
Kirklees College Viability Assessment

New North Road, Huddersfield, HD1 5NN

June 2019

Contents

1.	Instruction.....	1
2.	The site	3
3.	The applicant’s appraisal	7
4.	Base case appraisal results.....	22
5.	Sensitivity analysis	25
6.	Conclusions	26

Appendices

Appendix I Development appraisals

Prepared By: James Dinsley

Status: Draft

Draft Date: July 2019

For and on behalf of GVA Grimley Limited t/a Avison Young

1. Instruction

- 1.1 Avison Young has been appointed on to Kirklees Council's Construction-Related Consultancy Framework, effective from 1 February 2016. Avison Young is instructed on a site by site basis to provide an independent assessment of the viability of a proposed development and its ability to meet planning policy requirements such as affordable housing and S.106 contributions.

Our instructions – Trinity One (Former Kirklees College), New North Road, Huddersfield, HD1 5NN

- 1.2 Avison Young is instructed to prepare an independent viability assessment in relation to the proposed mixed use development at the subject site. The application (ref 2018/62/92647/W) was submitted by ID Planning on 13 August 2018.
- 1.3 The proposed scheme, including 239 apartments, would typically be required to provide 20% affordable housing (equating to 47 units) at a mix of 54% social rent and 46% intermediate tenure. However, we understand from the Planning Officer, David Wordsworth, that it is highly unlikely that any affordable housing will be required due to the Vacant Building Credit (VBC) available (although the applicant has not provided confirmation of this). For the purposes of our report, we have not included any affordable housing, however if it is deemed necessary to include it, the appraisals can be amended to show its respective impact on viability.
- 1.4 The applicant has instructed Dove Haigh Phillips to undertake a viability appraisal of the proposed development to demonstrate whether the site is capable of sustaining a policy compliant suite of S.106 obligations. Dove Haigh Phillips' report concludes by stating that the proposed scheme is able to generate 8.22% profit on cost, but does not include any affordable housing/S.106 contributions.
- 1.5 We note that the Dove Haigh Phillips report also assesses the viability of a scheme (referred to as the 'Developer's Preferred Scheme') which differs greatly from the scheme described in planning application ref 2018/62/92647/W, we have highlighted this to the Council prior to issuing our report.
- 1.6 Our report will conclude by providing our recommendations to the Council in respect of viability, including any recommended further due diligence that should be undertaken.
- 1.7 The Royal Institution of Chartered Surveyors (RICS) recommends that suitable qualified professionals are consulted in undertaking the viability assessments to inform the planning process. Avison Young is a company regulated by the RICS and this viability appraisal has been undertaken by James Dinsley MRICS and reviewed by Dale Robinson MRICS (RICS Registered Valuer).
- 1.8 This report has been prepared in accordance with the RICS Guidance Note Financial Viability in Planning, 1st edition, published August 2012. The Guidance Note represents best practice in the context of preparing Financial Viability Assessments. The advice contained within this report does not constitute a valuation of the site in accordance with the RICS Valuation Global Standards 2017 and should not be relied upon as such. Rather it offers a critique of the reasonableness of specific assumptions and inputs within the applicant's own viability assessment and seeks to independently assess the viability of the proposed scheme.

Contact

Should you require further information please contact:

James Dinsley

Surveyor

T: 0113 280 8049

E: james.dinsley@avisonyoung.com

Or

Dale Robinson

Director

T: 0113 280 8074

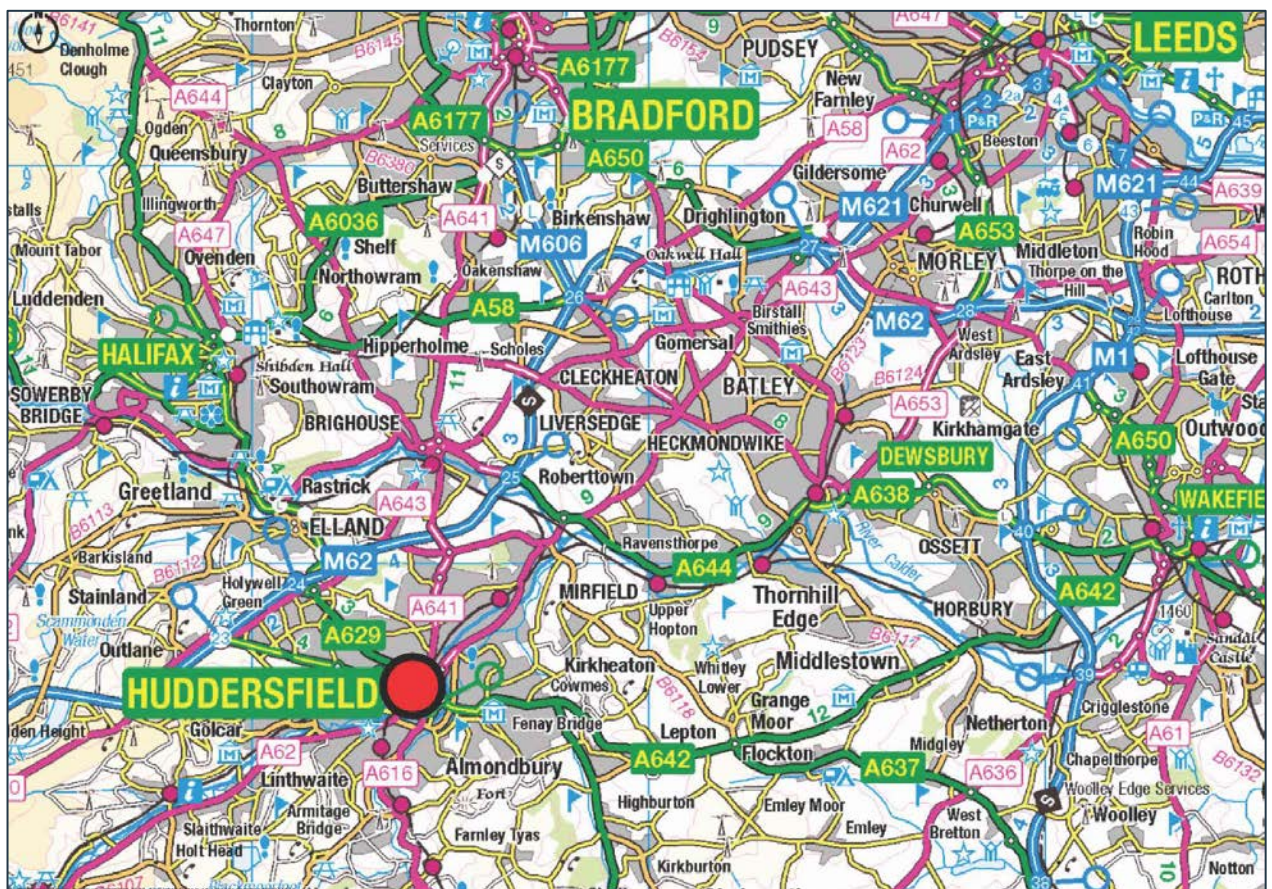
E: dale.robinson@avisonyoung.com

2. The site

Location and situation

- 2.1 The site is located in Huddersfield, approximately 20 miles south west of Leeds, 8 miles south of Halifax and 14 miles west of Wakefield.
- 2.2 The site is located to the west of Huddersfield city centre, on the western side of the A62, between Fitzwilliam Street, the A640 (Trinity Street and New North Road) and Portland Street.
- 2.3 The plan below shows the location of the site in a sub-regional context.

Figure 1 - Location plan



Description

- 2.4 The subject site is brownfield in nature and currently consists of a number of structures, including the Grade II* listed Former Huddersfield Infirmary and Grade II listed Statue of King Edward VII. In addition, there are a number of mid-20th Century buildings (up to a maximum of 5 storeys), as well as large areas of hard standing car park; which appears to be well utilised.
- 2.5 The site slopes in a number of directions across the site and the boundaries are well defined by paving/pedestrian circulation areas.

2.6 A number of the site boundaries are adjacent to major roads such as the ring road and the A640, and there are some underpasses to allow pedestrian connection across the roads to the site. Visibility to the site from the western edge (from Portland Street) was limited due to the erection of security panelling along this boundary.

2.7 Below are a series of photos of the site.

Table 1 - Site photographs

	
<p>Grade II* listed Former Huddersfield Infirmary</p>	<p>Grade II listed Statue of King Edward VII</p>
	
<p>Hard standing car parking amongst existing buildings</p>	



Office building in poor condition on site



Hard standing car parking



Existing building on site



Trinity West scheme hoarding up

Site area

2.8 The site, shown indicatively on the plan below, extends to a gross area of approximately 6.09 acres (2.46 ha).

Figure 2 - Site plan



3. The applicant's appraisal

- 3.1 The applicant has submitted a viability appraisal of a scheme which differs greatly from the proposed scheme as outlined in the planning application (ref 2018/62/92647/W).
- 3.2 In the following sections, we will critique the applicant's appraisal assumptions and inputs, and provide our own opinion of viability.

The developer's preferred scheme

- 3.3 The applicant has supplied viability assessments for three schemes, which range from lesser to greater degrees of redevelopment. For the purposes of our analysis, we have only critiqued the viability assessment of the developer's preferred scheme, which involves the greatest amount of demolition/redevelopment.
- 3.4 However, we have noted that there are discrepancies between the proposed scheme as outlined in Appendix 1 of the viability report and the appraisal included in Appendix 4. The applicant's viability appraisal shows a total of 155 apartments, whereas the table in Appendix 1 (and the description of the planning application) states a total of 239 apartments. Additionally, the Dove Haigh Phillips appraisal includes 81,733 sq ft of new build office accommodation, some 51,809 sq ft more than the planning application includes.
- 3.5 For the purposes of our report, we have appraised the scheme as described in the planning application description and outlined in Appendix 1 of the Dove Haigh Phillips report.
- 3.6 Below is an image of the proposed scheme.

Figure 3 - 3D image of proposed scheme



- 3.7 The table below provides the full schedule of accommodation for both the commercial and residential elements of the scheme.

Table 2 - Schedule of accommodation

Commercial use class	Building number	Total NIA (sq ft)	Total GIA (sq ft)	Gross to net
A1 (shops and retail)	8	21,607	21,607	100%
A3 (food and drink)	2	5,203	5,203	100%
B1 (business)	1	10,785	20,086	54%
	7	22,962	29,964	77%
Total	-	60,557	76,860	79%
Residential units	Studio	1 Bed	2 Bed	3 bed
Building 1	-	-	-	-
Building 2	-	14	18	-
Building 3	-	9	15	1
Building 4	-	11	14	4
Building 5/6	-	20	23	12
Building 8	-	-	-	-
Building 8	5	43	46	4
Total	5	97	116	21

Revenue

- 3.8 Given the mixed-use nature of the proposed scheme, the applicant has modelled the revenue of the development on both a capital value per sq ft basis (specifically on the residential elements of the scheme) as well as on an investment basis (assuming a capitalised rent) on the commercial and the residential ground rent elements of the scheme.
- 3.9 In the following paragraphs we will analyse the applicant's revenue per sq ft assumption, followed by the investment evidence applied to the commercial elements of the scheme.

Residential revenue

- 3.10 The applicant has included some commentary within their report on the residential market in Huddersfield town centre, as well as anecdotal evidence of new build schemes in the area. They state that there is a lack of new build comparable evidence in Huddersfield town centre, with there being a small number of mill conversions taking place in recent years.
- 3.11 The applicant has assumed a value of £250 per sq ft across the residential elements of the scheme.
- 3.12 In order to obtain sales evidence of new build apartments in the area, we have broadened our search radius to within 2 miles of Huddersfield. Whilst evidence taken from this evidence pool will be less directly comparable to new build apartments at the subject site, it provides a reasonable basis of evidence which we can devalue to derive an appropriate tone of value for our own appraisals.
- 3.13 The table below summarises the evidence collated.

Table 3 - Evidence of sales of new build flats

Scheme	Average unit size	Average price	Average £ per sq ft	Notes
Albert House, Halifax, HX1 2TS	556 sq ft	£68,474	£124 per sq ft	<ul style="list-style-type: none"> • 26 flats • Edge of town centre location • Recently converted scheme • Basic quality accommodation
Empire Works, Slaithwaite, HD7 5FE	662 sq ft	£183,247	£278 per sq ft	<ul style="list-style-type: none"> • 19 flats • High quality scheme by SB Homes • New build properties • Close to town centre amenities • Waterfront scheme
Total	601 sq ft	£116,934	£189 per sq ft	

- 3.14 Clearly, there is a dearth of evidence of new build apartment sales in/surrounding Huddersfield. We have been able to collate some evidence from two schemes, summarised in the table above. In addition to these schemes were a small number of retirement living schemes, however we do not consider these to be relevant therefore did not analyse in any greater detail.

- 3.15 The evidence in Table 3 shows an average sales price of £189 per sq ft. However, we believe this evidence is being heavily impacted by the weight of evidence obtained from the Albert House scheme in Halifax, which achieved very low sales figures (the majority of which ranged between £84 and £134 per sq ft).
- 3.16 If we were to analyse the Empire Works scheme in isolation, the average price achieved increases to £278 per sq ft (ranging from £261 per sq ft to £308 per sq ft). In our opinion, this pricing reflects the high quality design and finishes incorporated into the apartments, as well as the waterfront aspect of the scheme which creates a more desirable living environment for potential residents.
- 3.17 We believe the proposed scheme would command higher pricing than that achieved at Albert House in Halifax, however we believe the Empire Works scheme to be superior in terms of specification and situation (i.e. waterfront environment).
- 3.18 On this basis, and in conjunction with the evidence supplied by the applicant, we believe a sales figure of £250 per sq ft to be broadly reasonable, reflecting an average unit price of £165,563. We have therefore adopted this within our appraisals.
- 3.19 In addition, the applicant has included revenue based on ground rents on the residential units. In light of ground rent agreements with 'onerous covenants', typically where the value of the ground rent increases exponentially over time until it is uneconomic to maintain (the Government has announced that there will be a review of the legislation which allows housebuilders to charge ground rents on leasehold properties)..
- 3.20 We are not certain as to how ground rents will be calculated in the future; therefore for the purposes of our appraisal we have included ground rents at £250 per property per annum (in line with the applicant's assumption). However, the applicant has capitalised this income at 5.25% which we consider to be soft, in our experience ground rents can be capitalised at a yield closer to 4.50% due to the security of this income. Therefore we have capitalised our ground rent income at 4.50%.
- 3.21 However, subject to the outcome of the Government review, it may be that the applicant will not be able to charge ground rents at this level and therefore it is important to note that this element of the overall scheme GDV may need to be removed.

Office revenue

- 3.22 The applicant has assumed a headline rental income of £18 per sq ft for the refurbished office accommodation, and £23.50 per sq ft for the new build office space. Our initial impression is that these figures seem very high. In paragraph 7.6 of the applicant's viability appraisal, they claim that currently the very best accommodation in Huddersfield is capable of achieving £14 - £15 per sq ft.
- 3.23 The applicant has included the following evidence in their assessment of office revenue.

Table 4 - Applicant's office rental evidence

Property	Date of letting	Rent achieved	Notes
Park Valley Business Park,	2017 – 2018	£13.50 - £14.95 per	<ul style="list-style-type: none"> Small refurbished suites 600 -

Property	Date of letting	Rent achieved	Notes
HD4 7BH		sq ft	<ul style="list-style-type: none"> 1,400 sq ft Refurbished to high standard
Norwich Union House, HD1 2LR	Part under offer	£7.50 per sq ft (asking price)	<ul style="list-style-type: none"> 1960's building up to 8,000 sq ft Limited interest from occupiers No parking Dated space, uneconomic to refurbish
Broad Lea House, Dyson Wood Way, HD2 1GZ	January 2008	£14.20 per sq ft	<ul style="list-style-type: none"> GHCCG took 7,000 sq ft on assignment Out of town location

3.24 The applicant has also included headline figures for Leeds city centre and Manchester city centre. The applicant is quoting prime rents in Leeds at £30 per sq ft (anticipated reaching £32 per sq ft for best accommodation in 2019) and Manchester at £34 per sq ft (although highest quoting rent of £36.50 per sq ft at the time of the report).

3.25 In addition to the above, we have also found evidence of some town centre office accommodation which has been let in the last 12 months, summarised in the table below.

Table 5 - Avison Young additional office rental evidence

Property	Date of letting	Rent achieved	Notes
Revenue Chambers, St Peter's Street, HD1 1DL	25 March 2019	£11.51 per sq ft	<ul style="list-style-type: none"> Grade II listed building 3,443 sq ft leased 10 year IRI lease LED lighting, central heating, perimeter trunking
23 New North Parade, HD1 5JU	31 January 2019	£13 per sq ft (£12.65 net effective - 3 months' rent free)	<ul style="list-style-type: none"> 1,300 sq ft leased Former flats converted to office building

Property	Date of letting	Rent achieved	Notes
			<ul style="list-style-type: none"> Grade II listed building Refurbished to include modern kitchen, accessible WC, new central heating system 7 car parking spaces 10 year lease
20 Greenhead Road, HD1 4EN	24 August 2018	£6.85 per sq ft	<ul style="list-style-type: none"> Full property let (2,336 sq ft) including basement storage space Converted, Victorian, former residential property Open plan office accommodation, double glazing, suspended ceilings, central heating
Tunbridge Mills, Quay Street, HD1 6QT	30 April 2019	£15 per sq ft	<ul style="list-style-type: none"> 3,220 sq ft leased on FRI lease Central heating, double glazing, modern spec lighting On site car parking available

3.26 Whilst we appreciate there is a lack of good quality office rental evidence in Huddersfield, we do not consider it reasonable to use Leeds city centre and Manchester city centre prime rents as benchmark figures (even if adjusted somewhat for locational factors).

3.27 We have widened our search to include Wakefield, Halifax and Bradford in search of evidence of good quality office accommodation lettings, which we consider to be more comparable as a business location than Leeds/Manchester.

Table 6 - Office rental evidence West Yorkshire

Property	Date of letting	Rent achieved	Notes
Merchant Gate, Wakefield, WF1 2QN	December 2019	£12.50 per sq ft	<ul style="list-style-type: none"> Modern accommodation opposite Westgate Station

Property	Date of letting	Rent achieved	Notes
			<ul style="list-style-type: none"> 6,683 sq ft leased in total 5 year lease
Scorex House, Bradford, HD1 4AS	July 2018	£8.14 per sq ft (£7.05 per sq ft net effective after 13 months' rent free)	<ul style="list-style-type: none"> 20,773 sq ft leased Likely discount for quantum granted 10 year FRI lease Property built 2000 Raised access floors, suspended ceilings, 65 car parking spaces Edge of city location
Dean Clough, Halifax, HX3 5AX	May 2018	£12.60 per sq ft (£11.97 per sq ft net effective after 6 months' rent free)	<ul style="list-style-type: none"> Popular refurbished mill scheme in Halifax – useful comparable for proposed refurbished office 10 year FRI lease 11,614 sq ft leased Modern accommodation internally

3.28 On the basis of all of the evidence collated in the table above, we believe the assumptions made by the applicant on rental income from the proposed office spaces are ambitious.

3.29 We believe that, optimistically, the applicant may achieve **£17.50 per sq ft** on brand new, Grade A office accommodation in Huddersfield and **£15 per sq ft** on the refurbished space.

3.30 However, we believe that the developer will rely on significant rent free incentives to entice occupiers into this market, and will likely require a long letting period to achieve full occupancy. Therefore we believe it prudent to allow for 12 months' rent free on 5 year leases, with a total letting period of 2 years to achieve 100% occupancy.

3.31 We have also attempted to collate investment evidence of office space in Huddersfield, Halifax, Wakefield and Bradford to determine a reasonable capitalisation rate for the proposed commercial income of the

scheme. However, there is little useful evidence available. The table below summarises the two transactions we consider somewhat useful.

Table 7 - Office investment evidence

Property	Date of sale	Net Initial Yield	Notes
Greens Industrial Park (office accommodation), Wakefield, WF1 5PE	August 2018	8.57%	<ul style="list-style-type: none"> Multi-let office accommodation on business park 18% vacant at time of sale Average rent £12.30 per sq ft Constructed 1940's with extensions up to 1970's
FMG House, St Andrews Road, Huddersfield	For sale*	Asking price reflecting 9.25% NIY	<ul style="list-style-type: none"> 20,370 sq ft out of town office space Building built in 2002, let to FMG and subsequently assigned to GHCCG Property currently for sale

3.32 Given the lack of evidence, we have also consulted our Investment Agency and Valuation teams to sense-check the applicant's capitalisation rates, as well as to confirm our devaluation of the evidence available.

3.33 From the advice received from our Valuation and Investment Agency teams, we have chosen to capitalise the income received from the refurbished office accommodation at **7.50%** and the brand new accommodation at **7.00%**.

Retail revenue

3.34 Typically, food and drink retail leasehold properties do not transact on a rent per sq ft basis, rather the overall rental figure. Additionally, where it is often important to apply Zone A rents to high street, A1 retail, the same principle does not apply to A3 retail.

3.35 The applicant has included an annual rental income of £78,045 across both ground floor retail units in Building 2 (equating to an average rental income of £39,002.50 per unit).

3.36 In consideration of the retail rental income achievable at the proposed scheme, we have had regard to data available on Costar as well as advice from our Valuation team and Retail Agency colleagues. Due to a lack of recent evidence, we expanded our search to properties in Huddersfield, Wakefield, Bradford, Barnsley and Halifax including transactions which took place up to 18 months ago.

3.37 We have been able to obtain two lettings which we consider to be somewhat useful, although they are not directly comparable to the proposed scheme.

Table 8 - Retail rental evidence

Property	Date of letting	Achieved rent	Notes
Trinity Walk Shopping Centre, Wakefield, WF1 1QS	21 May 2019	£50,000 per annum (net effective £67,822 per annum)	<ul style="list-style-type: none"> • 2,960 sq ft leased on FRI basis • Modern city-centre retail destination • 3 months' rent free
50 New Street, Huddersfield, H1 2BW	26 January 2018 (somewhat historic)	£40,000 per annum	<ul style="list-style-type: none"> • 4,417 sq ft leased on FRI basis • Tenant – Coffee Novo • 10 year lease

3.38 Whilst the letting to Coffee Novo at 50 New Street, Huddersfield is arguably the most relevant comparable with regard to location, the transaction is approximately 18 months old. Additionally, the property is situated in the town centre, which would be considered favourable over the subject property on the edge of Huddersfield (and with the ring road between it and the town centre – a significant barrier to pedestrian footfall).

3.39 However, the property is older and we understand that the full 4,417 sq ft is provided across three floors (with upper floor storage space). Therefore the main retail/sales area is likely to be much smaller than 4,417 sq ft.

3.40 Conversely, Trinity Walk is a high quality, modern retail destination in Wakefield – in our opinion a superior location than the subject property. The unit is slightly smaller than the units proposed at the subject property; however we consider the Wakefield location and town centre situation to be better than the subject site. Therefore this evidence at £50,000 per annum is likely to be stronger than that achievable at the proposed scheme. We also believe that the rent is subject to steps which will eventually equate to £67,822 per annum over the course of the lease – however we have not been able to verify this.

3.41 In discussion with our Valuation and Retail Agency teams, we consider it reasonable to assume a headline rental income of c. **£39,000 per annum** (equating to approximately £15 per sq ft) to be appropriate. However, we consider it necessary to include rental incentives of 12 months on the headline rents, equating to a net effective rent of c. **£31,000 per annum**.

3.42 We have been unable to obtain investment evidence of A3 retail units in comparable West Yorkshire towns/cities. We note that the applicant has not provided any evidence to justify the retail capitalisation rates in the viability report by Dove Haigh Phillips. This is likely due to a lack of evidence in the market.

- 3.43 In this instance we have conferred with our Valuation and Retail Agency colleagues, who consider an appropriate yield to apply to the A3 retail rental income to be c. **8.00%** (an increase of 1.50% on the applicant's assumption). We have adopted this figure in our appraisal.
- 3.44 The proposed scheme also includes a 23,000 sq ft supermarket on the ground floor of Building 8. In the applicant's appraisal, they have indicated that the likely end user would be Lidl. Therefore we have appraised this element of the scheme assuming a discount food retailer (i.e. a Lidl/Aldi type operator) would occupy the premises.
- 3.45 From our experience, we understand Lidl and Aldi generally look to acquire the freehold interest of a site and build out a scheme themselves (or in a JV with a developer partner). In this instance, given the mixed-use nature of the scheme and with residential units above, we believe it is more likely that a discount food retailer would take a lease instead.
- 3.46 We have been unable to obtain relevant leasehold/investment evidence for discount food retailers; however our Valuation Consultancy and Investment Agency teams have a lot of experience dealing with discount food retailers and believe the rental figure applied by the applicant (£294,936 per annum) is broadly reasonable. However, they felt the capitalisation rate of 5.00% was optimistic, and advised 5.50% would be more reasonable.
- 3.47 Therefore, for the purposes of our appraisals we have adopted a rental income of c. **£294,936 per annum**, capitalised at a yield of **5.50%**.

Construction costs

- 3.48 The applicant has instructed Fox Lloyd Jones to undertake a build cost assessment of the construction of the full scheme, including demolition and remediation works, external works and base build costs.
- 3.49 Within the applicant's appraisal they have included the following construction costs:
- Building 1, office refurbishment - £100.17 per sq ft
 - Building 2, new build retail and residential - £181.20 per sq ft
 - Building 3, new build residential - £126.28 per sq ft
 - Building 4, new build residential - £130.25 per sq ft
 - Building 5/6, new build residential - £165.64 per sq ft
 - Building 7, new build office - £160 per sq ft
 - Building 8, new build residential/supermarket - £171.78 per sq f
- 3.50 We have consulted with our Building Consultancy team who have given their opinion as to whether they consider the applicant's build costs to be reasonable. We have also performed our own review of build costs using BCIS, across all of the proposed property types. The table below summarises the results of the data collected, which has been rebased to Kirklees (as at 8 June 2019).

Table 9 - BCIS construction cost matrix

Property type	Mean average	Lower quartile	Upper quartile	Median average
Office (refurbishment) 3 -5 storeys	£1,388 per sqm (£128.95 per sq ft)	£759 per sqm (£70.51 per sq ft)	£1,700 per sqm (£157.94 per sq ft)	£1,087 per sqm (£100.98 per sq ft)
Office (new build) 3 – 5 storeys	£1,904 per sqm (£176.89 per sq ft)	£1,356 per sqm (£125.98 per sq ft)	£2,109 per sqm (£195.93 per sq ft)	£1,691 per sqm (£157.10 per sq ft)
Retail (new build) generally	£1,324 per sqm (£123.00 per sq ft)	£777 per sqm (£72.19 per sq ft)	£1,797 per sqm (£166.95 per sq ft)	£988 per sqm (£91.79 per sq ft)
Supermarket (new build) 1,000 – 7,000 sqm GIA	£1,472 per sqm (£136.75 per sq ft)	£967 per sqm (£89.84 per sq ft)	£1,942 per sqm (£180.42 per sq ft)	£1,281 per sqm (£119.01 per sq ft)
Flats (new build) 3 – 5 storeys	£1,365 per sqm (£126.81 per sq ft)	£1,154 per sqm (£107.21 per sq ft)	£1,552 per sqm (£144.19 per sq ft)	£1,309 per sqm (£121.60 per sq ft)
Flats (new build) 6+ storeys	£1,721 per sqm (£159.89 per sq ft)	£1,394 per sqm (£129.51 per sq ft)	£1,832 per sqm (£170.20 per sq ft)	£1,618 per sqm (£150.31 per sq ft)

- 3.51 For the purposes of our viability appraisal, we consider it appropriate to adopt figures in line with the 'mean average' in order to reflect a middle-ground build quality. For other large scale residential schemes we may consider it prudent to adopt lower quartile build costs which may reflect the economies of scale achievable on larger schemes. However, given the conservation issues surrounding the subject site, we have opted for a higher build to reflect the quality of design and material choice required.
- 3.52 Typically we would make an additional allowance of 10-20% to account for external works, such as landscaping, road infrastructure and providing utilities to plots. The applicant's build costs include an element of external works (although we do not know how this breaks back on a percentage basis). In this instance, we believe an addition of 10% would be reasonable given the limited landscaping included on site and large quantity of hard-standing car parking.
- 3.53 On review of the applicant's build cost assumptions, it is the opinion of our Building Consultancy team that the applicant's office refurbishment cost (£100.17 per sq ft) is light, especially given the heritage issues of the building itself. In their experience, the cost of refurbishment is generally an expensive option to take and would therefore come at greater cost than that stated by the applicant. In comparison with our BCIS costs (£141.84 per sq ft including 10% external works), the applicant's cost looks very low.
- 3.54 For the new build office accommodation, the applicant has included a cost of £160 per sq ft, compared with the BCIS rate of £194.58 per sq ft.

- 3.55 Our Building Consultancy team also queried the applicant's costs for residential/retail development at buildings 2 and 8. Given that retail construction is typically to shell fit out (internal fit out is tenant's liability), our Building Surveyors were surprised that the applicant's costs were as high as they are. The BCIS costs for retail and supermarkets were **£135.30 per sq ft** and **£150.43 per sq ft** respectively (again, including 10% allowance for external works).
- 3.56 The residential costs supplied by the applicant range from £126.28 per sq ft to £165.64 per sq ft, whereas BCIS suggests a rate of **£139.49 per sq ft** to **£175.87 per sq ft** at the tallest building.
- 3.57 For the purposes of our viability appraisals, we have adopted the BCIS rates (indicated in bold, above) across the GIA of the proposed scheme. The average build cost adopted across the whole of our appraisal equates to **£156.71 per sq ft**, as opposed to the applicant's average build cost of £160.27.

Abnormal costs

- 3.58 The applicant has included a cost of £250,000 for demolition in their appraisal, as well as additional site works at £500,000 and infrastructure works at £450,000.
- 3.59 We have not had sight of any specific detail around the nature of these costs; however for a scheme of this scale (and complexity due to unknowns relating to conversion/refurbishment of listed buildings) we consider them to be broadly reasonable. Therefore we have adopted these figures within our appraisals.

Professional fees

- 3.60 The applicant has included a cost of 7.99% in their appraisal made up of the following components:
- Architect – 2.75%
 - Quantity surveyor – 1.00%
 - Structural engineer – 1.39%
 - M&E engineer – 1.00%
 - Project manager – 0.40%
 - CD manager – 0.50%
 - Highways – 0.02%
 - Building control – 0.20%
 - Planning supervisor – 0.22%
 - Other professional fees – 0.51%
- 3.61 We would typically look to include a cost of between 6% and 10% on costs; therefore we consider the applicant's assumption to be broadly reasonable. For the purposes of our appraisal we have included a cost of 8%.

Contingency

3.62 The applicant has included a contingency of 3% on build costs within their appraisal. For a brownfield site, such as this, we would typically expect a contingency of 5% to be more reasonable. Therefore we have included an allowance of 5% within our appraisal.

Disposal costs

3.63 The applicant has included the following disposal costs in their appraisal:

- Commercial letting fee – 15% of headline rent
- Commercial letting legal fee – 5% of headline rent
- Commercial sales fee – 0.75% of commercial GDV
- Commercial sales legal fee – 0.50% of commercial GDV
- Residential sales fee – 0.75% of residential GDV
- Residential sales legal fee – 0.50% of residential GDV

3.64 In our opinion, a letting fee of 15% of headline rent is high. This may be that the applicant believes it will require joint agents to let the property given the risk surrounding the headline rent proposed (£23.50 per sq ft).

3.65 Typically we would make an allowance of 1% on sales for agents' fees on residential properties, whereas the applicant has included a cost of 0.75%. However, we have allowed 0.75% on GDV for the commercial element.

3.66 Below is a breakdown of the disposal costs included in our appraisal (fees in bold are different from that of the applicant).

- Commercial letting fee – **10%** of headline rent
- Commercial letting legal fee – 5% of headline rent
- Commercial sales fee – 0.75% of commercial GDV
- Commercial sales legal fee – 0.50% of commercial GDV
- Residential sales fee – **1.00%** of residential GDV
- Residential sales legal fee – 0.50% of residential GDV

Finance costs

3.67 The applicant has included a finance cost of 6%, assuming a basic S curve. In our opinion this is a reasonable assumption to make, and we have therefore included this cost in our own appraisal.

Timescales

3.68 The applicant has modelled their appraisal over a total phase of 60 months, however they have not detailed how this is broken down.

3.69 In our appraisal, we have included a total of 73 months, broken down as follows.

- Pre-construction - 12 months
- Construction – 48 months
- Letting period – 24 months (commencing 36 months into construction period)
- Residential sales – 48 months (commencing 12 months into construction period)
- Commercial sales – at practical completion

Profit

3.70 PPG states that for the purpose of plan making an assumption of 20% on Gross Development Value (GDV) / 25% on cost may be considered a suitable return to developers in order to establish viability.

3.71 It must also be recognised that profit will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project.

3.72 In this instance the applicant has suggested a profit of 8.22% on cost would be acceptable. Whilst we do not consider it reasonable to assume that the market would generally accept this level of profit, which appears low given the risks of the project, we have targeted a profit of 8.22% on cost in our appraisal in this instance.

Land value

3.73 PPG clearly states that “landowners and site purchasers should consider policy requirements when agreeing land transactions”. The method of establishing a benchmark land value should be based on the existing use value (EUV) of the property, allowing for a premium to landowners, reflecting the implications of abnormal costs (including site-specific infrastructure costs) and be informed by market evidence. This method is often known as ‘Existing Use Value Plus’ (EUV+).

3.74 PPG states that, where viability assessments are used to inform decision making, under no circumstances should the price paid for the land be relevant justification for failing to accord with relevant planning policies.

3.75 The ‘premium’, or the amount above existing use value that goes to the landowner, should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

3.76 The applicant has included a land value of £2,100,000 which we have confirmed from a search of the Land Registry is the price paid for the land in July 2017 (equating to approximately £350,000 per acre).

3.77 However, the applicant has also included in their appraisal an infrastructure grant of £1,800,000 which suggests that the scheme is only capable of achieving the profit level specified with the aid of this grant. Therefore, this suggests that the land value is arguably the difference between the price paid for the land (£2,100,000) and the infrastructure grant (£1,800,000), at approximately £300,000.

3.78 We have, therefore, included a land cost in our appraisal of £300,000 in our appraisal.

4. Base case appraisal results

4.1 Our high level viability assessment seeks to assess the level of viability associated with the proposed scheme. RICS Valuation Information Paper 12: Valuation of Development Land sets out the accepted method of valuation of development schemes. This is known as the residual method of valuation and can be structured in one of two ways:

Option 1: Developer's return (profit) as an input, land value as an output calculated as:

$$\text{Market value of the proposed development} - (\text{direct construction costs} + \text{developers profit}) = \text{land value}$$

Option 2: Land value as an input, developer's return (profit) as an output, calculated as:

$$\text{Market value of the proposed development} - (\text{direct construction costs} + \text{site cost}) = \text{profit}$$

4.2 In this instance, our approach to assessing viability is based on option one. This approach requires the input of a targeted developer's profit where land value is the resulting output.

Benchmark appraisal

4.3 We have prepared a benchmark viability appraisal of the proposed scheme and what we consider to be a policy compliant position.

4.4 We have applied a number of assumptions and inputs which are the same or similar to those applied by the applicant, but we have also applied assumptions and inputs which are different, owing to a difference of professional opinion. Our appraisal is based on the following assumptions.

Table 10 - Summary of appraisal assumptions and inputs

Assumption	Details
Viability scenario	<ul style="list-style-type: none"> • 239 apartments <ul style="list-style-type: none"> ○ 5no. studios ○ 97no. 1 beds ○ 116no. 2 beds ○ 21no. 3 beds • 20,086 sq ft refurbished office • 6,493 sq ft of retail (A3 use class) • 29,964 sq ft of new build office • 23,801 sq ft of supermarket (A1)
Construction costs	<ul style="list-style-type: none"> • Construction costs sourced from BCIS (mean average) rebased to Kirklees as at June 2019 • Average cost - £142.47 per sq ft • Total construction cost - £42,328,407
External works /infrastructure	<ul style="list-style-type: none"> • 10% of base build costs

Assumption	Details
	<ul style="list-style-type: none"> • 'All-in cost' - £156.71 per sq ft • Total 'all-in' construction cost - £46,560,475
Project Fees	<ul style="list-style-type: none"> • 8% of build costs - £3,820,838
Contingency	<ul style="list-style-type: none"> • 5% of build costs - £2,328,024
Abnormal costs	<ul style="list-style-type: none"> • Demolition - £250,000 • Infrastructure - £450,0000 • Additional site works - £500,000 • Total abnormal costs - £1,200,000
Timescales	<ul style="list-style-type: none"> • 73 months total development phase <ul style="list-style-type: none"> ○ 12 month pre-construction ○ 48 month construction ○ 24 month letting (commencing 12 months prior to end of construction) ○ 48 residential sales (commencing 12 months into construction) ○ Commercial investment date at practical completion
GDV	<ul style="list-style-type: none"> • Open market housing - £250 per sq ft (£39,569,600 in total) • Refurbished office - £2,157,000 • Retail (A3 use class) - £780,000 • New build office -£4,879,425 • Supermarket (A1 use class) - £5,362,465 • Residential ground rents - £1,327,778 • Total GDV - £54,076,167
Sales, legal and marketing	<ul style="list-style-type: none"> • Commercial sales agent – 0.75% of GDV • Commercial sales legal – 0.5% of GDV • Commercial letting agent – 10% of headline rent • Commercial letting legal – 5% of headline rent • Residential sales – 1% of GDV • Residential sales legal – 0.5% of GDV • Total disposal costs - £912,949
Profit	<ul style="list-style-type: none"> • 8.22% on cost - £4,851,469
Land acquisition costs	<ul style="list-style-type: none"> • Stamp duty based on the current prevailing rates • Agent fee - 1% • Legal fee – 0.5%
Finance rate	<ul style="list-style-type: none"> • 6% (including all fees associated with obtaining finance) • Total finance cost - £2,948,337
Deficit	<ul style="list-style-type: none"> • £11,199,374

4.5 In this instance, assuming a profit level of 8.22% on cost, the scheme generates a **deficit of £11,199,374** instead of a positive land value.

4.6 It is difficult to make direct comparisons between our appraisal and the applicant's given that the applicant's viability appraisal assesses a very different scheme to the actual planning application. However, it is clear that the proposed scheme, based on the assumptions included in our appraisal, would not be considered viable.

5. Sensitivity analysis

- 5.1 We have undertaken an element of sensitivity analysis to determine if there is any potential scenario in which the proposed scheme could be viable.
- 5.2 We have changed the revenue assumptions to reflect those suggested by the applicant, and removed the S.106 obligations for Public Open Space and Education. Whilst we have changed the revenue assumptions, our scheme composition has not changed (i.e. based on the proposed scheme as described in the planning application).
- 5.3 The results of our sensitivity analysis are as follows:

Variable	Avison Young revenue assumptions	Applicant's revenue assumptions	Applicant's revenue assumptions and no S.106 obligations
Gross Development Value	£54,076,167	£58,919,637	£58,919,637
Deficit	£11,199,374	£8,202,569	£7,390,491

- 5.4 Even if we were to adopt the applicant's revenue assumptions, which we consider in many instances to be highly optimistic, the scheme generates a significant viability gap.
- 5.5 It should be noted that our appraisals assume a developer's profit of 8.22% on cost, which was suggested by the applicant to be reasonable. However, we consider this to be well below where the market would typically expect profit to be, especially given the risks of the scheme. Therefore a typical developer expecting closer to 20% on GDV would generate a significantly larger viability gap.
- 5.6 Additionally, we have included a land value of £300,000 which reflects the difference between the applicant's land value and the infrastructure grant they expect to receive. Even with this reduced land value, our appraisal does not produce a scenario where a positive land value is generated.

6. Conclusions

- 6.1 Avison Young has been appointed on to Kirklees Council's Construction-Related Consultancy Framework and has been instructed to provide an independent assessment of the applicant's viability assessment in relation to the Former Kirklees College site, New North Road in Huddersfield, in which they demonstrate that their scheme achieves a profit of 8.22% on cost without the inclusion of any S.106 or affordable housing.
- 6.2 However, the scheme that they have appraised is not the same scheme as described in planning application reference 2018/62/92647/W.
- 6.3 Our viability appraisal, which appraises the scheme as described in the planning application, and based on the various inputs and assumptions applied in Section 4 of this report, demonstrates that the applicant's scheme is not viable, generating a substantial viability gap.

Appendix I

Development appraisals

Former Kirklees College
Developer's preferred scheme
Avison Young

Base appraisal

Development Appraisal
Avison Young
11 July 2019

**Former Kirklees College
Developer's preferred scheme
Avison Young**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Sales Rate ft ²	Unit Price	Gross Sales
Building 2 - residential	32	19,824	250.00	154,875	4,956,000
Building 3 - residential	25	18,136	250.00	181,360	4,534,000
Building 4 - residential	29	19,158	250.00	165,155	4,789,500
Building 5/6 - residential	55	37,676	250.00	171,255	9,419,000
Building 8 - residential	98	63,484	250.00	161,949	15,871,000
Totals	239	158,278			39,569,500

Rental Area Summary

	Units	ft ²	Rent Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV	Net MRV at Sale
Building 1 - office refurb	1	10,785	15.00	161,775	161,775	161,775	161,775
Building 2 - retail	2	5,203	14.99	39,000	62,400	78,000	62,400
Building 7 - office	1	22,962	17.50	401,835	341,560	401,835	341,560
Building 8 - supermarket	1	21,607	13.65	294,936	294,936	294,936	294,936
Residential ground rents	239			250	59,750	59,750	59,750
Totals	244	60,557			920,420	996,296	920,420

Investment Valuation

Building 1 - office refurb					
Current Rent	161,775	YP @	7.5000%	13.3333	2,157,000
Building 2 - retail					
Current Rent	62,400	YP @	8.0000%	12.5000	780,000
Building 7 - office					
Current Rent	341,560	YP @	7.0000%	14.2857	4,879,425
Building 8 - supermarket					
Current Rent	294,936	YP @	5.5000%	18.1818	5,362,465
Residential ground rents					
Current Rent	59,750	YP @	4.5000%	22.2222	1,327,778
					14,506,667

GROSS DEVELOPMENT VALUE

54,076,167

Purchaser's Costs	(975,953)
Effective Purchaser's Costs Rate	6.73%

NET DEVELOPMENT VALUE

53,100,214

Additional Revenue

Infrastructure grant	1.00%	11,199,374
		11,199,374

NET REALISATION

64,299,588

OUTLAY

ACQUISITION COSTS

Fixed Price (6.09 Acres 49,261.08 pAcre)		300,000
		300,000
Agent Fee	1.00%	3,000
Legal Fee	0.50%	1,500
		4,500

CONSTRUCTION COSTS

Construction	ft ²	Build Rate ft ²	Cost
Building 1 - office refurb	20,086	141.84	2,848,998
Building 2 - retail	6,493	135.30	878,503
Building 7 - office	29,964	194.58	5,830,395
Building 8 - supermarket	23,801	150.43	3,580,384
Building 2 - residential	30,137	139.49	4,203,810
Building 3 - residential	26,176	139.49	3,651,290
Building 4 - residential	24,864	139.49	3,468,279
Building 5/6 - residential	47,998	139.49	6,695,241
Building 8 - residential	87,585	175.87	15,403,574
Totals	297,104		46,560,475

**Former Kirklees College
Developer's preferred scheme
Avison Young**

Contingency	5.00%	2,328,024	
Demolition		250,000	
Infrastructure		450,000	
Additional site works		500,000	
Education		326,770	
POS		372,083	
			4,226,877

PROFESSIONAL FEES

Professional fees	8.00%	3,820,838	
			3,820,838

MARKETING & LETTING

Letting Agent Fee	10.00%	92,042	
Letting Legal Fee	5.00%	46,021	
			138,063

DISPOSAL FEES

Residential agent fee	1.00%	395,695	
Residential legal fee	0.50%	197,847	
Commercial agent fee	0.75%	108,800	
Commercial legal fee	0.50%	72,533	
			774,876

Additional Costs

Rent free building 1		161,775	
Rent free building 2		78,045	
Rent free building 7		401,835	
			641,655

FINANCE

Multiple Finance Rates Used (See Assumptions)			
Land		(32,947)	
Construction		(1,590,939)	
Letting Void		1,708,498	
Other		2,863,725	
Total Finance Cost			2,948,337

TOTAL COSTS

59,415,621

PROFIT

4,883,967

Performance Measures

Profit on Cost%	8.22%
Development Yield% (on Rent)	1.55%
Equivalent Yield% (Nominal)	6.34%
Equivalent Yield% (True)	6.60%
IRR	13.59%
Rent Cover	5 yrs 4 mths
Profit Erosion (finance rate 6.000)	1 yr 4 mths

Former Kirklees College
Developer's preferred scheme
Avison Young

Inflated revenue

**Former Kirklees College
Developer's preferred scheme
Avison Young**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Sales Rate ft ²	Unit Price	Gross Sales
Building 2 - residential	32	19,824	250.00	154,875	4,956,000
Building 3 - residential	25	18,136	250.00	181,360	4,534,000
Building 4 - residential	29	19,158	250.00	165,155	4,789,500
Building 5/6 - residential	55	37,676	250.00	171,255	9,419,000
Building 8 - residential	98	63,484	250.00	161,949	15,871,000
Totals	239	158,278			39,569,500

Rental Area Summary

	Units	ft ²	Rent Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV	Net MRV at Sale
Building 1 - office refurb	1	10,785	18.00	194,130	194,130	194,130	194,130
Building 2 - retail	2	5,203	15.00	39,023	62,436	78,045	62,436
Building 7 - office	1	22,962	23.50	539,607	458,666	539,607	458,666
Building 8 - supermarket	1	21,607	13.65	294,936	294,936	294,936	294,936
Residential ground rents	239			250	59,750	59,750	59,750
Totals	244	60,557			1,069,918	1,166,468	1,069,918

Investment Valuation

Building 1 - office refurb					
Current Rent	194,130	YP @	7.0000%	14.2857	2,773,286
Building 2 - retail					
Current Rent	62,436	YP @	6.5000%	15.3846	960,554
Building 7 - office					
Current Rent	458,666	YP @	6.0000%	16.6667	7,644,433
Building 8 - supermarket					
Current Rent	294,936	YP @	5.0000%	20.0000	5,898,711
Residential ground rents					
Current Rent	59,750	YP @	4.5000%	22.2222	1,327,778
					18,604,761

GROSS DEVELOPMENT VALUE

58,174,261

Purchaser's Costs	(1,254,624)
Effective Purchaser's Costs Rate	6.74%

NET DEVELOPMENT VALUE

56,919,637

Additional Revenue

Infrastructure grant	1.00%	7,390,491	7,390,491
----------------------	-------	-----------	-----------

NET REALISATION

64,310,128

OUTLAY

ACQUISITION COSTS

Fixed Price (6.09 Acres 49,261.08 pAcre)		300,000	300,000
Agent Fee	1.00%	3,000	
Legal Fee	0.50%	1,500	
			4,500

CONSTRUCTION COSTS

Construction	ft ²	Build Rate ft ²	Cost
Building 1 - office refurb	20,086	141.84	2,848,998
Building 2 - retail	6,493	135.30	878,503
Building 7 - office	29,964	194.58	5,830,395
Building 8 - supermarket	23,801	150.43	3,580,384
Building 2 - residential	30,137	139.49	4,203,810
Building 3 - residential	26,176	139.49	3,651,290
Building 4 - residential	24,864	139.49	3,468,279
Building 5/6 - residential	47,998	139.49	6,695,241
Building 8 - residential	87,585	175.87	15,403,574
Totals	297,104		46,560,475

**Former Kirklees College
Developer's preferred scheme
Avison Young**

Contingency	5.00%	2,328,024	
Demolition		250,000	
Infrastructure		450,000	
Additional site works		500,000	
			3,528,024

PROFESSIONAL FEES

Professional fees	8.00%	3,820,838	
			3,820,838

MARKETING & LETTING

Letting Agent Fee	10.00%	106,992	
Letting Legal Fee	5.00%	53,496	
			160,488

DISPOSAL FEES

Residential agent fee	1.00%	395,695	
Residential legal fee	0.50%	197,847	
Commercial agent fee	0.75%	139,536	
Commercial legal fee	0.50%	93,024	
			826,102

Additional Costs

Rent free building 1		161,775	
Rent free building 2		78,045	
Rent free building 7		401,835	
			641,655

FINANCE

Multiple Finance Rates Used (See Assumptions)			
Land		(30,709)	
Construction		(1,967,280)	
Letting Void		2,109,465	
Other		3,471,804	
Total Finance Cost			3,583,281

TOTAL COSTS

59,425,363

PROFIT

4,884,765

Performance Measures

Profit on Cost%	8.22%
Development Yield% (on Rent)	1.80%
Equivalent Yield% (Nominal)	5.75%
Equivalent Yield% (True)	5.96%

IRR 12.34%

Rent Cover 4 yrs 7 mths
Profit Erosion (finance rate 6.000) 1 yr 4 mths

Contact Details

Enquiries

James Dinsley MRICS

0113 280 8049

James.dinsley@avisonyoung.com

Dale Robinson MRICS

0113 280 8074

Dale.robinson@avisonyoung.com

Visit us online

avisonyoung.co.uk

Avison Young

City Point, 29 King Street, Leeds LS1 2HL

Avison Young is the trading name of GVA Grimley Limited

© 2019 GVA Grimley Limited