

Hockley Viability Note

Introduction

This paper summarises the commercial market advice provided in relation to Eldon Way, which represents the key development opportunity within the Hockley Area Action Plan (AAP) study area. The focus of this work has been to provide qualitative commercial advice during evolution of the development options for the site and this advice in parallel with planning, design and transport consideration has informed the preferred option for the site.

In addition to the qualitative commercial advice a high level viability assessment of the Eldon Way development opportunity was also undertaken to inform the viability of development. This involves making an assessment of the completed development value (Gross Development Value) and then deducting the costs of development, including profit, infrastructure costs and other Section 106 contributions, in order to arrive at a residual land value. The viability assessment has been undertaken using the Argus Developer proprietary software.

Our opinion of GDV is calculated on the assumption that the proposed scheme has been completed, having regard to comparable transactions. Our costs are based on figures provided by BCIS, published cost information sources and our previous experience of similar schemes. Although the analysis does not constitute a formal valuation as defined by the RICS Valuation Standards (“Red Book”) it does provide a good indication of the viability of the proposals and is consistent with the approach a developer might adopt.

Our key assumptions are highlighted below following a brief overview of the market context. Further information in this respect can be found in the main document.

Market Context

It is important to acknowledge that the AAP for Hockley has been prepared whilst we are starting to emerge from the backdrop of some of the most difficult economic conditions on record. The slowdown in the property market and reductions in public expenditure limit the availability of funding to support the town centre’s growth, particularly in the initial years of the plan.

More recently there have been some encouraging signs in London and the South East. This is typified by an increase in developers and investors re-entering the market place after a sustained period of inactivity. Progress does however remain slow whilst developers/investors carefully consider how best to progress plans in light of a likely period of slow growth and continued restricted bank lending. Inevitably developers are focusing on lower risk locations which have a clear road map to delivery.

It is clear from our market research that food retailing and residential use will be the main value driver for the Eldon Way Scheme given the characteristics of the site. Food retailing has proven to be the most active and viable property market sector over the past few years. The major supermarkets have reported strong profits and as a result have continued to seek new opportunities via either acquisition of new sites or store extensions /mezzanine floorspace. More recently however the major supermarkets interest has started to tail off especially for the larger format operations.

In terms of residential market despite the general market difficulties mentioned above, Hockley has remained relatively resilient and the town continues to be a popular place to live. As such there remains a steady level of interest from residential developers as well as demand from investors and occupiers.

Scheme evolution and design iterations

An initial capacity assessment was made of the site which considered the mix and form of development. The proposals comprise a mix of retail, leisure, employment and residential uses as illustrated in the Draft AAP. The initial design iterations found the site to have a capacity of approximately 145 residential units but following discussions with Rochford officers and in view of the local character and context, a maximum residential capacity of 100 dwellings was deemed appropriate.

Key Appraisal Assumptions / Commentary

Given the high level nature of the viability work it has been necessary to adopt a number of development assumptions, which are shown below. However it is important to highlight from the outset that the viability assessment has not been subject to specialist cost advice and therefore the construction costs are based on standard building cost indices (where available).

Externals, Site Preparation and Infrastructure

- An indicative allowance of 15% of build costs has been included for externals, site preparation and infrastructure including service connections. This equates to a cost contingency of circa £2.4 m. In addition an allowance of £200,000 has been included towards demolition costs, which is based on the extent of land take proposed and the number and nature of building / structures that will need to be demolished to facilitate development. In terms of site preparation we have assumed that there are no current or latent contamination issues that would adversely affect redevelopment of the site.

Build Cost

- The base build costs are based on standard building indices (BCIS), adjusted for the study area. BCIS provides a range of costs from low to high banding which can be applied depending on the quality of development proposed. For the viability analysis we have adopted build costs at the higher quartile within the BCIS cost range, which for ease of reference is set out in the table below.

Uses	Build Cost £ per sq m	Build Cost £ per sq ft
Private Residential	£1,076	£100
Affordable Residential	£969	£90
Food Retailing	£1,076	£100
A3 (bars, café and restaurants)	£914	£85
Offices	£861	£80
Car Parking	£1,000 per space	£1,000 per space

Parking

- In respect of car parking we have assumed 211 dedicated spaces for the proposed food store as well as a 72 space car park for station commuters. We have assumed a cost of £2,000 per car parking space in respect of these items. For the proposed residential parking we have assumed that the construction cost is inclusive of the residential build costs adopted.

Residential Market and Affordable Value Assumptions

- We have assumed an average private residential sales values of £250 per sq ft, which based on a typical sized family housing unit equates to circa £250,000 on an overall basis. We have adopted a policy compliant affordable housing position of 35% with an 80%/20% split in favour of social rented accommodation. We have assumed an average sales value of the social rented units of £100 per sq ft and £170 per sq ft for the intermediate units, which equates to approximately 40% and 65% of private values respectively.

Commercial Value Assumptions

- The site offers the potential to include a wide mix of commercial uses and as such we have adopted varying rental, investment and incentive assumptions based on the characteristics of the specific opportunity. The general tone adopted is set out in the table below:-

Uses	Rental Value (£ per sq ft)	Yield	Rental Incentives
Food retailing	£20.00	5.25%	
A3 (bars, café and restaurants)	£17.50	8.0%	2 years
Offices	£13.00	9.0%	1 year

Section 106

- We have also included an indicative allowance of £5,000 per residential unit as a S106 contribution.

Professional Fees

- We will adopt all usual professional fees for a development of this nature, equating to 12.5% of development costs, along with market standard agents’ and legal fees.

Interest

- Debt interest charged in respect of the schemes has been assumed at 7.00% to reflect the risk margin involved and reflecting the likely short to medium term continued lending constraints.

Project Contingency

- An overall contingency figure of 5% of total construction costs has been applied to all sites / options.

Letting, Disposal and Marketing Fees

- We have assumed a letting agents fee of 10% and letting legal fee of 5% and a disposal agent fees of 1%, and legal fee of 0.75% in respect of the commercial accommodation. For the residential accommodation we have assumed disposal fees for the agents and legal advisors equating to 1% and 0.5% repetitively. In addition an indicative marketing allowance has also been included based on the number of residential units being sold.

Developer's Profit

- A developer's profit reflects the level of risk attached to a specific project and therefore can vary significantly depending on the approach to implementation. For example assuming a traditional approach to development, typically a developer's profit ranges from 17.5% to 25% on costs where as a contractor's profit margin can be significantly lower often between 8% and 12% on costs. For the purpose of our initial viability assessment we would propose to use profit margin of 20% on costs.

Viability Summary

The viability analysis for the preferred option based on the commentary and development assumptions outlined above results in has a gross development value (GDV) in excess of £35 m and produces a gross residual land value of circa £5 m.

The development opportunity is with mix of ownerships and the properties are subject to varying tenancy arrangements. Within the Eldon Way Estate itself we are aware that there are currently a number of vacancies and there is evidence that a number of units have already changed from industrial use to leisure uses. We are also aware that some the units are in need of investment and without further investment the existing use value will continue to be diminished.

It is important to highlight that although the viability analysis undertaken as part of the process produces a positive land value this does not take in to account the cost of acquiring third party land and buildings to facilitate development. The viability of development will need to be continually reviewed as the project evolves and further design iterations occur.

Overall Conclusions

In conclusion the AAP can and must help to create the local conditions for renewed economic development. In particular, the development proposals for Eldon Way have been assessed by indicative viability and sensitivity testing to ensure that there is a realistic prospect of proposals being deliverable during the life of the plan.

The marrying up of planning and community objectives, design considerations, operational and infrastructure requirements and costs, together with the likely commercial attraction and viability of the development opportunity will reduce the overall risk of delivery. Given the scale of development proposed the Eldon Way development opportunity has the ability to be phased and as such there will be variations in respect of costs and values prevailing at the time the come forward, however in overall terms the proposal are considered to have a realistic prospect of being delivered over the plan period.

Ultimately the success of the Eldon Way development opportunity will require the Council and other public sector bodies to adopt a positive approach to the town centre's rejuvenation, and willingness from the private sector to commit to significant levels of investment.