VIABILITY ASSESSMENT UPDATE: REVIEW

FORMER SHREDDED WHEAT FACTORY, BROADWATER ROAD, WELWYN GARDEN CITY, HERTFORDSHIRE, AL7 3AZ

MARCH 2017

FOR: WELWYN HATFIELD BOROUGH COUNCIL

Accelerating success.

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1 INTRODUCTION

1.1 INSTRUCTION

Colliers International have been instructed to provide a review of the updated viability report provided by Savills in relation to the redevelopment of the Former Shredded Wheat Factory, Broadwater Road, Welwyn Garden City. This is to review the inputs and analysis provided by Savills and to ensure that applicant has included the maximum provision of affordable housing that the scheme can support, up to the policy target.

1.2 BACKGROUND

An application to develop the Former Shredded Wheat Factory on Broadwater Road was submitted in Q1 2015 and was accompanied by a viability report prepared by Savills. This report stated that the scheme was not viable with nil provision of affordable housing, as it generated a profit on cost of 8% which did not meet their benchmark profit of 25% profit on cost.

Colliers International were instructed by Welwyn Hatfield Borough Council to undertake a review of the report submitted by Savills in July 2015. While there were differences in opinion between Colliers and Savills regarding a number of inputs; ultimately, Colliers agreed that the scheme was not viable even with nil provision of affordable housing. The scheme generated a profit of 9.51% profit on cost compared to our profit benchmark of 20% profit on cost.

From our analysis, we established that the viability was affected by the provision of basement and under-croft car parking, which increased the total construction cost of the scheme. Another cost that was deemed important was the cost of converting the historic silo buildings into a hotel.

Our recommendation was that, while the scheme could not support provision of affordable housing in its current form, it was possible that it could if the scheme was redesigned and cost was removed from the project.

We understand that the applicant has revised the scheme and Savills have provided an update to their last report to review the viability of the updated scheme. Colliers have been instructed to provide a review of this report.

1.3 LIMITATIONS

All information, analysis recommendations made for clients by Colliers International are made in good faith and represent Colliers International's professional judgement on the basis of information obtained from the client and elsewhere during the course of the assignment. However, since the achievement of recommendations, forecasts and valuations depends on factors outside Colliers International's control, no statement made by Colliers International may be deemed in any circumstances to be a representation, undertaking or warranty, and Colliers International cannot accept any liability should such statements prove to be inaccurate or based on incorrect premises. In particular, and without limiting the generality of the foregoing, any projections, financial and otherwise in this report are intended only to illustrate particular points of argument and do not constitute forecasts of actual performance.

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This report is not a valuation as defined by the RICS. It offers advice and opinion on the viability of the proposed development through market research and development experience. Comments made as to the value of property, the viability of development or the suitability of the proposed schemes are based on the assumptions set out in this report. We have not received any information about the suitability of ground conditions or other environmental factors. We reserve the right to amend our report in light of new information or whenever we deem necessary.

This report has been issued on a private and confidential basis to Welwyn Hatfield Borough Council. We understand and consent to the report being made available to the Applicant's advisors. However, our professional duty of care does not extend to the Applicant, their advisors and or any third parties.

This report must not be referred to or recited from in any document. It must not be copied or made available (in whole or in part) to any other person without express written consent.

2 SCHEME

2.1 BACKGROUND

The applicant submitted a planning application to redevelop the Former Shredded Wheat Factory on Broadwater Road in Q1 2015. Plans were submitted in February 2015 for this application. This scheme was reviewed in the viability assessments undertaken by Colliers International and by Savills in 2015. This scheme is referred to as the '*Original Scheme*' throughout this report.

This report, and the report submitted by Savills, reviews the viability of an updated scheme. The plans for this were submitted to Welwyn Hatfield Borough Council as 'Amended Plans' in March 2016. This scheme is referred to as the '*Amended Scheme*' throughout this report.

2.2 OVERVIEW

The gross area (GIA) of the Amended Scheme is 134,722 sq. m. (1,450,137 sq. ft.). This includes residential and commercial accommodation for sale; it also includes car park and plant/circulation areas.

The scheme is a residential-led, mixed-use scheme. It includes 819 residential units (68,119 sq. m.; 733,226 sq. ft. NSA). The commercial element is 14,359 sq. m. (154,559 sq. ft.), circa 10.66% of the gross area of the scheme, and includes office, retail (A1-4), gym (D2), community (D1), hotel (C1), healthcare and crèche.

	NIA (sq. ft.)	GIA (sq. ft.)	Units
Residential	733,226	929,400	819
Retail (A1)	6,157	6,157	
Café (A3/4)	20,752	20,752	
Gym (D2)	7,567	7,567	
Community (D1)	8,030	8,030	
Hotel	27,491	27,491	
Healthcare	8,999	8,999	
Office	55,703	68,566	
Crèche	6,781	6,997	154,559
Car Park		320,118	1,006
Plant/Cycle/Refuse/Storage		46,060	
TOTAL	**874,706**	**1,450,137**	

2.3 CHANGES

2.3.1 OVERALL

The total area (GIA) of the scheme has been reduced by 119,504 sq. ft.; circa 7.6%.

The largest change is to the car parking where the number of spaces has reduced from 1376 space to 1,006; which equates to a reduction of 10,291 sq. m. (107,666 sq. ft.). in the built area.

The other changes appear to less substantial. The residential accommodation has been reduced by 8 units. This equates to a loss of circa 1,594 sq. m. (17,158 sq. ft.) NSA and 894 sq. m. (9,623 sq. ft.) GIA – so the residential element of the scheme has become less efficient (net to gross = Original: 79.91%; Amended: 78.89%).

There were minor alterations to the commercial elements of the scheme also. See below for comparison of the gross (GIA) area (sq. ft.) between the Original and Amended scheme.

	Original	Amended	Difference
Residential	939,023	929,400	-9,623
Retail (A1)	6,157	6,157	0
Café (A/43)	20,753	20,752	-1
Gym (D2)	7,567	7,567	0
Community (D1)	8,148	8,030	-118
Hotel	24,491	27,491	3,000
Healthcare	8,977	8,999	22
Office	68,556	68,566	10
Crèche	6,997	6,997	0
Car Park	427,467	320,118	-107,349
Plant/Cycle/Refuse/Storage	45,635	46,060	425
TOTAL	**1,563,771**	**1,450,137**	**-113,634**

The negative numbers in the 'Difference' column represent reduction or loss of area (GIA) for the different elements of the scheme

2.3.2 BLOCK BY BLOCK

The scheme has been updated, resulting in minor changes to the amount of accommodation.

The most significant change is to Blocks 8, 9, 11 and 12, where the large basement car park has been removed. This should reduce the cost of the scheme.

Block 2:

- 2x 2-bed flats have become 2x 1 bed units
- Small reduction of GIA and small increase of NSA for the residential
- Decrease of A3/A4 floorspace
- Community use floor area has been reduced (8,148 sq. ft. to 8,030 sq. ft.)
- 2 car parking spaces have been lost (however, built area remains the same)

Block 3:

- Small increase to the GIA and decrease to the NSA of the residential
- Small increase in area for the healthcare facility (8,977 sq. ft. to 8,999 sq. ft.)

Block 6:

- Loss of 8 residential units due to the building decreasing in size (10,096 sq. ft. GIA)
- Increase in plant and storage area (this may explain the loss of gross area if it has been 'reallocated' as plant/storage

Block 8:

- Increase in A3-A4 floor space

Block 8 and 9:

- Removal of basement car park (loss of 144 [64 and 80] spaces)

Blocks 11 and 12:

- Removal of basement car park (loss of 224 [106 and 118] spaces)

3 VALUES

3.1 RESIDENTIAL

3.1.1 SAVILLS VALUES

Savills have used values provided by Collison Hall – local, Welywn Garden City based estate agents. They provided the residential report that was appended to the Savills viability report, submitted in Q1 2015 (2 years ago).

Collison Hall conclude that 'prices have clearly increased since the last appraisal'. They explain that the 'nearest comparables in the Taylor Wimpey site have seen an increase of 30% in the £ per sq. ft. rate achieved for the apartments'; i.e. values for 1 bedroom flats have grown from £175,000 (£381 per sq. ft.) in January 2015 to £249,000 (£498 per sq. ft.) in August 2016. This growth has been partly explained by these properties 'underachieving' and that the growth is in part due to the 'prospect' of the Shredded Wheat Factory being developed.

After reviewing the comparables, Collison Hall suggest that comparable properties are achieving between £450 and £500 per sq. ft. However, the subject scheme is likely to outperform this. Therefore, they have picked a 'base rate' of £510 per sq. ft. This represents growth of 4.5% from the price used in the assessment of the Original Scheme (blended at £488 per sq. ft.), or 3% growth from the (estimated) base value of £495 per sq. ft.

Collison Hall have applied a discount to the base value. This is similar to the approach taken for the assessment of the Original scheme; however, Block 11 looks to be more discounted in the assessment of the Amended scheme. Below is a comparison of the values used in the assessments of the schemes.

Block	Original	Amended	Difference
Base	495	510	3.03%
1	495	510	3.03%
2	495	510	3.03%
3	495	510	3.03%
5	594	612	3.03%
6	487	501	2.90%
7	480	495	3.12%
8	482	497	3.13%
9	485	500	2.99%
10	486	501	3.13%
11	490	489	-0.23%
12	491	505	2.94%
Total	**488**	**502**	**2.87%**

3.1.2 COLLIERS VALUES

Market Movement:

We largely agree with Collison Hall that the residential market has improved since our last report.

Data from Land Registry demonstrates that the average house price in Welwyn Hatfield (borough) increased from £331,028 in August 2015 (date of submission of our last report) to £376,447 in December 2016 (latest data). This equates to growth of 13.72% since our last report.

The average value of a property (according to Land Registry) when Collison Hall submitted their last report (Jan 2015) was £307,231 and when Savills submitted their report (Feb 2015 – albeit using Collison Hall figures) was £308,205. This equates to growth of 22.53% and 22.14% respectively since the submission of these reports.

This would suggest that Collison Hall are correct that values have increased. However, this also demonstrates that the growth of 3% in values is not consistent with the growth of the wider market.

We appreciate that site specific factors are often more important and that general market performance is not always an accurate indicator of value growth for a specific site. Nevertheless, this demonstrates the context of the market.

If 13.72% growth is applied to the value used in Colliers assessment of the Original scheme of £490 per sq. ft. equates to a value of circa £557 per sq. ft.

If 22.53% growth is applied to the value of £488 used in the Collison Hall report, this generates a value of circa £598 per sq. ft.

Key Comparable:

We also agree with Collison Hall and Savills that the market on the east side of the railway, particularly the Taylor Wimpey site, has been 'underperforming', as the vacant and derelict Shredded Wheat Factory is an eyesore and does detract from the area.

Units on the Taylor Wimpey scheme have recently achieved £498 per sq. ft. We believe that this is the key comparable for the residential values on the scheme. However, we believe that units on the scheme will achieve greater premium than £5 per sq. ft. (1%) above these values.

- This value was achieved before any work has been started on the Shredded Wheat Factory, which remains a blight. Were the subject regeneration scheme to be complete, we believe the values achieved would be higher.
- The Taylor Wimpey scheme is a smaller housing scheme. The Shredded Wheat Factory scheme is large mixed-use regeneration project. This

scheme has the critical mass to improve the area and benefit from 'place-making' and the value uplift that is associated with this.

Comparable Towns:

We have undertaken projects in Hertfordshire and other 'home counties' towns and believe that this offers appropriate comparable evidence for values that are achievable.

St Albans is located approximately 14km south west from the site in Welwyn Garden City. St Albans is an attractive and sought after town. We expect to see a discount from values achieved here. We understand that new build flats in St Albans (such as Ziggurat House) are being marketed at between £650 and £750 per sq. ft. dependent on quantum, location and quality.

Hertford is located approximately 10km east of the site. Hertford is an attractive town, similar to Welwyn Garden City. We understand that new build flats here achieve circa £550 per sq. ft. Units in Media House are currently marketed at £500 per sq. ft. for 2 bed units of over 1,000 sq. ft. These have been discounted for quantum.

Borehamwood is located approximately 20km south of the site. Borehamwood is reasonably attractive but is located closer to London. We understand that new build flats here typically achieved circa £550 per sq. ft. Units in Studio Way are being marketed at close to this price (£534 per sq. ft. for a 2 bed flat).

Kings Langley is located approximately 25km south west of the site. Pinnacle House is being marketed at circa £550 to £600 per sq. ft.

Hamel Hempstead is located approximately 25 km west of the site. Wheatleaf Road is being marketed at between £570 and £620 per sq. ft.

Potters Bar is located approximately 12km south of the site. Albany Gate is being marketed at between £550 and £600 per sq. ft.

Accessibility

Submitted with Savills assessment of the Original Scheme was a Nationwide report (dated August 2014) outlining the value premiums associated with proximity to train and tube stations. The report suggested that am average value premium of 10.5% is achieved for residential properties of within 250m of a station and 7.6% if within 500m of a station. This scheme is adjacent to Welwyn Garden City train station with many properties within 250m of the train station and all within 500m. Therefore, we would expect a premium for these units.

Conclusion

Overall, we believe an average value of circa **£550 per sq. ft.** is likely to be achieved here. We have arrived at this by looking at macro-market data, nearby comparable evidence and comparable sales from equivalent towns. We also believe that the scheme will achieve higher values than achieved in the town. This is due to:

- **Location** – adjacent to a train station
- **Place-making** – benefit from regeneration and amenities and critical mass
- **Blighting** - the scheme will remove the blight of the disused factory which reduces the values of the surrounding comparable properties currently.

Welwyn Garden City is an attractive and sought after location with a fast train service to London. We expect values achieved here to be equivalent to new build schemes in similar attractive commuter towns like Hertford, Borehamwood and Potters Bar. We would expect the scheme to achieve a discount from properties in St Albans, which is a more attractive.

3.1.3 GROUND RENTS

Savills used grounds rents of £150 per unit in their assessment of the Original Scheme. We believed that this was lower than expected in the market and used ground rents of £300 per unit in our assessment of the Original Scheme.

Savills are using £150 per unit in their assessment of the Amended Scheme. Again, this is lower than we would expect for the market. Again we have used ground rents of £300 per unit in our assessment of the Amended Scheme.

Savills have used 5.5% yield to capitalise the ground rents. This appears to be too high. We would typically expect this to be below 5%. Research from Savills in 2015 prices 'Approximate Market Yield' at 5%. We believe that the market for ground rent investments has improved since 2014. However, we have used 5% in our assessment.

3.1.4 AFFORDABLE HOUSING

No affordable housing was included in the Original Scheme. We understand that the applicant has offered 35 affordable housing units have been included in the scheme in Block 6B. We understand that these are to be offered as Shared Ownership units. This equates to 4.27% of the scheme as a proportion of the number of units in the scheme.

In our analysis we have included affordable housing. For this we have used a value of £358 per sq. ft. for the Shared Ownership accommodation. This equates to circa 65% of the value of private residential accommodation. This value is based on retention of 40% and a 2.5% rent on the remaining value. This remaining rent has then been capitalised at 6%, added to the 40% retention and then divided by the average unit size, to reach our opinion of value.

This has been capitalised in the cash-flow as quarterly payments throughout the construction period for Block 6. This is to reflect that RSLs typically pay a first payment on 'Golden Brick' and then pay throughout the construction period with the remaining balance on practical completion. This is to ensure the purchase is tax efficient.

3.2 COMMERCIAL

3.2.1 RENTS

We have assessed the changes to the commercial rents over the last 3 reports. See below for table demonstrating the values used previously:

Use	Savills		Colliers	
	Jan-15	Feb-17	Aug-15	Mar-17
Retail (A1)	£25.00psf	£17.50 to £35.00psf	A1: 12.50psf A3: 25.00psf	£19.95psf
Retail (A3/4)	£25.00psf	£23.31psf	£25.00psf	£23.31psf
Gym	£12.50psf	£10.00 and £15.00psf	£12.50psf	£12.50psf
Office	£12.50psf	£12.50psf	£12.50psf	£17.50psf
Hotel	£3,500 per room	£4,500 per room	£3,500 per room	£4,500 per room
Crèche	14.86psf	£17.50psf	£18.81psf	£18.81psf
Medical	£15.81psf	£16.67psf	£15.81psf	£16.67psf
Community	£5.00psf	£5.00psf	£5.00psf	£5.00psf

We broadly agree with Savills on the rental values for the retail, hotel, medical and community uses.

The rent for the gym looks a little low compared to what we would typically expect in the market. We suggest a rent of £12.50 to £15.00 per sq. ft. is more appropriate. We have used £12.50 per sq. ft., as previously agreed in the last report.

We don't believe that the crèche would have decreased in value since our last assessment so we have used the same rent as before based on a profits method calculations: 18.81psf.

The office market has improved since the last report. We understand that rents have increased in Welwyn Garden City and the key comparables from our last assessment (Alchemy and Falcon Gate) have since been let at between £17.00 and £18.00 per sq. ft. The offices in the subject scheme are in a new, custom-built (single-use) block, adjacent to the train station. This is likely to achieve greater rents than have been achieved elsewhere in the town. However, we have used £17.50 per sq. ft., which we believe to be perhaps conservative, as this is has been achieved elsewhere in the town. This is still lower than other major regional towns in the area; where typically we would expect rents of £20.00 to £25.00 per sq. ft.

We have used the same rent free periods as suggested by Savills. However, we have included these as a 'top up' payment in our cashflows.

3.2.2 YIELD

We have assessed the changes to the commercial yield assumptions over the last 3 reports.

We broadly agree with Savills on the rental values for the retail, hotel, medical and community uses.

The yield for the gym at 10%, which looks higher than we would expect. We see no reason this should be increased from the 7% agreed in the last report.

Also, the yield for the unit including the independent retailer appears high also (although this depends on covenant which is currently unknown). Typically, we would expect a yield of circa 8% to be applied to these units. However, this makes only a small difference to the overall GDV of the scheme.

As with the rents, we believe that the office market has improved and that there is greater demand from investors for regional office assets. We believe that this is likely to achieve circa 6.5% yield.

See below for table demonstrating the values used previously:

Use	Savills		Colliers	
	Jan-15	Feb-17	Aug-15	Mar-17
Retail (A1)	5.50%	5.50% (1 unit @ 10%)	5.75%	5.67%
Retail (A3/4)	5.50%	5.50%	5.75%	5.50%
Gym	7.00%	10.00%	7.00%	8.00%
Office	7.00%	7.00%	7.00%	6.50%
Hotel	5.75%	5.25%	5.75%	5.25%
Crèche	6.50%	6.50%	6.50%	6.50%
Medical	5.35%	5.00%	5.35%	5.00%
Community	8.00%	8.00%	8.00%	8.00%

4 COSTS

4.1 CONSTRUCTION COSTS

4.1.1 LIMITATIONS

We have compared the cost plan prepared by Stace for the Amended Scheme against the cost plan submitted by Stace and also by Faithful and Gould for the Original Scheme.

This is a high level review of the report submitted by Savills and has been completed by commercial surveyors. Whilst Colliers International does have a quantity surveying team, a detailed review of costs was not part of our scope of works. Therefore, we recommend that this is reviewed by a suitably qualified professional.

4.1.2 PREVIOUSLY

The cost plan submitted by Stace in February 2015 stated a construction cost of £272,055,000 (including contingency); this equates to £173.32 per sq. ft.

The cost plan submitted by Faithful and Gould in July 2015 suggested that Stace's cost plan was too low in their opinion and should be £283,690,000 (including contingency); this equates to £180.73 per sq. ft.

4.1.3 CHANGE

The construction costs for the scheme have been estimated at £279,437,880 by Stace (assumed as of February 2017).

Compared to their original estimate in February 2015, the costs have increased overall by £7,382,880; i.e. from £272,055,000. This equates to proportional growth of 2.71%.

However, this is for a scheme which is 11% smaller. The overall cost per sq. ft. has increased from £173.32 to £192.70; equating to an increase of 11.18%.

A major change to the scheme is that the basement car parking has been removed. Whilst this is a high cost item (due to the high volume needed and the limited value attributed to it) it is lower cost than residential or commercial accommodation on a per sq. ft. basis, due to the expensive services and fit out required. Stace have provided a cost excluding the car park and podium of £239 per sq. ft. in February 2015 and a cost of £247 per sq. ft. in February 2017. This equates to an increase of 3.35%.

BCIS General Build Cost Index demonstrates that since February 2015 construction costs have increased by 4.81% (Index of 318.3 to 333.7). The overall cost increase is lower than this because the reduction in the size of the scheme. The cost increase on a per sq. ft. basis is higher than this as the scheme includes a greater proportion of high cost residential and commercial accommodation.

4.1.4 CONCLUSION

We are not qualified quantity surveyors. However, we have provided a review of the cost based on BCIS Indices. Overall, we believe that the construction cost increase looks broadly fair and we have adopted these costs in our appraisal.

However, the costs of £247 per sq. ft. appears to be a high cost from broad experience of development projects. Perhaps this is something that should be reviewed in more detail.

4.2 OTHER DEVELOPMENT COSTS

4.2.1 PLANNING OBLIGATIONS

We understand from our involvement in this scheme that a greater Section 106 contribution was to be sought. An increase from £1,813,992 to £4,142,335 appears to be appropriate. However, this is to be confirmed by WHBC and Hertfordshire County Council.

4.2.2 FURTHER COSTS

Other costs are as per agreed in the previous report (for the Original Scheme).

We note that the circa £10,000,000 of finance costs have been saved in Savills recent report.

5 BENCHMARKS

5.1 PROFIT BENCHMARK

We understand that the applicant would like to use a profit benchmark of 25% profit on cost (20% profit on GDV). This was the benchmark they used in February 2015. We suggested that 20% profit on cost is a fair and used that for our assessment in August 2015.

There is no ‘evidence’ to demonstrate that one approach is more appropriate than the other. Therefore, we suggest a staggered / blended profit benchmark is adopted. This would be as follows:

- 20% profit on GDV on the private residential accommodation
- 15% profit on GDV on the commercial accommodation
- 6% profit on GDV on the affordable housing (lower profit required because of the lower risk in delivery – developer effectively working as contractor for the RSL)

This is often seen as a fair compromise and is commonly used in viability assessments.

5.2 BENCHMARK SITE VALUE

We agree it is probably inappropriate to use an EUV+ methodology given the specific nature of the building. We agree that an AUV approach is more appropriate in this instance. Altus Group have provided a valuation of the site which reviews alternative uses.

They have assessed a commercial scheme and have removed cap ex costs for remediation and demolition. This generates a total land value of **£3,200,000.**

We have no visibility on or expertise for the remediation and demolition costs for the site. However, we note that these costs (£13,257,000) are lower than the costs used previously, taken from the report by Faithful and Gould. I would expect that these would have increased further, in-line with BCIS.

However, this appears to be broadly appropriate and we have used this figure for our assessment of viability for the site.

6 ANALYSIS

6.1 SAVILLS ANALYSIS

We have compared the appraisals undertaken by Savills for the Original Scheme (February 2015) and for the Amended Scheme (February 2017). See below for a comparison:

	FEB 15	FEB 17
Gross Development Value	395,330,634	401,764,389
Total Construction Costs	364,927,752	364,980,534
Profit	30,402,882	36,783,855
Profit on Cost (%)	8.33%	10.08%
Profit on GDV (%)	7.69%	9.16%

Savills appraisal shows that the GDV has increased by circa £6M (c. 2%). Whilst the construction costs have increased, the finance costs have reduced by circa £11.5M. Therefore, development costs are almost the same. Therefore, the scheme generates an increased profit (c. £6.5M increase). However, this is not great enough for the scheme to be considered viable. The profit on cost has increased from 8.33% to 10.08%. This still, ultimately, falls below the 25% profit on cost they have used as the profit benchmark.

6.2 COLLIERS ANALYSIS

6.2.1 AMENDED SCHEME ANALYSIS

We have undertaken appraisal analysis of the scheme using the assumptions explained above. We have included the benchmark site value as the site cost in this calculation. See below for the results:

Gross Development Value	443,376,544
Total Construction Costs	356,488,954
Profit	86,887,590
Profit on Cost (%)	24.37%
Profit on GDV (%)	19.60%
Target Profit on GDV (%)	19.39%

The Amended Scheme generates a profit on cost of 24.37% and a profit on GDV of 19.60%. This shows that the scheme is viable with 0% affordable housing against either the 20% profit on cost hurdle, or the target profit on GDV (blended profit rate – 19.39% in this instance). However, the scheme is not viable against the profit benchmark (25% on cost) required by Savills.

6.2.2 SCHEME COMPARISON

We have compared the viability assessment of the Original Scheme (August 2015) to the viability assessment of the Amended Scheme (March 2017) to review how the fiscal dynamics of the scheme have changed over the last 18 months.

	AUG 15	MAR 17
Gross Development Value	402,000,210	443,376,544
Total Construction Costs	367,095,527	356,488,954
Profit	34,904,683	86,887,590
Profit on Cost (%)	9.51%	24.37%
Profit on GDV (%)	8.68%	19.60%
Target Profit on GDV (%)	19.82%	19.39%

Our calculation demonstrates that the scheme now generates a greater value for a lower cost than our previous assessment; and therefore a greater profit is delivered by the Amended Scheme. This is because we have reflected our view of the improved market in Welwyn Garden City, particularly the residential market. The revised phasing of the scheme has also reduced the finance costs of the project (as reflected by Savills), which has, in turn, improved the viability of the scheme.

6.2.3 INCLUSION OF AFFORDABLE HOUSING

We have reviewed the impact that including the proposed 35 units of affordable housing has on the Amended Scheme.

	Nil	35 units
Gross Development Value	443,376,544	438,352,480
Total Construction Costs	356,488,954	353,521,492
Profit	86,887,590	84,830,988
Profit on Cost (%)	24.37%	24.00%
Profit on GDV (%)	19.60%	19.35%
Target Profit on GDV (%)	19.39%	19.08%

The inclusion of affordable housing decreases the gross development value by circa £5M. However, the costs are also reduced by circa £3M. This is primarily due to the reduction of finance costs due to the earlier receipt (at ‘Golden Brick’) from the RSL.

Overall, the profit is reduced by circa £2M from the Nil affordable housing option to the option including 35 Shared Ownership units. However, the inclusion of affordable housing reduces the risk of the development and this has been reflected in our target profit margin. Therefore, the scheme is still viable with 35 shared ownership units on site. The scheme generates a profit of 19.35%, which is greater that the profit target of 19.08%.

The target profit is lower as affordable housing has lower finance, sales and market risk. As a higher proportion of the GDV is affordable housing, which requires a 6% profit on GDV, lower than the 20% profit on GDV required for private housing, the blended target profit is reduced. See calculation below:

	Profit on GDV	Proportion of GDV (%)	
		Nil AH	35 SO units
Private Residential	20%	90.96%	88.71%
Commercial	15%	8.00%	8.09%
Affordable Residential	6%	0.00%	2.14%
Target Profit on GDV (Blended)		**19.39%**	**19.08%**

However, the scheme is not viable against the benchmark of 25% profit on cost (20% profit on GDV) set by Savills.

7 SUMMARY AND CONCLUSION

7.1 SUMMARY

Colliers were instructed to undertake a high level review of the assumptions used by Savills as an addendum to the previously submitted report (August 2015). This is not a detailed viability study.

We understand that the major change to the scheme is the loss of the basement car parking in phase 2. This has resulted in a loss of 370 spaces, but should have reduced construction costs by between £10M and £20M (although this cost saving has not been explained explicitly). There is also a small reduction in the quantum of residential accommodation and minor changes to commercial accommodation.

We believe that values have increased since our last assessment. Our view of the commercial market is broadly consistent with Savills. However, we disagree with their assessment of the residential market. We believe that the residential market in the area has experienced strong value growth and that the values used by Savills in their appraisal prices the scheme at a circa 10% discount to equivalent neighbouring towns. We believe the private residential value to be £550 per sq. ft.

We are not quantity surveyors, however, we have provided commentary of the Stace's cost plan for the scheme against their last cost plan and BCIS indices. We think that the growth in costs looks broadly appropriate; however, the overall cost on a 'per sq. ft.' basis appears high and we would recommend a suitably qualified professional review this in more detail.

We support the use of the AUV approach to calculate the BSV in this instance. The valuation provided by Altus Group is appropriate. However, we would like more clarity over the cost of the site works and remediation to ensure that these are consistent with those provided by Stace to ensure that the scheme is not subject to a disproportionate cost for this element.

We believe that the benchmark profit should price the different elements of the scheme differently to account for the different amounts of risk for delivering private residential, commercial accommodation and affordable housing. We have suggested a profit benchmark for different elements to create a blended rate.

Our analysis demonstrates that the viability of the scheme has improved. We believe that the scheme is now viable against our chosen benchmark.

7.2 CONCLUSION

We believe that the scheme is viable and should include a provision of affordable housing.

The major difference between the assessment completed by Savills and our own is the residential values, which differ by circa 10%.

Our analysis demonstrates that the scheme is viable with 35 units on site. However, this is only viable by fine margins. Therefore, we believe that the proposed provision of affordable housing is appropriate.

Nevertheless, as the scheme includes only a small provision of affordable housing, we believe that it is appropriate that the scheme should be subject to a viability review to capture any potential increase in value in the future.

APPENDICES

1 APPENDIX – SCHEME APPRAISAL (NIL AFFORDABLE)

SHREDDED WHEAT FACTORY, BROADWATER ROAD, WELWYN GARDEN CITY

FINANCIAL APPRAISAL

AMENDED SCHEME (V1.0) (Nil Affordable)

Date: 10/03/2017

CAPITAL VALUE

							MR
Commercial							
Retail (A1)	6,157	sq ft @	19.95	£ psf		122,833	**122,833**
			Capitalised @		5.67%	2,164,909	
			Less Costs @		5.44%	**2,053,122**	
Retail (A3)	20,752	sq ft @	23.31	£ psf		483,710	**606,543**
			Capitalised @		5.50%	8,794,727	
			Less Costs @		6.18%	**8,282,618**	
Office	55,703	sq ft @	17.50	£ psf		974,803	**1,581,345**
			Capitalised @		6.50%	14,996,962	
			Less Costs @		6.73%	**14,051,670**	
Hotel	56	keys	4,500	£ psf		252,000	**1,833,345**
			Capitalised @		5.25%	4,800,000	
			Less Costs @		6.57%	**4,503,953**	
Healthcare	8,999	sq ft @	17.50	£ psf		157,483	**1,990,828**
			Capitalised @		5.00%	3,149,650	
			Less Costs @		6.45%	**2,958,681**	
Creche	6,781	sq ft @	18.81	£ psf		127,575	**2,118,403**
			Capitalised @		6.50%	1,962,692	
			Less Costs @		6.25%	**1,846,946**	
Gym / Dance Studio	7,567	sq ft @	17.50	£ psf		132,423	**2,250,825**
			Capitalised @		7.00%	1,891,750	
			Less Costs @		5.47%	**1,281,151**	
Community	8,030	sq ft @	5.00	£ psf		40,150	**2,290,975**
			Capitalised @		8.00%	501,875	
			Less Costs @		4.67%	**479,491**	
Residential							
Private	733,226	sq ft @	550.00	£ psf		**403,274,300**	
Affordable	0	sq ft @	358.00	£ psf		**0**	
Ground Rents	819	units @	300.00	£ / unit pa		245,700	
			Capitalised @		5.00%	4,914,000	
			Less Costs @		5.80%	**4,644,612**	
Car Parking							
Residents car parking	0	spaces @	-	£ per space		**0**	
Rented Car Parking	140	spaces @	-	£ per space		**0**	
			TOTAL CAPITAL VALUE				**443,376,544**

DEVELOPMENT COSTS

Site Cost					**3,200,000**	
Stamp Duty		@	4.00%		128,000	
Agents Acquisition Fees		@	1.00%		32,000	
Legal Fees on Acquisition		@	0.50%		16,000	
			TOTAL ACQUISITION FEES			**3,376,000**
PPA/Obligatory Planning Application					255,000	
HCA Covenant Release					950,000	
BLP Defects Insurance					2,300,000	
			TOTAL INITIAL COSTS			**3,505,000**
Demolition					3,483,000	
Basement/Ground Works (p1)					3,773,000	
Basement/Ground Works (p2)					2,419,000	
External Works (p1)					6,805,000	
External Works (p2)					3,098,000	
Highways and Bridges					5,214,000	
Stats (p1)					2,601,000	
Stats (p2)					813,000	
Construction - Block 1					17,556,000	
Construction - Block 2					25,870,000	
Construction - Block 3					19,130,000	
Construction - Block 4					13,700,000	
Construction - Block 5					5,542,000	
Construction - Block 6					33,869,000	
Construction - Block 7					35,246,000	
Construction - Block 8					24,072,000	
Construction - Block 9					20,328,000	
Construction - Block 10					18,742,000	
Construction - Block 11					17,714,000	
Construction - Block 12					19,453,000	
			TOTAL CONSTRUCTION COSTS			**279,437,880**
Construction Contingency		@	0.00%		0	
Professional Fees		@	10.00%		27,943,788	
Section 106/278	819	units @	5,058	£ per unit	4,142,335	
3rd Party Abnormal Costs					334,400	
Network Rail Road					400,000	
Falcon Tower					50,000	
Refurbishment of Footbridge					150,000	
			TOTAL CONSTRUCTION FEES			**33,020,523**
Top Up Incentive					1,475,932	
Marketing		@	1.50%		6,650,648	
Commercial Letting Agents and Legal Fees		@	15.00%		343,646	
Commercial investment Agents and Legal Fees		@	1.35%		455,467	
Private Residential Agents and Legal Fees		@	1.85%		7,460,575	
Affordable Housing Agents and Legal Fees		@	1.50%		0	
			TOTAL DISPOSAL COSTS			**16,386,267**
Finance Costs - Debt	100%	LTC @	6.50%		20,763,284	
			TOTAL FINANCE COSTS			**20,763,284**
			TOTAL DEVELOPMENT COSTS			**356,488,954**

PROFIT

PROFIT			**86,887,590**
Profit on Cost %			24.37%
Private Residentia	*90.96%*	*of profit @*	*20.00%*
Commercia	*8.00%*	*of profit @*	*15.00%*
Affordable Residential	*0.00%*	*of profit @*	*6.00%*
Target Profit on GDV (Blended)			*19.39%*
Profit on GDV %			19.60%

2 APPENDIX - SCHEME APPRAISAL (35 UNITS OF AFFORDABLE)

SHREDDED WHEAT FACTORY, BROADWATER ROAD, WELWYN GARDEN CITY

FINANCIAL APPRAISAL

AMENDED SCHEME (V1.0) (35 Shared Ownership Units)

Date: 10/03/2017

CAPITAL VALUE

							MR
Commercial							
Retail (A1)	6,157	sq ft @	19.95	£ psf		122,833	**122,833**
			Capitalised @		5.67%	2,164,909	
			Less Costs @		5.44%	**2,053,122**	
Retail (A3)	20,752	sq ft @	23.31	£ psf		483,710	**606,543**
			Capitalised @		5.50%	8,794,727	
			Less Costs @		6.18%	**8,282,618**	
Office	55,703	sq ft @	17.50	£ psf		974,803	**1,581,345**
			Capitalised @		6.50%	14,996,962	
			Less Costs @		6.73%	**14,051,670**	
Hotel	56	keys	4,500	£ psf		252,000	**1,833,345**
			Capitalised @		5.25%	4,800,000	
			Less Costs @		6.57%	**4,503,953**	
Healthcare	8,999	sq ft @	17.50	£ psf		157,483	**1,990,828**
			Capitalised @		5.00%	3,149,650	
			Less Costs @		6.45%	**2,958,681**	
Creche	6,781	sq ft @	18.81	£ psf		127,575	**2,118,403**
			Capitalised @		6.50%	1,962,692	
			Less Costs @		6.25%	**1,846,946**	
Gym / Dance Studio	7,567	sq ft @	17.50	£ psf		132,423	**2,250,825**
			Capitalised @		7.00%	1,891,750	
			Less Costs @		5.47%	**1,281,151**	
Community	8,030	sq ft @	5.00	£ psf		40,150	**2,290,975**
			Capitalised @		8.00%	501,875	
			Less Costs @		4.67%	**479,491**	
Residential							
Private	707,059	sq ft @	550.00	£ psf		**388,882,450**	
Affordable	26,167	sq ft @	358.00	£ psf		**9,367,786**	
Ground Rents	819	units @	300.00	£ / unit pa		245,700	
			Capitalised @		5.00%	4,914,000	
			Less Costs @		5.80%	**4,644,612**	
Car Parking							
Residents car parking	0	spaces @	-	£ per space		**0**	
Rented Car Parking	140	spaces @	-	£ per space		**0**	
			TOTAL CAPITAL VALUE				**438,352,480**

DEVELOPMENT COSTS

Site Cost					**3,200,000**	
Stamp Duty		@	4.00%		128,000	
Agents Acquisition Fees		@	1.00%		32,000	
Legal Fees on Acquisition		@	0.50%		16,000	
			TOTAL ACQUISITION FEES			**3,376,000**
PPA/Obligatory Planning Application					255,000	
HCA Covenant Release					950,000	
BLP Defects Insurance					2,300,000	
			TOTAL INITIAL COSTS			**3,505,000**
Demolition					3,483,000	
Basement/Ground Works (p1)					3,773,000	
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Construction - Block 10					18,742,000	
Construction - Block 11					17,714,000	
Construction - Block 12					19,453,000	
			TOTAL CONSTRUCTION COSTS			**279,437,880**
Construction Contingency		@	0.00%		0	
Professional Fees		@	10.00%		27,943,788	
Section 106/278	819	units @	5,058	£ per unit	4,142,335	
3rd Party Abnormal Costs					334,400	
Network Rail Road					400,000	
Falcon Tower					50,000	
Refurbishment of Footbridge					150,000	
			TOTAL CONSTRUCTION FEES			**33,020,523**
Top Up Incentive					1,475,932	
Marketing		@	1.50%		6,575,287	
Commercial Letting Agents and Legal Fees		@	15.00%		343,646	
Commercial investment Agents and Legal Fees		@	1.35%		455,467	
Private Residential Agents and Legal Fees		@	1.85%		7,194,325	
Affordable Housing Agents and Legal Fees		@	1.50%		140,517	
			TOTAL DISPOSAL COSTS			**16,185,174**
Finance Costs - Debt	100%	LTC @	6.50%		17,996,915	
			TOTAL FINANCE COSTS			**17,996,915**
			TOTAL DEVELOPMENT COSTS			**353,521,492**

PROFIT

PROFIT			**84,830,988**
Profit on Cost %			24.00%
Private Residentia	*88.71%*	*of profit @*	*20.00%*
Commercia	*8.09%*	*of profit @*	*15.00%*
Affordable Residential	*2.14%*	*of profit @*	*6.00%*
Target Profit on GDV (Blended)			*19.08%*
Profit on GDV %			19.35%

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