate distances to major centres are as follows:

Guildford:	23.8 km (14.8 miles)
Godalming:	15.0 km (9.3 miles)
Horsham:	34.3 km (21.3 miles)
London:	74.0 km (46.0 miles)

Local transport communications are good; the A3 Portsmouth Road is within a reasonable distance to the subject Property and is to the north of Haslemere. The A3 in turn connects to the M25 which leads to the wider motorway network or due south to Portsmouth or alternatively the A31 can be taken to Southampton.

The nearest mainline services are available from Haslemere to London Waterloo in around 50 minutes. Heathrow Airport and Gatwick Airport are readily accessible by road via the A3. The location is relatively convenient for the usual amenities, Haslemere is well provided for in terms of amenities and retail as well as a number of good schools in the locality.

The Property is located within Haslemere town centre, fronting the High Street (A286).

A location plan is attached at **Appendix 1**.

3.2. Site Description

The Property comprises a 43 bedroom, 3* hotel situated on a plot of approximately 0.426 hectares (1.052 acres). The Property consists of a Grade II listed building (part Georgian and part Tudor) fronting Haslemere High Street that houses 12 ensuite bedrooms, the restaurant, bar, 3 x function rooms, office and kitchen. The rear ‘garden annexe’ of the hotel was constructed in 2002 and consists of 31 double/ triple bedrooms with ensuites, together with a gym, swimming pool and spa. The annexe is accessed via both a link building from the listed section, together with its own entrance accessed from the garden and carpark, it is serviced by two staircases and a lift.

The existing Georgian Hotel main building comprises 13,326 sq ft (1,238 sqm) of accommodation, the ‘garden annex’ building comprises a further 15,242 sq ft (1,416sqm). The two buildings are joined by a link corridor with an area of 387 sq ft (36 sqm). The total area of the hotel is 28,955 sq ft (2,690 sqm). The existing hotel accommodation is dated, particularly in comparison to the local market, which has resulted in a low occupancy rate. It is recognised that the hotel including the food and beverage facilities are in need of significant renovation, in order to meet local needs and ultimately produce a viable business model.

Historically, the hotel has fallen into administration twice over the past four years. On the 29th August 2017, Lannister House purchased the hotel out of administration on the premise of renovating and restoring the Grade II Listed building for hotel use. In order to enable the costly renovation works, Lannister House has proposed a joint application to convert the rear 'garden annexe' into 16 residential apartments with a further three new build mews cottages within the rear overflow car park.

The site is within the administrative area of Waverley Borough Council, who inform us that the statutory plan covering planning policy and development control for the area is the Local Plan Part 1: Strategic Policies and Sites which has been adopted in February 2018 and the remaining policies within the Local Plan 2002. The Local Plan Part 2: Non-Strategic Policies and Sites is at an early stage of plan making. The Local Plan Part 1 outlines the strategic development policies of the Borough, Local Plan Part 2 covering specific development management and control policies. The Property is identified within the Waverley Local Plan as within the Haslemere Town Centre Conservation Area; the East Hants Special Protection Area 5 Km zone; the Wealden Heaths II Special Protection Area 5 Km zone and designated within Sites and Areas of High Archaeological Potential (Policy HE14).

WBC consulted on the Community Infrastructure Levy (CIL) Draft Charging Schedule from 15th December 2017 – 26th January 2018. CIL is expected to be adopted in June 2018. As the development is located in a Local Authority where a CIL Charging Schedule is likely to be implemented within 6 months of validation of this planning application, we have included the cost within our figures.

3.3 Proposed Development

A proposed scheme has been submitted to Waverley Borough Council and is the subject of this viability assessment. The full planning application is described as "*refurbishment of the hotel to provide a 12-bedroom boutique hotel, including food and beverage and a new access to the High Street; demolition of the linkway building; change of use and extension of the building to the rear from hotel bedroom and spa to provide 16 flats; and the erection of 3 no. 4 bedroom mews cottages; with ancillary parking and landscaping".*

The scheme will provide the refurbishment of the Grade II Listed building fronting the High Street into a high quality restaurant and bar on the ground floor and 12 hotel bedrooms on the first and upper floors. The boutique hotel will also comprise car parking and a restaurant garden to the rear. The 'linkway' building will be demolished. The 'garden annexe' which currently comprises 31 bedrooms will be converted into a flatted residential development of 16 units with car parking. A further three new build mews cottages, arranged over three floors will be developed within the overflow car park area to the rear of the site. The scheme is designed to provide a high specification finish for both the residential and hotel elements. The accommodation schedule is as follows:

<u>Proposed Hotel</u>

The proposed renovation to the existing Grade II Listed building provides a Gross Internal Area (GIA) of 10,932 sq ft (1,015 sqm).

Proposed Residential – Apartment

Property	Type	Accommodation			Grounds	Condition	NIA sq ft	NIA sqm
		Rec	Beds	B/WC				
Flat 1	Flat	1	2	2	Communal	New Conversion	1,055	98
Flat 2	Flat	1	2	2	Communal	New Conversion	1,055	98
Flat 3	Flat	1	2	2	Communal	New Conversion	990	92
Flat 4	Flat	1	1	1	Communal	New Conversion	635	59
Flat 5	Flat	1	2	2	Communal	New Conversion	947	88
Flat 6	Studio	0	1	1	Communal	New Conversion	527	49
Flat 7	Flat	1	2	2	Communal	New Conversion	1,001	93
Flat 8	Flat	1	2	2	Communal	New Conversion	1,055	98
Flat 9	Flat	1	2	2	Communal	New Conversion	990	92
Flat 10	Flat	1	2	2	Communal	New Conversion	915	85
Flat 11	Flat	1	2	2	Communal	New Conversion	1,292	120
Flat 12	Flat	1	3	3	Communal	New Conversion	1,313	122
Flat 13	Flat	1	2	2	Communal	New Conversion	1,055	98
Flat 14	Flat	1	2	2	Communal	New Conversion	990	92
Flat 15	Flat	1	2	2	Communal	New Conversion	915	85
Flat 16	Flat	1	3	3	Communal	New Conversion	1,808	168
Apartment Block NIA							**16,543**	**1,537**
Apartment GIA							**19,074**	**1,772**

Proposed Residential – Houses

Property	Type	Accommodation			Grounds	Condition	GIA sq ft	GIA sqm
		Rec	Beds	B/WC				
Cottage 1	EOT	2	4	4	Private	New	1,830	170
Cottage 2	MT	2	4	4	Private	New	1,808	168
Cottage 3	EOT	2	4	4	Private	New	1,830	170
Cottages – Total							**5468**	**508**

Proposed floorplans are attached at **Appendix 2.**

3.4 Affordable Housing

In accordance with Waverley Borough Council planning contribution policies the affordable housing requirement for schemes providing more than 10 residential units, a 30% provision is sought. This can be provided either through on-site provision or a tariff style payment. In the case of the proposed scheme, this equates to a total contribution of six affordable units.

Waverley Planning Policy team has informed Savills that the tenure and unit type mix should accord with the West Surrey Strategic Housing Market Assessment (SHMA) September 2015: Waverley Addendum December 2015. The document provides information on housing need by sub-category, therefore the following assumptions have been made following the Haslemere data.

The tenure mix requires a provision of 44% Shared Ownership and 56% Affordable Rent equating to a mix of 3 x shared ownership and 3 x affordable rent units. In accordance with Table 15: Estimated Need by Number of Bedrooms (2013 to 2033) – Affordable Sector within the SHMA the affordable units should comprise a mix of 3 x 1 bedroom units, 2 x 2 bedroom units and 1 x 3 bedroom unit. Therefore, the scheme would comprise the following affordable units:

Property	Bedrooms	Tenure
Flat 1	2	Affordable Rent
Flat 2	2	Affordable Rent
Flat 3	2	Affordable Rent
Flat 4	1	Shared Ownership
Flat 5	2	Shared Ownership
Flat 6	1	Shared Ownership

We have tested the scheme for economic viability on the following scenarios:

Scenario 1: 1 x Hotel Refurb, 19 x residential units (3 x Affordable Rent, 3 x Shared Ownership, 13 x Market Units)

Scenario 2: 1 x Hotel Refurb, 19 x residential units (100% Market)

4. Methodology

4.1. Financial Viability Assessments

In line with the National Planning Policy Framework (NPPF), site-specific financial viabilities are a material consideration in determining how much and what type of affordable housing should be required in residential and mixed-use developments.

As such viability appraisals can and should be used to analyse and justify planning applications to ensure that Section 106 and affordable housing requirements do not make a scheme unviable.

The RICS define financial appraisals for planning purposes as *'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 a developer in delivering a project.'*

We understand that the logic is that, if the residual value of a proposed scheme is reduced to significantly below an appropriate viability benchmark sum, it follows that it is commercially unviable to pursue such a scheme, and the scheme is unlikely to proceed.

If a scheme is being rendered unviable because of Section 106 requirements and the level of affordable housing, it may be appropriate to look at reducing the burden of those requirements in order to facilitate development.

4.2. Factors affecting viability

The following factors are particularly relevant to viability:

- The quantity of affordable housing;
- The tenure split within the affordable housing between social rented and intermediate;
- Grant funding on the affordable housing;
- Cascade clauses related to grant, affordable housing quantum and tenure split;
- 'Other' Section 106 costs (e.g. education);
- Optimum land uses within the development;
- Family sized units;
- Market conditions;
- Timing of delivery;
- Abnormal building costs; and
- Particular planning requirements.

4.3. Residual Land Valuation

The financial viability of a development proposal is determined using the residual land valuation method. A summary of this valuation process can be seen below:

Built Value of proposed private residential and other uses. + Built Value of affordable housing = GDV

GDV - Build Costs, finance costs, other Section 106 costs, sales fees, developers' profit etc = Residual Land Value

The Residual Land Value (RLV) is then compared to a viability benchmark sum. If the RLV is lower and/or not sufficiently higher than the benchmark the project is not technically viable.

4.4. Profit

The above residual land approach can be inverted so that it becomes a 'profit residual' based upon the insertion of a specific land cost (equivalent to the viability benchmark sum). By doing this, the focus is moved onto the level of profit driven by a scheme. This is, however, a purely presentational alternative.

5. Viability Benchmarks

5.1 Benchmark Options

Identifying an appropriate viability benchmark sum requires judgement bearing in mind that National planning guidance indicates that appropriate land for housing should be 'encouraged' to come forward for development. We are also aware that the Royal Institution of Chartered Surveyors (RICS) issued a guidance note on 'Financial Viability in Planning' 1st edition in August 2012.

Given the available guidance, recent appeal decisions, and our own professional experience, our views on what constitutes an appropriate viability benchmark are summarised below:

- Existing Use Value / Current Use Value (EUV / CUV) – This is the value of the existing lawful use of the asset at today's date. It refers to the Market Value (MV) of the asset on the special assumption that it reflects the current use of the property only and disregarding any prospect of development other than for continuation/expansion of the current use. To be willing, a landowner/developer is only likely to sell the asset under these assumptions if the sum offered is significantly above its current value thus offering an attractive return. We take the view that a reasonable landowner premium of 15% - 30% over and above EUV would usually need to be considered in this case for this to occur.
- Alternative Use Value (AUV) – This refers to the value of the asset where an alternative use can readily be identified as generating a higher value for the site. For example, for an alternative planning use for the existing buildings for which permission might reasonably be expected to be obtained (e.g. through their change of use). This is thus different from the value that would arise if the site were to be cleared and redeveloped for residential purposes;
- Purchase Price Paid - There is some debate about the extent to which an historic purchase price paid (and rolled up debt associated with the site) should influence the choice of viability benchmark sum. The GLA guidance for example has reduced its emphasis on the relevance of purchase price paid in their latest Toolkit guidance notes. However, previous versions indicated the purchase price to be a valid consideration in setting a benchmark sum. In our opinion, it remains sensible to take a recent purchase price into account as it is a logical part of a landowner/developers decision making process. However, historic purchase price can be an unreliable benchmark, due to the nature of the fluctuating land development market.
- Market Value – as below.

5.1. Market Value

The guidance from the RICS contained within their 'Financial Viability in Planning' 1st edition, states that when considering the value of the development site for planning purposes the 'Site value should equate to the Market Value subject to the following assumption; that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan.'

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The Market Value (MV) is defined by the RICS via IVS 104 paragraph 30.1 of the Red Book as:

> *"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."*

National planning policy states that:

> *'...to ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable' Para173, National Planning Policy Framework.*

As such we understand that, in having regard to the development plan, the Market Value of a site should reflect a financially viable scheme.

6. Choice of Toolkit Benchmark

6.1. Purchase Price: Hotel

We understand that the Property was exposed to the open market by Christie & Co, a credible leisure Property agent, with a guide price of £2,499,500. Following conversations with the selling agent we understand that there were more than 10 bids for the Property with the successful bid being £2,650,000.

As the Property was openly marketed and sold very recently, we are of the opinion that the purchase price of £2.650, 000 is a true reflection of the Existing Use Value. This reflects a price per room of £61,628 and equates to a multiplier of 2.47 times FMT which is as we would expect for this type of business.

We include below some comparable transactions of note.

Name	Town/City	Price	Price Per Room	No. Rooms	Sale Date
Denham Grove Hotel	Uxbridge	£10,650,000	£106,500	100	Aug-17
Town House Hotel	Maidstone	£1,190,000	£70,000	17	May-17
New Place Hotel	Southampton	£9,500,000	£86,364	110	Mar-17
Hunton Park	Watford	£11,000,000	£180,328	61	Mar-17
Hartsfield Manor	Betchworth	£4,100,000	£82,000	50	Dec-16
St Michaels Manor	St Albans	£7,950,000	£265,000	30	Jul-16
Felbridge Hotel & Spa	East Grinstead	£12,000,000	£100,000	120	Jul-16
Stoke Place	Slough	£3,850,000	£98,718	39	Jan-16
Hawkwell House Hotel	Oxford	£8,400,000	£109,091	77	Nov-15
Dragon Hotel	Swansea	£3,750,000	£35,377	106	Sep-15

5.2 Benchmark Value

In light of the above we are of the opinion that the benchmark sum for the hotel as an existing use value is £2,650,000.

We do however reserve the right to reconsider this should further evidence become available.

7. Economic Modelling

7.1. Economic Model Used

The financial analysis has been undertaken using Argus Developer (Version 6).

7.2. Economic Modelling Assumptions

In preparing the model we have generally used the default assumptions of the Appraisal, with the exception of the following items.

Input	Assumption Used
Proposed Areas	• Gross Internal Areas provided by A4 Design; • Proposed 16 x residential apartments equates to NIA 16,543 sq ft (GIA 19,074 sq ft); • Proposed 3 x residential cottages equates to GIA 5,468 sq ft; • Proposed hotel equates to 9,031 sq ft (NIA) (GIA 13,326 sq ft).
Private Unit Market Values	• We have assessed comparable evidence of similar private market units in the local area and had discussions with local agents in order to formulate a view on value. Our schedule of comparable evidence and pricing is found at **Appendix 3**. • GDV for the 30% affordable scheme and 100% market unit scheme is outlined in Section 8 of this report.
Hotel	• We have assessed the Gross Development Value of the proposed hotel, the methodology is found in Section 8 of this report. • The GDV of the proposed hotel is £2,083,319
Timing Distribution	• We have assumed a 1 month purchase period • We have assumed a 12 month construction period • We have assumed a 6 month sales period for the sale of the private units and hotel, with 3 months assumed as being off-plan sales; • We have assumed a 4 month sales period for the affordable scheme, with 2 months assumed as off-plan sales;

Input	Assumption Used
Build Costs	• We have been provided with a cost plan produced by Stace LLP for the renovation works of the hotel. The cost estimate includes main contractor's preliminaries, overheads and profit but excludes professional fees, VAT, inflation estimates and contingency. We consider this to be reasonable for a scheme of this nature. We have therefore adopted a base build cost of £1,703,000 which equates to £128 psf in our appraisal. • Stace LLP have estimated that the conversion of the residential flatted accommodation is £3,730,000 equating to £196 psf. This includes a base build cost of £163 psf as well as main contractor's preliminaries, overheads and profits. This figure excludes professional fees, VAT, inflation estimates and contingency. • Stace LLP have estimated that the cost of building 3 x new build mews cottages is £1,001,000 equating to £183 psf. This includes a base build cost of £153 psf as well as main contractor's preliminaries, overheads and profits. This figure excludes professional fees, VAT, inflation estimates and contingency. • Stace LLP costs are located at **Appendix 4** of this report.
Professional Fees	• Professional fees have been entered at 8%.
Contingency	• Construction contingency is calculated as 5% on build.
VAT	• VAT is payable on all conversion constructions costs at 5%
Other Fees	• We have assumed agent fees at 1.75% revenue and legal fees at 0.35% on acquisition and disposal.
Marketing	• Marketing costs have been assumed at 1% of GDV in regard to private residential units as per advice from our Savills Residential Development Sales team and Savills Licence and Leisure team
Fixed Land Cost	• We have included a fixed land cost of £2,650,000 as per the Existing Use Value.
Financing Costs	• We have applied interest against the residual value at 7% over the course of the development, allowing for a construction and sales period.

Input	Assumption Used
CIL contribution	• CIL is expected to be adopted in June 2018 and therefore forms part of our proposal. CIL is chargeable on the net additional floorspace of all new development. As the hotel has been occupied for 6 months in the last 36 months in lawful use, therefore 508 sq.m. equates as chargeable floorspace. • Waverley Draft Charging Schedule November 2017 indicates that the CIL rate for residential dwellings for schemes of more than 10 units in Zone A should be £395 per sq, m equating to £200,660. This calculation has not been index linked. • *This assessment does not comprise a formal Community Infrastructure Levy (CIL) calculation, rather an estimate. Accordingly this advice is given with no liability to you, or any third party for CIL calculation estimates and we recommend any costs are confirmed by legal advisers.*
S106 Agreement	• The Council state on their website, that the S106 tariff system set out in the SPD is no longer valid, however there is no other information supplied by the Council in regard to estimates of S106 costs; • The Property is within a 5km radius of Wealden Heath SPA and therefore a contribution towards Suitable Alternative Natural Greenspace (SANGs) may been required. The Council request this on a site-by-site basis. Therefore we are unable to include a cost at this time. However, we note a contribution will have a significant impact upon viability.

8. Proposed Development Value

8.1. Proposed Hotel: 12 bedrooms and ancillary facilities

We understand the front section is to include pub and restaurant space at ground floor level with 12 letting bedrooms and two staff rooms on the upper floors. Externally we understand this element will include a trade garden and 12 car parking spaces to the rear. You have asked that we provide our opinions of Market Value of this element separate from the rest of the Property and on the assumption of the refurbishment works being completed.

We have put together a shadow profit and loss account for the reduced size option through our extensive knowledge of the hospitality industry, as well as information gained from dealings with comparable properties within the locality. Through this we have been able to estimate the trade which would be achievable by a REO.

The business in its location would draw custom from locals as well as people visiting the area for leisure and tourism purposes.

We have calculated the income based on an occupancy rate of 75% and an average room rate of £75 (exclusive of VAT and breakfast). This equates to a room revenue for the 12 letting bedrooms of £246,375 per annum. We have assumed a wet and dry turnover of £750,000 per annum. This results in a total annual turnover of £996,375 per annum which in our opinion is reflective of the trade that a REO could achieve after the Property has been fully refurbished.

We would expect a gross profit of approximately £734,419 per annum (73.71% of FMT) based on the sales mix above.

We have allowed a total wage bill of approximately £310,000 which equates to 31.11% of turnover again in line with the industry standard. We have adopted industry average figures for fuel costs, repairs, insurance and other items of which we are familiar through our involvement with other businesses. We would expect the total costs inclusive of wages to amount to around £526,100 per annum leaving a FMOP of £208,319 per annum.

A summary of our trade assessment is shown in the table below:

Description	
Turnover (FMT) (£)	996,375
Gross Profit (£)	734,419
Gross Margin (%)	73.71
Wages (£)	310,000

Wages/FMT (%)	31.11
Other Costs (£)	216,100
Other Costs/FMT (%)	21.69
Total Costs (£)	526,100
Total Costs/FMT (%)	52.80
Operating Profit (FMOP) (£)	208,319
FMOP/FMT (%)	20.91

Once refurbished and trading at these levels we believe that the reduced size Property would achieve a multiplier of 10 times FMOP equating to a **capital value of £2,083,319**. This would reflect a multiplier of 2.09 times FMT. When considering the renovation costs of £1,701,000 provided within Stace LLP cost summary, the value of the retained pub relate to comparable transactions of tradable properties in similar condition.

We include below some comparable transactions of note.

Name	Town/City	Postcode	Price	Sale Date
Bel & Dragon	Godalming	GU7 3DU	£1,000,000	Jan-18
Manor	Christchurch	BH23 7JG	£1,525,000	Oct-17
King's Arms	Epsom	KT17 1EY	£1,325,000	Apr-17
White Star	Southampton	SO14 3DJ	£3,500,000	Mar-17
Merry Harriers	Godalming	GU8 4DR	£975,000	Dec-16
Cambridge Hotel	Camberley	GU15 3LF	£1,035,000	Jun-16
Inn on the Hill	Haslemere	GU27 2PD	£990,000	Dec-15
Swann Inn	Chiddingfold	GU8 4TY	£1,705,000	Sept-15

8.2. Proposed Residential at Market Value (16 x units)

We have considered comparable evidence in the vicinity of the site and spoken with local agents to inform our opinion of achievable capital values for the proposed residential units on the basis they were delivered for market sale. We note that there is a lack of new build flatted units and good quality secondary stock in the local area, in particular a lack of evidence of properties in a high street location.

Property	Price £	GIA sq ft	Rate per sq ft
Flat 1	£490,000	1,055	£464
Flat 2	£490,000	1,055	£464
Flat 3	£470,000	990	£475
Flat 4	£310,000	635	£488
Flat 5	£460,000	947	£486
Flat 6	£270,000	527	£512
Flat 7	£475,000	1,001	£475
Flat 8	£490,000	1,055	£464
Flat 9	£470,000	990	£475
Flat 10	£455,000	915	£497
Flat 11	£525,000	1,292	£406
Flat 12	£550,000	1,313	£419
Flat 13	£490,000	1,055	£464
Flat 14	£470,000	990	£475
Flat 15	£450,000	915	£492
Flat 16	£740,000	1,808	£409
Cottage 1	£890,000	1,830	£486
Cottage 2	£870,000	1,808	£481
Cottage 3	£890,000	1,830	£486
Flats	**7,605,000**	**16,543**	**£460**
Cottages	**2,650,000**	**5,468**	**£485**
Total	**10,255,000**	**22,011**	**£466**

A summary schedule covering our comparable research is included at **Appendix 3.**

8.3. Affordable Residential Scenarios

For an explanation regarding the affordable housing methodology please see Section 3.4 of this report. The affordable values below are based on a reduced specification build and Net Saleable Areas of the flatted units.

According to Savills specialist affordable housing team, there is a lack of comparable evidence for Affordable Rent tenured units in the local area. Therefore the housing team have based their values on discounted Market Rental values and their expert knowledge of the Affordable Housing market in Surrey.

Our team have discounted the Affordable Rented units at 80% of Market Rent with an additional deduction of service charge capped at Local Housing Authority rates. This produces a package price at 34.68% of the Affordable Market Value.

Shared Ownership units have been calculated at 40% initial equity shared on one bedroom units and 30% on two bedroom units, both on a 2.75% rent. This produces a price package of 72% of Open Market Value. Our team have supported the affordable values from discussions with regional Registered Providers and their understanding of the wider affordable market.

Type	Number	Total GIA sqm (sq. ft.)	Total Capital Value	Average £/sq. ft.
Affordable Rent	3	288 (3,100)	£518,000	£167
Shared Ownership	3	(2,109)	£770,400	£365
Total	**6**	**484 (5,209)**	**£1,288,400**	**£247**

8.3 Ground Rents

We have also reflected the long leasehold value of the private residential units and assumed the following ground rents and capitalisation rate. We have assumed that:

1 Bed: £250 pa

2 Bed: £300 pa

3 Bed: £350 pa

4 Bed: £400 pa

This equates to a total of £4,850 per annum for a 100% private scheme and £3,150 for a 30% affordable scheme. To this we have applied a yield of 4% which equates to an investment value of £121,500 for the private scheme and £78,750 for the affordable scheme, gross of purchaser's costs.

We note that the government published a press release on 21 December 2017 entitled "Crackdown on unfair leasehold practices" following a consultation paper issued in the summer last year. They have now announced new measures to cut out unfair and abusive practices within the leasehold system, including changes to ground rents on new long leases – for both houses and flats – are proposed to be set to zero.

It is not at all clear when this will become law. This announcement creates great uncertainty in the investment market for new ground rents in the development pipeline. We understand that some lenders are disregarding the future ground rent sale from appraisals.

9. Toolkit Analysis

We have assessed the proposed scheme in order to determine the level of profit return for each tenure scenario. An acceptable profit return of 17.5 – 20% profit on cost for a developer is considered a reasonable level where S106 Costs can be sought.

A summary of the results for this can be seen below and a full appraisal is attached at **Appendix 5.**

9.1 Scenario 1: 30% Affordable Provision

GDV	**£11,183,369**
Construction Costs	**£6,523,950**
CIL Payment	**£200,660**
Land Cost	**£2,650,000**
Finance	**£383,995**
Profit return	**-£187,117** **(-1.65% on cost)**

9.2 Scenario 2: 100% Market Housing

GDV	**£12,459,819**
Construction Costs	**£6,524,000**
CIL Payment	**£200,660**
Land Cost	**£2,650,000**
Finance	**£384,123**
Profit return	**£1,014,137** **(8.86% on cost)**

10. Conclusions

In summary, Scenario 1 (30% affordable housing) provides -1.65% profit on cost, which is an unacceptable range of profit return to a developer in the market place and therefore are considered unviable. We have assessed a Scenario for 100% private market housing and nil S106 contributions. This provides 8.86 % profit on cost, this is below the acceptable profit return to a developer in order for a Council to seek S106 costs. The private scheme has been assessed as providing nil affordable housing commuted sums, however the scheme makes a £200,660 contribution in Community Infrastructure Levy payments. Any further costs relating to the proposed private scheme would lower the profit return to an unviable level.

In our opinion and based on the economic viability assessment carried out in accordance with the defined guidelines of the Homes and Communities Agency and guidance from the RICS, it is evident that the scheme cannot afford to provide any affordable housing contribution.