

*West Lancashire Borough Council
Housing and Regeneration*



Beechtrees Flats Option Appraisal

2013/14

Appendix G

Option 6

Analysis and
costings

"To be a top performing
landlord within an
economically vibrant
West Lancs"

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1 Introduction

This report will deal with option 6 or the demolition and sale of land scenario with outline planning permission.

This option 6 consists of the demolition of nine blocks containing 48 flats, a short terrace of five houses and 9no end terrace houses. The subsequently cleared site could be offered for sale with outline planning permission for residential redevelopment of approximately 58 dwellings.

The purpose of this appendix is to illustrate the relative merits this option.

2 Projected costs

This section covers the Clearance and subsequent Sale of the land with outline planning permission.

The costs for demolition of the flats and houses have been taken from the feasibility cost plan included in Appendix D. As with earlier options, the figure stated was adjusted due to the over-estimation in the Architect's document.

Again fortunately for this possible scheme, there is only one lease holder property within the existing blocks of flats to be demolished. This property would require the lease buying back from the owner, and it would probably also incur costs for Home Loss, Disturbance and Legal Fees to allow the blocks to be demolished.

TABLE 1 Cost breakdown for potential Sale of land

Property type	Quantity	Unit Cost	Total
Demolish costs complete including service disconnections and making good	1	-£264,191	-£264,191
Demolition of Houses to increase land area and value	9	-£3,206	-£28,853
Buy back of leasehold property, including for disturbance home loss and legal fees	1	-£42,500	-£42,500
Home loss payment including admin fees	56	-£5,170	-£289,520
Fees and Contingencies	1	-£62,500	-£62,500
Semi detached mews house	20	-£75,073	£1,501,460
2 bed flat	24	-£88,379	£2,121,096

The figure of £42,500 for the buying back of the lease from the leaseholder was provided by the Development section and is a predicted value only.

The value of £5,170 for the home loss payment has had a 10% cost uplift to account for administration fees. This payment is only eligible to be paid to tenants that have been in residence in the property for a minimum of 12 months. In this option, all residents to be displaced are assumed to be entitled to the home loss payment as a worst case scenario.

A figure of £62,500 has been assumed for consultants and specialists fees and also includes for a contingency sum, the total of which is approximately 10% of the estimated demolition and home loss costs. This of course should be increased if there is a substantial increase in any of the estimated costs.

The newbuild costs have been taken from option 5. It is assumed that any development of the site would be similar in nature and therefore cost to the scheme proposed by ourselves.

In order to obtain an accurate value for the land, an analysis has been produced by the estates department. The costs detailed above have been offset against the potential market value of the new houses in the scheme.

The scheme allows for 10% affordable housing which could only be sold at a discounted rate.

3 Estates Department Valuation of Site

	Note No.
GROSS VALUE OF COMPLETED SCHEME £3,290,000	
less allowance for 10% affordable housing £148,050	1
less costs of sale £31,420	4
NET CAPITAL VALUE £3,110,53	
DEMOLITION/SITE COSTS (<i>use fixed value</i>) £293,000	5
<i>Interest on demolition costs (whole building period)</i> £45,415	3
BUY BACK HOMELOSS LEGALS/DIST £332,020	5
<i>Interest on above costs (whole building period)</i> £51,463	3
BUILDING COSTS: £4,673,572	5
<i>Interest on building costs - finance (half the building period)</i> £362,202	3
FEES AND CONTINGENCIES £62,500	5
<i>Interest on fees (two thirds of building period)</i> £8,333	3
BUILDING COSTS AND INTEREST £5,445,021	
DEVELOPERS PROFIT £1,089,004	6
TOTAL COSTS: £6,534,026	
RESIDUAL LAND VALUE -£3,423,495	2

Notes to Valuation

1 Assumption: affordable element is valued at 55% MV. A change to this percentage will not have a significant effect on the valuation

2 This valuation includes all fees and a contingency sum

3 This valuation is carried out on a market value basis so interest is calculated on all costs due to the need for purchasers to obtain finance on the acquisition

Even if interest/finance was not applicable the valuation would not be effected enough to make the scheme commercially viable

4 Costs of selling finished properties - Agents' fees

5 Figures provided by customer

6 An open market sake would be to a developer who would require a profit on the scheme. This is estimated to be 20% of the build costs

A reduction in developers profit would still not make the scheme viable

4 Outcome

- Potentially 58 new build properties with minimum 10% affordable housing
- The residual value of the land is negative due to the low market value of the finished scheme. In order to allow a developer to make a profit, a substantial cash incentive would need to be offered essentially giving the land a net value of -£3,423,495
- This scheme would not be financially viable unless the market value of the new houses and flats were to double.
- Potential positive affect on business plan from reduction in maintenance, management and capital investment costs but this would be cancelled by the costs involved.
- Number of rentable units reduced by 56 dwellings and 16 garages.
- No further income from rent or development potential would be possible from this site if this option were adopted