

Land at Queens Market, Rhyl

Financial Viability Note

September 2020

1. Introduction

This Financial Viability Note has been prepared by Cushman & Wakefield on behalf of Denbighshire County Council ('the applicant') to assess the viability of the proposed development at the subject site as part of their justification for the level of affordable housing that can be supported by the proposed scheme

The following sections of this note explain the proposed scheme and provide a summary of the indicative financial viability position.

2. Site Location and Description of Proposed Development

The planning application which this note is submitted in support of comprises a number of different buildings, including:

- The former Savoy Bistro and the car park behind;
- The former Queen's Hotel which has been intermittently used as a seasonal restaurant with a nightclub above,
- The former Queen's Theatre which is now derelict but was previously used as a bowling alley,
- The vacant land-locked retail unit "J" which has no street frontage,
- The partly occupied Queen's Market hall,
- The "Queen's Chambers" entrance to the market hall; and
- The Bright Spot amusement arcade and adjacent seasonally let retail units at 2-6 High Street (which would comprise a possible future phase of the project and for which a separate application has been made to Welsh Government for "Building for the Future" funding).

Apart from the Bright Spot amusement arcade and 2-6 High Street, the applicant already has deemed consent to demolish all the buildings identified above.

The full description of development is set out below:

"Detailed planning permission for Queens Market accommodating a Food and Market Hall (975sqm), Multi-purpose Events Space (517sqm), and Shared Service Core (356sqm), associated public realm and infrastructure, the refurbishment of the Queens Chambers building, Sussex Street, and the demolition of the Bright Spot building, West Parade/High Street and adjacent property at 2-6 High Street.

Outline planning permission for up to 80 apartments, 1,804sqm of A1/A3/A4 floorspace, 540sqm of D1 floorspace, and 5,794sqm of B1 office floorspace on land at Queens Market, Rhyl."

Initial pre-application discussion with the LPA has confirmed that this financial viability note only need consider the residential component of the proposals as underlined above.

3. Planning Policy Position

LDP policy BSC4 Affordable Housing requires development proposals of this scale to provide a minimum of 10% affordable housing on-site.

The LPA's Planning Obligations SPG (2016) and Affordable Housing SPG (2014) state that the Council will only consider a position which does not comply with Policy BSC4 in exceptional circumstances, which include the proposal meeting an identified, acknowledged and over-riding approved regeneration aim or project in accordance with an approved Council regeneration strategy, and where the provision of affordable housing would seriously prejudice this.

4. Viability Justification

Planning Policy Wales (PPW) states that where up-to-date development plan policies have set out the community benefits expected from development, it is for the applicant or LPA to demonstrate that exceptional circumstances justify the need for a site-specific viability assessment at the application stage.

PPW goes on to state that such circumstances could include, for example, where further information on infrastructure or site costs is required or where a recession or similar significant economic changes have occurred since the plan was adopted.

The Local Plan was prepared a considerable time ago, therefore the viability evidence underpinning the plan may no longer reflect current market conditions, and/or may not be consistent with the requirements in the updated national policy and guidance.

The applicant has undertaken further site due diligence to provide a robust, up-to-date assessment of the total costs associated with the subject development.

Furthermore, it is noted that the Local Plan allocates the site for retail development and hence the viability of an element of residential development at the site will not have been considered in the adopted Local Plan. The above factors therefore justify the need for a site-specific financial viability assessment (FVA).

Pre-application consultation with the Local Planning Authority ('LPA') has also confirmed that it is appropriate for an FVA to be submitted at the application stage to justify any non-compliance with Policy BSC4.

5. Approach to Viability Assessment

An initial assessment of viability has been undertaken to inform the scheme development and has informed the conclusions set out in section 6 of this note. A full FVA will be submitted with the planning application on a Private and Confidential basis for reasons of commercial sensitivity. The remainder of this section sets out the approach and basis for the full FVA.

In preparing the FVA, we will adopt the residual approach which is an accepted methodology for assessing site viability, and one which is used by housebuilders when preparing bids for development sites. This involves subtracting the total development costs from the GDV to arrive at a residual land value. This approach is advocated by the LPA in the Planning Obligations SPG.

Our residual appraisal will be prepared using Argus Developer software which is extensively used by key practitioners across the industry to ensure a robust and consistent approach to the cash flow modelling.

Best practice advocates the use of 'standardised inputs' to FVAs which include the GDV, build costs, abnormal costs, the total cost of all relevant policy requirements, developer's profit and the benchmark land value. We will follow this principle within our FVA whilst maintaining a market-facing approach to assessing viability using inputs which are based on robust evidence and our extensive market experience. This is to ensure that the FVA is realistic and reflects the actual market realities at the assessment date.

To inform our GDV assessment, we will utilise up-to-date, market evidence from existing developments.

In determining the development costs, information and assumptions will be based on the cost information provided by the applicant, the RICS Building Cost Information Service ('BCIS') as well as C&W's extensive market experience gained across previous viability, valuation, expert witness and land agency work including reviewing developer appraisals submitted to Local Authorities for the acquisition of residential development sites.

We will also consider the assumptions adopted in planning appeal decisions and relevant area-wide and site-specific FVAs undertaken by a wide range of other private practitioners.

We will assess the benchmark land value to compare to the present day residual land value of the subject site. In assessing the benchmark land value, we will allow a sufficient premium to incentivise the landowner to release their land for development whilst also allowing for a sufficient contribution to fully comply with policy requirements.

Appendix 1 of the Planning Obligations SPG sets out the information required as a minimum to enable the assessment of the viability of the residential component of the proposed development, which will be set out in the full FVA to be submitted to the LPA.

6. Key Conclusions

The initial assessment of viability for the residential component of the proposed development demonstrates a viability gap and indicates that the proposed scheme cannot support any affordable housing provision without compromising the viability of the development.

The applicant is committed to delivering the proposed scheme at the subject site, which would make a clear positive contribution to local housing supply and the regeneration of the site. However, subject to the findings of the full FVA, in order for the proposed scheme to be delivered, it will be necessary for the LPA to consider flexing their policy requirements.