Dudley Area Action Plan – Opportunity Site Development Viability Assessment

To support the proposed allocation of development opportunity sites included in the AAP, a high level development appraisal exercise has been undertaken to consider viability and deliverability of a number of sites. 6 Opportunity sites have been identified within the AAP boundary and a basic capacity exercise has been undertaken separately by the urban design team to determine the extent to which those sites could physically accommodate new development.

A number of options have been identified that deliver differing densities and mixes of uses and which require greater or lesser degrees of new or replacement infrastructure.

This exercise intends to consider to what extent the development of each of the options is economically viable. The assessment is not intended to provide a detailed appraisal of individual land ownerships but to undertake a high level comparison of resulting development land value and existing use value.

The exercise was undertaken within DMBC's property team by a valuation surveyor with over 25 years of experience in the field of development appraisal and viability. Each of the sites and the surrounding locale has been inspected and site specific variants that impact on viability have been identified. It is not the intention of this exercise to provide definitive valuations of any sites but instead to assess how likely development delivery might be using a set of market wide cost and value assumptions.

As a starting point, an estimate of the existing use value of each of the opportunity sites has been undertaking using valuation information held in the public domain; namely, rateable values of commercial properties and "Zoopla" house value estimates for residential properties based on Land Registry sales data. This approach accounts for over 90% of all properties within the opportunity areas, all but two of the remainder are small vacant derelict areas of land.

This approach does not take into account any potential for development value nor any ransom or marriage value that a land owner might consider they have, nor the does it take into account of the cost of any CPO should they be needed.

Each site has been looked at to determine the capacity for development of convenience and comparison retail, office, leisure and residential uses; and the extent to which those uses require parking to be provided by decked or multi storey car parking. Alternative options have been developed that incorporate differing densities, infrastructure requirements and retention or demolition of existing buildings.

To assess viability for each option, an average residual development land value has been calculated based on a standardised set of assumptions (as set out below), that reflect general market values and development costs, for Dudley town centre as at February 2016. None of the figures are intended to be specific to any particular site or property.

Generic Development Cost and Value Assumptions:

Food Retail		rent	yield	capital value	
	value	£20	4.5%	£444	psf

	Gross / Net floor area			71%	
				£317	
	construction & fit out contribution		£80		
	fees	15%	£12		
	finance	10%	£8		
	profit	25%	£20	-£120	
	rent free	2 yr	£40		
	marketing	10%	£2	-£42	
	residual value psf		**say**	**£155**	**psf**
	excluding abnormals			**£1,670**	**per m2**
Non Food Retail & A3		rent	yield	capital value	
	value	£12	6.5%	£185	psf
	construction		£60		
	fees	15%	£9		
	finance	10%	£6		
	profit	25%	£15	-£90	
	rent free	1 yr	£12		
	marketing	10%	£1	-£13	
	residual value psf			**£81**	**psf**
	excluding abnormals			**£880**	**per m2**
Offices		rent	yield	capital value	
	value	£8	8.0%	£100	psf
	construction		£100		
	fees	10%	£10		
	finance	10%	£10		
	profit	25%	£25	-£145	
	rent free	1 yr	£8		
	marketing	10%	£1	-£9	
	residual value psf			**-£54**	**psf**
	excluding abnormals			**-£580**	**per m2**
Residential	Sales Values	£180			
	residual value psf	25%		**£45**	**psf**
				£480	**per m2**
Car Parking	Average daily rate	£4			
	useage	75%			

	maintenance/management	30%	£2.10		
	annual income		£600.60	9%	
				£6,673	**per space**
Abnormal Cost Allowances					
	Extra Over Cost for Multi Storey Car Park			**£12,000**	**per space**
	Demolition			**£100**	**per m2**

The above values are applied to the net developed floor area for each option and the total net value is compared to the estimated existing use value of the properties that are needed to acquired/demolished for the delivery of each specific option.

The results of the appraisals are summarised in the table below followed by a short commentary on each opportunity site:

Site / Option	Food Sq.m	Comparison Retail min. Sq.m	Combined Retail	B1a	A2 / A3	Commercial Dev Land Value	Residential			Residential Dev Land Value	Car Parking	Car Parking Net Value	Combined Dev Land Value	EUV	Abnormals / Infra structure	Viability
1.1	0 m2	7,000 m2	7,000 m2		950 m2	£6,996,000	45 units	80 m2	3,600 m2	£1,728,000	350 spaces	£2,335,667	**£11,059,667**	**£10,262,056**	**£1,173,820**	**-£376,209**
1.2	0 m2	8,000 m2	8,000 m2		950 m2	£7,876,000	138 units	80 m2	11,040 m2	£5,299,200	488 spaces	£3,256,587	**£16,431,787**	**£10,262,056**	**£1,375,649**	**£4,794,082**
2.1a	0 m2	5,850 m2	5,850 m2		0 m2	£5,148,000	0 units		0 m2	£0	293 spaces	£1,955,287	**£7,103,287**	**£3,618,722**	**£803,812**	**£2,680,752**
2.1b	5,400 m2	2,550 m2	7,950 m2		0 m2	£11,262,000	0 units		0 m2	£0	514 spaces	£3,430,093	**£14,692,093**	**£3,618,722**	**£6,971,812**	**£4,101,559**
2.1c	7,000 m2	2,650 m2	9,650 m2		0 m2	£14,022,000	0 units		0 m2	£0	633 spaces	£4,224,220	**£18,246,220**	**£5,028,989**	**£8,444,422**	**£4,772,809**
2.2a i	4,500 m2	900 m2	5,400 m2		0 m2	£8,307,000	0 units		0 m2	£0	366 spaces	£2,442,440	**£10,749,440**	**£3,838,722**	**£3,803,812**	**£3,106,906**
2.2a ii	0 m2	5,800 m2	5,800 m2		0 m2	£5,104,000	0 units		0 m2	£0	290 spaces	£1,935,267	**£7,039,267**	**£3,838,722**	**£3,803,812**	**-£603,268**
2.2b	7,000 m2	1,900 m2	8,900 m2		0 m2	£13,362,000	0 units		0 m2	£0	595 spaces	£3,970,633	**£17,332,633**	**£3,838,722**	**£10,943,812**	**£2,550,099**
2.2c	7,000 m2	4,350 m2	11,350 m2		0 m2	£15,518,000	0 units		0 m2	£0	718 spaces	£4,791,453	**£20,309,453**	**£5,248,989**	**£12,464,422**	**£2,596,042**
3.1	0 m2	200 m2	200 m2		0 m2	£176,000	0 units		0 m2	£0	250 spaces	£1,668,333	**£1,844,333**	**£493,889**	**£3,054,130**	**-£1,703,686**
3.2	0 m2	4,300 m2	4,300 m2		0 m2	£2,838,000	0 units		0 m2	£0	215 spaces	£1,434,767	**£4,272,767**	**£2,085,556**	**£2,871,715**	**-£684,504**
5.1	0 m2	0 m2	0 m2		0 m2		0 units	75 m2	0 m2	£0	0 spaces	0 m2	**0 m2**			**£0**
5.2	0 m2	0 m2	0 m2		0 m2		0 units	75 m2	0 m2	£0	0 spaces	0 m2	**0 m2**			**£0**
6a.1	0 m2	0 m2	0 m2	780 m2	0 m2	-£452,400	30 units	80 m2	2,410 m2	£1,156,800	0 spaces	£0	**£704,400**	**£1,255,556**	**£476,644**	**-£1,027,800**
6a.2	0 m2	0 m2	0 m2	0 m2	0 m2	£0	40 units	80 m2	3,190 m2	£1,531,200	0 spaces	£0	**£1,531,200**	**£1,255,556**	**£476,644**	**-£201,000**
6b.1	0 m2	0 m2	0 m2	1,440 m2	0 m2	-£835,200	25 units	77 m2	1,920 m2	£921,600	0 spaces	£0	**£86,400**	**£310,361**	**£43,380**	**-£267,341**
6b.2	0 m2	0 m2	0 m2	0 m2	0 m2	£0	35 units	75 m2	2,640 m2	£1,267,200	0 spaces	£0	**£1,267,200**	**£310,361**	**£43,380**	**£913,459**

Site 1 – Flood Street / Constitution Hill / New Mill Street / King Street

Option 1 – Demolish and re-develop Falcon House and all existing built space within the red line, retain the lower Flood St car park. This sees the loss of nearly 12,000m^2 of existing commercial and retail floorspace plus almost 300 surface level pay and display car park spaces. Re-develop could create up to 7,000m^2 of comparison retail space and 950m^2 of A2/A3 space together with 45 new homes.

The option shows a viability deficit, principally because of the existing value and demolition costs attributed to Falcon House which provides over 8,000m^2 of floorspace, albeit in poor condition. Stand alone development of residential on surface level car parks do not suffer from the same cost implications.

Option 2 – Retain Falcon House for residential re-furbishment, development of all remaining land within the red line for retail/leisure/residential mixed use. Even at relatively low values, the inclusion of the residual value of 8,000m^2 of existing space together with savings on demolition costs provides for a much improved level of viability.

The inclusion of additional residential spaces in this option requires allocated car parking to be allowed for, and this can only be delivered within the immediate area by use of decked or multi storey car parking. This is significantly more expensive than surface car parking provision and an allowance is made in the appraisal, where appropriate, for the extra over cost of this compared to surface level parking, the cost of which has been reflected in general development costs.

Site 2 – Trindle Rd /Hall Street / Birdcage Walk

Option 1 assumes that the main transport infrastructure in the area remains largely unchanged and that development takes place within the existing road layout. 3 sub options consider varying densities of development and scale of convenience retail space. The higher density schemes require the use of multi storey car parking with resulting additional costs.

All three sub options show positive viability, with the highest density scheme showing the best profitability.

Option 2 assumes that there is extensive infrastructure work undertaken to close Trindle Rd and create a new access road to the south, thus allowing more developed space and creating an area of public realm to improve linkages between this site and the existing main retail centre. Whilst this approach provides many strategic and community benefits, it does come at a cost, and an allowance of £3million has been made to allow for the necessary works.

The four sub options to this approach again provide for a range of densities and mixes, but only the low density convenience scheme shows the highest positive viability. The sub option without convenience retail does not generate enough value to meet the cost of the infrastructure and demolition costs. The cost of multi deck parking, undermines the higher values generated in the other sub options.

The additional cost of the transport infrastructure work, impacts on viability of all the option 2 sub options and it may be that alternative sources of infrastructure funding will be needed to be secured to justify the more comprehensive development.

Site 3 – Castle Street /Tower Street

Option 1 looks only at the development of the vacant land plus the vacant Mahoe building off Tower St for a four storey multi storey public car park. Either because of current low demand for parking, or over supply across the town centre, it has not been possible to raise parking charges in the town centre to a sufficiently high level to make multi storey parking financially viable. Alternative sources of funding will need to identified to bridge any cost value gap to create a viable development.

Option 2 extends the site to include re-development of the existing retail units on Castle Street frontage to create new medium size retail units with dedicated multi storey car parking to the rear. Although the deficit is reduced for this option, the value generated by the new retail space is not sufficient to meet the acquisition and demolition costs of the existing space in addition to the deficit from the multi storey car park. This is because of the proportion of retail space being created at basement or first floor level, resulting in lower average rental values.

Development of this site is going to require either additional external funding to be levered in, or a significant write down of existing.

Site 4 – Trident Centre

This site has been excluded from the viability exercise due to the ground floor remaining in current uses with office /residential above.

Site 5 – High Street / King Street

This site hasn't been appraised in the same way is the others; it is a collection of small in fill schemes that will largely comprise refurbishment and some change of use. The nature of development and the extent of refurbishment required are impossible to estimate at a high level and in reality schemes will be tailored to meet affordability. Where projects are undertaken, there is unlikely to be any significant increase in floorspace. Development in this location will be required to be of high urban design quality reflecting the gateway location of the site.

Site 6 – King Street Abberley Street

This site has been split into two halves, separated by the Mata da Mandir temple, which has been excluded from this exercise. There are two options for each, one assuming commercial or community space along the King Street frontage at ground level with residential at first floor level above and with two storey residential on the other frontages. The other option is for residential development on all frontages.

There is no justification for speculative office development in the town centre since demand levels are so low. Market rental values are too low to be able to create enough capital value to meet build costs, let alone generate developers' profit or development land values. Option 1 therefore shows a negative viability on both sites even after taking account of the positive value generated from the residential development.

Where uses are community rather than commercial, the position is even worse, since occupiers of community space more often than not, either require the space to be provided at nil or nominal cost, or alternatively have an expectation of third party funding being provided to support an acquisition.

Option 2 provides a better return on development, being wholly residential, although the high existing use value and the cost of demolishing nearly 5,000m^2 of accommodation on the southern part of the site means that it is still not currently viability. Lower expectations on land value or value engineering on demolition costs might however provide sufficient savings to create viable development on this land. Residential development on the Vicar Street end of this site currently appears to be financially viable.

CONCLUSION

The above appraisals are based on existing values. The plan period looks at a longer time horizon than the current and thus there will be inevitable fluctuations over the plan period. However, the broad principles of issues surrounding that viability remain including in some cases issues of sites requiring demolition, remediation and other site preparation work. Dudley Town Centre is witnessing investment in the form of public grant and investment for significant public realm improvement and also grant for heritage buildings. This in turn has helped to increase activity in the town with potential significant opportunity for further investment. Similarly opportunities to unlock barriers to development and growth providing they demonstrate outputs of housing and jobs growth are available. An example of this would be LEP funding which would be made available to help remediate sites to bridge viability on schemes or to provide funding to help with demolition costs. The Council is proactively working towards seeking funding for a variety of sites to bring forward which are in line with the development aspirations of the Dudley Area Action Plan.

Tony Haddock MRICS
Principal Surveyor
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