Financial Viability Assessment – Review Redacted Version

Friends Life Ltd, Eden Westwood, Tiverton

Contents

1. Instructions and Terms of Reference

1.1. Instructions

Savills have been instructed by Mid Devon District Council to prepare an independent review of the financial viability study prepared by GL Hearn assessing the viability of the development proposals at Eden Westwood, Tiverton.

The purpose of this review is to provide an independent assessment of the Viability Statement which analyses the financial viability of the proposed allocation of Eden Westwood in the Mid Devon District Local Plan.

The Royal Institution of Chartered Surveyors (RICS) Guidance Note, *Financial Viability in Planning (1st edition)* (the RICS Guidance) states that:

A viability appraisal is taken at a point in time, taking account of costs and values at that date...[and is]...An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project.

This viability assessment is submitted to the Council on a strictly confidential basis. All information and evidence provided in this submission must be treated in confidence and must only be provided to persons directly involved in reviewing the information on behalf of the Council for the purpose of agreeing the Section 106 package.

This report has been prepared to validate and review the input parameters provided by GL Hearn in their report, and to provide comment as to the sites viability.

1.2. Experience

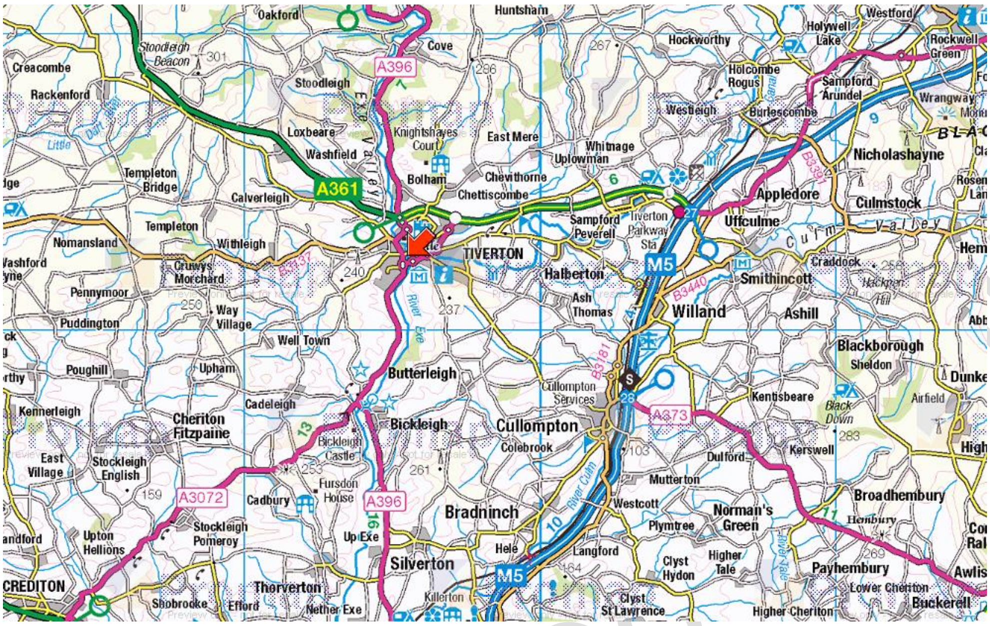
This assessment has been prepared by Nick Walker PhD MRICS (Associate), Development Surveyor of Savills Exeter Office. The assessment has also been reviewed by Hugh Neason FRICS (Director), Head of the Valuation Department of Savills Exeter Office. Nick has experience of advising on financial viability of residential, commercial and mixed use development sites, whilst Hugh has significant experience advising across the South West and in Devon specifically.

Savills (UK) Ltd is the trading name for the property service subsidiary in the UK and is one of the largest multi-disciplinary property consultancies in the UK. Its core business is to service the requirements of the commercial, development, residential, rural and leisure property markets with a network of over 100 offices nationally. Savills employs in the region of 4,070 UK staff and is one of the few firms in the South West region with a department dedicated to providing specialist development land services.

2. The Property

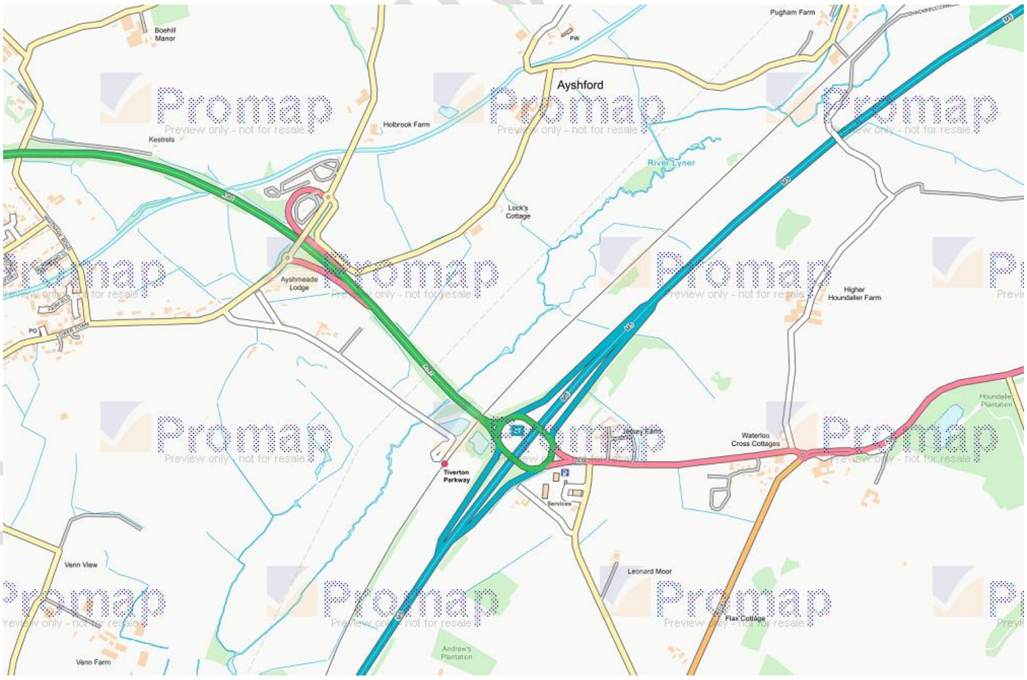
2.1. Location

Tiverton is a traditional market town having a population of about 19,544 and is located 21.33 km (13.26 mi) north of Exeter and 9.66 km (6 mi) to the East of Junction 27 of the M5 Motorway. A general location plan is set out below.



2.2. Situation

The proposed site abuts the M5 to the south east at Junction 27. We have provided a Local Street Map below:



2.3. Proposed Development

2.3.1. Overview

The land at Junction 27 of the M5 Motorway has been proposed in the Local Plan Review document identified for major development and extends to a site of approximately 71 hectares, adjoining the south bound carriageway of the M5.

The site provides a prime location for the delivery of a major leisure destination themed around agriculture and the agri-economy, the regional environment and tourism, outdoor land and water-based adventure activities and outlet-retailing.

It is our understanding from the report provided by GL Hearn that the proposed allocation makes provision for the following elements and uses:

"The construction of a leisure-led mixed use development (known as Eden Westwood) including:

- Outdoor Adventures – would be based on a surf lagoon. It would use newly developed technology to provide perfect surfing waves in an inland location. It would be the focal point for a variety of supporting outdoor activities such as beachside play, aerial high ropes and 'adrenaline' activities.
- Eden Ark – would be an 'agronomy centre' – a visitor attraction enabling people to understand issues relating to food production and promoting sustainable food production. It would be contained in a landmark building. It would contain a regional visitor hub, festival food hall, ticketed visitor attraction called Eden Gallery, food and drink related business/enterprise units, and a 100 room themed hotel.
- Designer Outlet Centre – will provide a retail offer that is different from that offered in town and city centres in the south west, offering the opportunity for retailers, many of whom are not found on the high street, to sell end-of-range and surplus stock direct to consumers.
- Travel Hub – would provide services for travellers, including fuel and a hotel associated with the services.
- Supporting infrastructure – a range of infrastructure required to facilitate and support the development.

2.3.2. Accommodation Schedule

We have been provided with the following accommodation schedule which we have relied upon.

Zone	Use	Use Class	GIS sq ft
1	Travel Hub		
	Electric car hub	Sui Generis	
	Traveller Services	A1/A3	18000
	Hotel	C1	60000
2	Eden Park		
	Regional Visitor Hub	A2	10000
	Festival Food Hall	A1/A3	30000
	Eden Gallery	Sui Generis	70000
	SME Business/Enterprise Units/ Research and Education Hub	D1	25000
	Themed Hotel	C1	60000
3	Designer Outlet Centre		
	Retail	A1	150000
	Cafe / Restaurants	A3	20000
4	Outdoor Adventures		
	Surf Park Anchor	D2	15000
	Outdoor activities / play		
		Total	458000

3. Methodology

3.1. Background

To test the financial viability of the proposed development, GL Hearn have undertaken a residual development appraisal, dated 17th August 2016.

In reviewing the development appraisals, we have been mindful of the RICS Guidance Note 'Financial Viability in Planning'. This document states that financial viability assessments for planning purposes should be approached on an objective and best practice basis to the extent that the conclusions are capable of unbiased objective scrutiny.

Financial viability for planning purposes is defined in the guidance as follows:

"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project"

The residual appraisal methodology involves a calculation of the Gross Development Value (GDV) of the scheme and deducting from that all costs incurred in carrying out the development, including construction costs, professional fees, finance charges and developer's profit, in order to arrive at a RLV. The Guidance also states that in undertaking scheme specific viability assessments, the nature of the applicant should be disregarded, as should benefits or dis-benefits that are unique to the applicant. The aim should be to reflect industry benchmarks in development management viability testing.

Planning Practice Guidance published by the Department for Communities and Local Government states the following in respect of individual scheme viability:

Para 021: Gross Development Value

On an individual development, detailed assessment of Gross Development Value is required. On housing schemes, this will comprise the assessment of the total sales and/or capitalised rental income from the development. Grant and other external sources of funding should be considered. On retail and commercial development, assessment of value in line with industry practice will be necessary.

Wherever possible, specific evidence from comparable developments should be used after adjustment to take into account types of land use, form of property, scale, location, rents and yields. For housing, historic information about delivery rates can be informative.

Para 022: Costs

Assessment of costs should be based on robust evidence which is reflective of market conditions. All development costs should be taken into account including:

•build costs based on appropriate data, for example that of the Building Cost Information Service;

> *•abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or historic costs associated with brownfield, phased or complex sites;*

•infrastructure costs, which might include roads, sustainable drainage systems, and other green infrastructure, connection to utilities and decentralised energy and provision of social and cultural infrastructure;

•cumulative policy costs and planning obligations. The full cost of planning standards, policies and obligations will need to be taken into account, including the cost of the Community Infrastructure Levy.

•finance costs including those incurred through loans;

•professional, project management and sales and legal costs

Para 023: Land Value

Central to the consideration of viability is the assessment of land or site value. Land or site value will be an important input into the assessment. The most appropriate way to assess land or site value will vary from case to case but there are common principles which should be reflected.

In all cases, land or site value should:

•reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;

•provide a competitive return to willing developers and land owners (including equity resulting from those wanting to build their own homes); and

•be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.

Para 024: Competitive return to developers and land owners

The National Planning Policy Framework states that viability should consider "competitive returns to a willing landowner and willing developer to enable the development to be deliverable." This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.

A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.

3.2. Methodology

The appraisal software used by GL Hearn is Argus Developer, which is the market leading package used by chartered surveyors and developers for assessing the value of development sites. It represents a fully explicit cash flow model, whereby the outputs are summarised in a single page format.

GL Hearn have stated that they have looked to reach an acceptable viability benchmark based around the Existing Use Value (EUV) plus a premium. They have further detailed that the premium that should be applied should reflect the competitive returns for the land owner and is the percentage difference between the EUV and the Market Value, which makes the assumption that the landowner will seek to achieve the full return offered by the market. This is a standard and agreed approach in the market.

4. GL Hearn Viability Benchmark Value

4.1. Viability Benchmark Value Overview

GL Hearn have predominantly adopted the Existing Use Value approach plus a premium given the quantum of land involved and the limited prospect for alternative development to that proposed.

It is Savills opinion that this is the correct approach to have adopted in this instance ahead of Market Value.

Where relevant, they have also had reference to the Alternative Use Vale approach.

4.1.1. Agricultural Land

GL Hearn have stated that the value of agricultural land in the current market is at a level of £9,000 per acre. The established land owners competitive return in the NPPF states that the figure put forward should be somewhere between the existing use value and the development land value. Taking this into account, they have then applied a multiple of 10 times the agricultural land value taking into account the requirement for the land owners to be incentivised in order to release their land for the development of a more valuable use.

This has generated a benchmark rate of £90,000 per ace, which they have then applied to the gross agricultural area. Applying this across the 146 acres of agricultural land generates a Viability Benchmark Value (VBV) of £13,140,000.

Having spoken to our Savills Rural Team, they are in agreement that agricultural land is transacting at between £8,000 – 10,000 per acre in the current market.

Savills opinion is that the most valuable land use would be for residential development, and if there was a residential development led scheme proposed in this instance a multiple in the region discussed above by GL Hearn may be appropriate. However taking into account the proposed development, it is considered that the agricultural land would not be able to achieve the same premium as that which would be applied to potential residential development land. In applying a premium to the agricultural land, we are of the opinion that a figure of £10,000 per acre could be justified with a multiple of 6 times the value to incentivise the land owner. This equates to a benchmark rate of £60,000 per acre, which would result in a VBV of £8,760,000.

4.1.2. Residential Properties

There are three properties which need to be purchased as part of the proposed development. GL Hearn have applied a value of £400,000 to the largest of the three properties and £300,000 to each of the other two properties. They have then applied a 20% land owners premium to these values to establish a VBV of £1,200,000.

It is our understanding that the large property referred to is Leonardmoor House and extends to approximately 173 sq m (1,862 sq ft), although we have not had this confirmed and we have no details of the accommodation or the sizes of the other properties detailed. Having had regard to the Savills Residential team, it is their opinion that the subject properties would be able to achieve in the region of £220 - 240 psf.

Bearing the above in mind, it is likely that Leonardmoor House would be able to achieve a value in the region of £400,000 - £450,000. Due to the limited information, we are unable to comment on the achievable values of the other two properties, however the assumptions and valuations applied by GL Hearn appear to be in line with the local market and as such the VBV of £1,200,000 applied would appear to be within reasonable tolerances.

4.1.3. Hotel

With regards to the 40 room Travelodge, GL Hearn have applied a rate of £3,000 per room capitalised at 7% NIY. This generated a capital value of £1,600,000 after the deduction of purchasers costs. A premium of 20% has then been applied to produce a VBV of £1,920,000.

We have discussed the Hotel market with the Savills Hotels department, who are of the opinion that for a Travelodge the rate that should be applied per room is between £3,000 - £4,000 per room, with yields likely to be in the region of 6 – 7%.

Taking the above into account, we are happy with the figures and the VBV attributed to the existing Travelodge.

4.1.4. Moto Petrol Filling Station

GL Hearn have advised that the Moto Petrol Filling Station has a passing rent of £36,250 pa, which is due to expire in March 2018. They have sought advice from CBRE's Automotive team who have suggested that a rack rent of £105,000 pa would be achievable at an equated yield of 8.5%, giving a net initial yield of 3.3% and a reversionary yield of 9.6%.

This provides a capital valuation of £1,000,000 after the deduction of purchasers costs. A premium of 20% has then been added to produce a VBV of £1,200,000.

Given the passing rent, the advice provided by the CBRE Automotive team, and based on experience of similar valuations previously, it is Savills opinion that this VBV is logical and reasonable.

4.1.5. Existing Moto MSA

It is our understanding that the current Moto MSA includes a Burger King and Costa Coffee. GL Hearn have taken advice from CBRE who have proposed an annual EBITDA of £125,000 and a capital value of £1,250,000. A premium of 20% has then been added to provide a VBV of £1,500,000.

Savills have not been provided with any further information on this in terms of the breakdown of the relevant spaces, leases and earnings breakdown, meaning it is hard to comment in detail.

Due to the lack of information provided, Savills have assumed that the figures provided by CBRE with regards to the Existing Moto MSA VBV are reasonable.

4.1.6. MSA Extension

There is an outline consent to expand the existing MOTO MSA which would involve the expansion of the existing facility and providing 1,750 sq m of space for Class A1 retail use and Class A3 restaurant /cafe use, as well as ancillary purposes including parking, HGV fuel stop, picnic area and a new roundabout.

GL Hearn have valued this consent using a standard residual valuation method to generate an Alternative Use Value (AUV), which in our opinion in this instance is the correct method to generate a benchmark value.

The inputs in their appraisals are as follows:

- Market Value
  - CBRE Automotive team have advised that an aggregate rent roll of £700,000 is appropriate at a net initial yield of 7%;
  - This results in a GDV of £9,500,000;
- Development costs
  - Construction costs of £150 psf have been assumed. It is our opinion that a figure in the region of £120 – 150 psf is appropriate;
  - £750,000 has been applied for the construction of the HGV forecourt;
  - £125,000 per acre has been applied for the external works and landscaping;
- Marketing, Acquisition and Sales Fees
  - Stamp duty of £80,240, agents fees of 1% and legal fees of 0.5%. It is Savills opinion that these are in line with standard market assumptions;
- Developers Profit
  - A profit on cost of 20% has been applied which is in line with standard market assumptions;

The development appraisal produced a residual land value of approximately £1,800,000, which taking into account the inputs and assumptions above seems reasonable and appropriate.

4.1.7. Viability Benchmark Value

From the above breakdown and analysis, it would seem appropriate to adopt a VBV of £16,380,000, which can be broken down as follows:

- Agricultural Land £8,760,000
- Residential £1,200,000
- Hotel £1,920,000
- Petrol Filling Station £1,200,000
- Existing MSA £1,500,000
- MSA Extension £1,800,000

5. GL Hearn Financial Modelling Inputs

5.1. Gross Development Value Assumptions

5.1.1. Zone 1 – Travel Hub

We understand that the Travel Hub will include a Hotel as well as Traveller Services.

5.1.1.1. Hotel

GL Hearn have assumed that a budget operator such as Travelodge or Premier Inn would take up a lease in the Travel Hub. This has been valued at approximately £6,000 per key. They have then capitalised this at a net initial yield of 5.5% and deducted purchasers costs.

With regards to the budget operator, having spoken to our specialist in house Hotels team, they have advised that for a new Travelodge, it is likely that a value in the region of £4,000 – 5,000 per key would be appropriate, with a yield off 6 – 7%, in line with the comparables detailed in the previous section. For a Premier Inn, a slightly higher figure per Key is achievable between £5,000 - £6,000 per key, with a yield between 4.5 – 5.5%.

In addition to the initial information provided by GL Hearn, Savills have subsequently been provided with further comparable evidence which demonstrates that recent Premier Inn transactions have averaged 4.55%, whilst Travel Lodge transactions have provided an average yield of 6%

As it is unclear at this stage what operator will be in occupation, a rate of £5,500 per key has been applied, and Savills have adopted the capitalisation rate used by GL Hearn of 5.5%, which produces a capital value of 10,000,000.

5.1.1.2. Travel Services

For the proposed Traveller Services, it is our understanding that this will include an Electric Car Hub which will provide electric car facilities as well as a Petrol Filling Station, restaurants, retail and bathroom facilities and car parking. Specialist advice has been provided by CBRE's specialist automotive team who have advised that a rent of £1,000,000 pa is adopted and capitalised at 5.75% NIY.

5.1.2. Zone 2 – Eden Ark

Eden Ark will have a Themed Hotel a regional visitor hub, a festival food hall, a gallery and a Business, Research and Education Hub.

5.1.2.1. Themed Hotel

GL Hearn have adopted a rate of £6,500 per room and a have capitalised the income at 6% NIY.

Taking into account the discussion and comparables above with regards to Hotels, it is Savills opinion that a rate of £6,500 is towards the higher end of the values that could be achieved in this area. A figure of £6,000 is deemed more appropriate, capitalised at a rate of 5.5%, producing a capital value of £10,909,091.

5.1.2.2. Regional Visitor Hub

A rent of £10 psf capitalised at 6.5% NIY has been assumed. This appears to be reasonable and in line with the general market.

5.1.2.3. Festival Food Hall

GL Hearn have applied a rental value of £30 psf has been applied with a capitalised rent of 7% NIY. It is felt that for the proposed use class, this rental value is too high, with the market position in the region of £15 psf, which is the rental value adopted in our appraisal, producing a capital value of £6,428,571.

5.1.2.4. Eden Gallery

GL Hearn have sought advice from Colliers Destination Consulting and have assumed that there will be 150,000 ticket sales at the Gallery per year. A blended ticket price of £7.50 per person has been adopted producing an annual turnover of £1,125,000. A 40% EBITDA ratio has been applied to generate a rental value of £450,000 pa and a capital value of £5,400,000.

Having looked through the methodology applied by Colliers Destination Consulting Savills is happy to accept the specialist advice and figures provided and have applied this in out appraisal, although having looked through the appraisal provided by GL Hearn, it appears that they have taken the turnover figure of £1,125,000 and capitalised this at 8%, to produce a capital value of £14,062,500 in their appraisal instead of the figure of £5,400,000 quoted. We would further comment that at this stage the valuation is clearly dependent on the proposed number of visitors and sales per year, and a variation in these numbers has the potential to have a significant impact on the value.

5.1.2.5. Business, Research and Education Hub

It is understood that the business research hub will provide offices and classrooms as well as some accommodation. It has a proposed D1 planning use and a rent of £15 psf has been adopted by GL Hearn at 7% NIY.

Taking into account the mixed nature of the proposed business research hub, it is our opinion that the proposed rent of £15 psf is too high and that a more appropriate realistic rental figure should be more in line with £12.50 psf, capitalised at a rate of 7%, producing a capital value of £4,464,286.

5.1.3. Zone 3 - Designer Outlet Centre

This zone is to include a large Designer Outlet Unit as well as approximately 20,000 sq ft of cafes and restaurants.

5.1.3.1. Designer Outlet Units

GL Hearn have provided a number of examples by way of approximate turnover figures for comparable outlet centres ranging from £350 psf up to £2,500 psf.

It is understood that the proposed scheme would be at the upper end of the designer outlet centre market, comparable to Gun Wharf Quays in Portsmouth. This generates a turnover of £600 psf. GL Hearn have assumed that a lower rate between £400 – 450 psf is more likely initially at the new centre, and have then applied a blended rent of £43 psf across the whole outlet store capitalised at a NIY of 6%.

Savills would comment that whilst the proposed scheme is targeting the higher end of the Designer Outlet Centre models, it will take a reasonable time to make progress with this and build up the retail and customer base to achieve the turnovers seen at some of the comparable established designer outlets. As such a lower rate of turnover would appear to be a reasonable position to have assumed, and it is likely that as an investment opportunity it would actually achieve a rental value in the region of £35 psf. Having had further discussions with GL Hearn on the rental value level, Savills have been provided with a document from FSP Retail Business Consultants who undertake performance growth projects and feasibility studies at a number of significant outlet centres in the UK. This document detailed evidence of rents of £40 psf being achieved at Designer Outlet Centres in Mill Green in Cannock and Scotch Corner in Richmond. In line with the evidence put forward by FSP, we have applied a rental value of £40 psf. We have then applied a two year rent free period and capitalised this income at a rate of 5.5%, which generated a capital value of £98,012,991. This is lower than the figures applied by GL Hearn, however we feel that it is more appropriate for such a significant proposal in the location.

It is also important to stress that the inputs of these figures are very sensitive to the capital values that could be achieved, and in turn very sensitive to the viability of the proposed scheme as a whole. For the proposal to be viable and successful, it hinges on the value and success of the Designer Outlet Centre.

5.1.3.2. Cafes/ restaurants

It has been assumed that the units will be let to national brands. A rent of £40 psf has been adopted by GL Hearn and capitalised at a yield of 6% in line with the yield for the Designer Outlet Units, on the assumption that it will be sold as a single investment. Although it is likely that the A3 use class will be sold as part of the larger A1 proposal, it is felt that a rate of £40 psf is too high to be applied.

We have had regard to information on the rent reviews at Royal William Yard in Plymouth, which have all demonstrated rents of £30 psf. It is our opinion that the units are likely to achieve £30 psf, although a yield of 5.5% has been applied due to the likely strong covenants that will be attracted as part of the wider development.

5.1.4. Zone 4 – Outdoor Adventure

It is understood that this will provide an outdoor activity and play destination which will include an artificial surf park. Specialist advices has been sought from Colliers Destination Consulting who have carried out a profits valuation. This has produced a capital value of £4, 520,000. Having looked at the appraisals provided, a build cost of £9,000,000 has been applied to build the outdoor adventure centre. Bearing this in mind, it is felt that this element of the scheme is therefore completely unviable, and in our opinion wouldn't come forward for development and should be removed from the scheme.

Savills has subsequently bee advised that further research and analysis has been carried out by Colliers Destination Consulting having reference to a comparable scheme in Snowden and this has demonstrated that the profits valuation is now showing a capital value of £7,624,000. Taking into account that the proposed build cost is £9,000,000, it is still our opinion that the Zone should be removed from the development, however as the proposal as a whole needs to be considered, the Outdoor adventure Zone has been put into our appraisals.

5.1.5. Development Costs

5.1.5.1. Build Costs

GL Hearn have been provided with set build costs figures by CBRE Automotive and Colliers Destination Consulting in relation to certain aspects of the development.

As detailed above, one of these costs includes a cost of £9,000,000 for the outdoor adventure Zone 4, therefore making this aspect unviable.

Having discussed the cost breakdown further, it is felt that the build cost applied for the delivery of the Eden Ark element (apart from the Hotel) is too high, and that this would be able to be delivered for £22,950,000, which breaks back to £170 psf.

The total build cost breakdown assumed in our appraisal is seen below:

Zone	Use	Use Class	GIS sq ft	Sq Ft	Build Cost £PSF
1	**Travel Hub**				
	Electric car hub	Sui Generis	-	-	£1,500,000
	Traveller Services	A1/A3	18000	140	£2,520,000
	Hotel	C1	60000	100	£6,000,000
2	**Eden Park**				
	Regional Visitor Hub	A2	10000	170	£1,700,000
	Festival Food Hall	A1/A3	30000	170	£5,100,000
	Eden Gallery	Sui Generis	70000	170	£11,900,000
	SME Business/Enterprise Units/ Research and Education Hub	D1	25000	170	£4,250,000
	Themed Hotel	C1	60000	130	£7,800,000
3	**Designer Outlet Centre**				
	Retail	A1	150000	90	£13,500,000
	Cafe / Restaurants	A3	20000	90	£1,800,000
		Total	**458000**	**1910**	**£56,070,000**

5.1.6. External Works

Further costs which GL Hearn have provided relate to the external works, services, car parking, internal roads and landscaping. It is Savills understanding that this land extends to approximately 104 acres, and GL Hearn have applied a rate of £125,000 per acre to this area, equating to a build cost of approximately £13,000,000.

5.1.7. Infrastructure Costs

It is also understood that GL Hearn have been provided with a cost for the duelling of the A38, improvements to Junction 27 of the M5 and other abnormal road works totalling £10,100,000. It may be that some of this cost can be funded through the public sector to make the development more viable.

5.1.8. Contingency

GL Hearn have allowed for 5% for contingency on the build costs, which is a standard market assumption.

5.1.9. Professional Fees

GL Hearn have allowed for 10% for professional fees, which is a standard market assumption.

5.1.10. Marketing, Acquisition and Sales Fees

With regards to all figures applied, Savills are happy that they are in line with Industry standard assumptions for a development of this nature.

5.1.11. Finance Rate

Finance has been calculated on the basis of a debit rate of 6%. It is Savills opinion that this is in line with market assumptions.

5.1.12. Development Profit

A level of developers return has been applied of 20% on cost. This is in line with industry standards and would be what is required to be an acceptable level of return for a development of this nature.

5.2. Conclusions

Taking account of the above cost inputs in the development appraisal from GL Hearn and our review of the numbers, Savills are satisfied that the key development costs into the appraisals are reasonable and in line with industry standards.

6. Development Viability

6.1. Financial Viability Assessment

Savills revised Argus Developer appraisal can be found at Appendix 1. The inputs and the results have been discussed above and are summarised as follows:

Gross Development Value	£181,340,296
Net Development Value	**£170,586,816**
Acquisition Costs	£1,414,677
Construction Costs	£67,770,000
Externals & Landscaping	£13,043,750
Highways, J27 & A38 works	£10,100,000
Contingency	£4,545,688
Professional Fees	£6,777,000
Marketing & Disposal fees	£923,255
Finance	£13,623,365
Developers Profit / Risk Return	£28,431,138
Total Costs	**£142,155,678**
Residual Land Value	**£23,577,944**

6.2. Conclusion and Recommendation

A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken. A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available.

From GL Hearn's financial viability modelling as detailed above, they are of the opinion that the residual land value of £22,052,111 generated by the proposed development exceeds the Viability Benchmark Value of £20,720,000 that has been arrived at, providing a surplus of £1,332,111.

Taking into account our comments on the methodology and appraisals, it is likely that the proposed benchmark value will be lower than the figure put forward by GL Hearn, primarily due to the fact that our opinion on the agricultural land VBV has decreased, giving a total VBV of £16,380,000. In looking at the proposed residual land value, we have run our own Argus Developer Appraisal applying the inputs discussed above. With the alterations, a residual land value of £23,577,944 is produced. This suggests that there is a £7,197,944 surplus and that the scheme would be viable.

In saying this, Savills would point out that the main driver for the viability and deliverability of the scheme is in the value derived from the Designer Outlet Centre. The scheme will require this to be successful and deliver the capital values to maintain the viability of the scheme. Where the appraisal is carried out without the inclusion of the Zone 3 Designer Outlet Centre, the scheme becomes unviable.

Appendix 1 – Development Appraisals

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