

APPENDIX 2:

**Financial Appraisal undertaken by Kemsley
LLP**

DC-Supp



Our ref: GEN/10288

19 January 2011

Rosegrove Developments
Little Arnolds
Stapleford Tawney
Romford
RM4 1RD

FAO Mr R Hilder

Dear Sirs

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FAO Katie Smith (ref PL/KS/EPF/1153/09)

**Proposed Development Rear of 103 High Street, Chipping Ongar, CM5 9DX
Planning Application, reference EPF/1153/09**

Instructions

I was instructed, by letter of 17 December 2010, from Stephen Hayhurst, to undertake an "affordable housing financial viability assessment" of the proposed development to the rear of 103 High Street, Ongar. With that letter I was provided with various background papers, as listed in that letter, including: a copy of the planning application; minute of the sub committee meeting of 16 December 2009; budget construction costs from Thornwood Construction Group dated 01 July 2010; and a letter from John Sears, estate agent, of 23 July 2010.

There are two types of appraisal. Valuers tend to be trying to get to the site value, so do a residual appraisal, deducting all likely costs and a profit margin from the Gross Development Value, to leave the residual site value. By contrast, developers generally start from a site value, and end up with a profit margin.

I inspected on 11 January 2011, and met Mr Hilder on site. I confirm, other than that meeting, I have neither met him, nor acted for him or his development company before.

I append some photographs taken by me during that inspection. Also, a plan showing the site (edged red as proposed for development and blue the front part), together with a proposed layout plan.

Brief Description

Chipping Ongar is a popular residential location in South Essex, outside the M25, but reasonably conveniently located for access to the M11 motorway. It used to be at the end of the London Underground service, but this was discontinued, although there are proposals to reinstate it. In common with many towns, the retail traders have suffered, and there are a number of vacant and other shops available on the market. The baker's shop adjacent to this property has closed.

This site forms the rear of 101/103 High Street, and extends behind a public house. It backs onto an open and rather overgrown area, running down to the river, and forming a flood area.

Offices: Basildon, Chelmsford, London, Romford

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On the Local Plan (adopted January 1998) the property is shown as being within the Town Centre area, and the Conservation Area the area behind it is shown as liable to flooding. It is adjacent to, but just outside the assumed line of the Town Earthworks associated with the motte and bailey castle (hence, presumably, the proposed archaeological planning condition).

The site is accessed by a narrow concrete drive between existing buildings, and is set behind a butcher's and a stationer's shops. It comprises a number of existing small units, which have been let for commercial purposes, but are predominantly empty now. See later, but some of these will be retained and others demolished under the proposals. I am told, at one time, it was used as a slaughterhouse, and the cold store remains. Otherwise, the bulk of the site has a concrete surface. The buildings form the boundary to part, with a low brick wall behind the public house, and timber fencing elsewhere (part in poor condition). There are few trees on site, although there is a tall grown cypress hedge by the south west corner, outside the boundary.

The existing use was set out in a Certificate of Lawful Development for Existing Use as B1, B8 and A1 uses (reference EPF/1513/07/CLD). Although not entirely specific, I assume the B1 and B8 uses relate to the area proposed for development and subject of this report, and the A1 relates to the ground floor of the front part.

From the planning application, the site is stated as being 850m².

Planning Application

A planning application, reference EPF/1153/09, was submitted for "partial demolition of existing buildings, conversion adaptation of existing business units to form 3 X 1 bedroom cottages, construction of 2 X 2 bedroom cottages, bin stores, bike stores and provision of parking spaces". Epping Forest District Council resolved to grant consent subject to 10 conditions and a Section 106 Agreement. I have not seen a copy of a draft agreement, but, the planning committee minute states this is to be "a legal agreement ... to secure provision of one affordable housing unit within the site". I summarise the proposed conditions as:

1. to be implemented within three years;
2. approval of external finishes;
3. withdrawal of certain permitted development rights;
4. landscaping;
5. parking areas;
6. hours for construction works;
7. contamination: investigate, remediate, report afterwards;
8. an archaeological investigation;
9. detail of windows etc;
10. windows to be timber sash, recessed.

These conditions are broadly in line with my expectation, within a Conservation Area. There is a cost implication in respect of the contamination condition, plus a cost and potential delay implication in respect of the archaeological investigation.

The requirement for the affordable housing is the subject of this report.

Proposals

The intention is to demolish the lavatories attached to the rear of the butcher's shop, to convert an existing flat roofed area into two bin stores (one commercial, the other domestic). The existing two story office building would be converted to Unit 1. On the other side of the yard, part of the existing building would be retained as a store for the butcher, with part demolished and allocated as parking. The existing structure to the rear right corner would be retained and converted to Unit 4 & 5. An area of storage building and the cold store would be removed. Units 2 & 3 would be constructed in the yard area behind the public house.

The existing buildings would retain the present construction as far as possible. The proposed new cottages would have a rendered front and rear, black timber cladding to the sides, under a duo pitch plain clay tile roof.

From plans provided the proposed accommodation would provide:

- Unit 1
ground floor, lobby (stairs), lounge, kitchen off
first floor, landing, bedroom 1, bathroom
- Unit 2
ground floor, hall (stairs), cloakroom (wc, basin) kitchen/breakfast room, lounge
first floor, landing, bedroom 1, bedroom 2, bathroom
- Unit 3
as Unit 2, but handed
- Unit 4
ground floor, hall (stairs), kitchen, lounge
first floor, landing, bathroom, bedroom 1
- Unit 5
ground floor, lounge, with kitchen and hall (stairs) off
first floor, landing, bathroom, bedroom 1

From plans provided, I calculate the following Gross Internal Areas.

	m ²
Unit 1	46.9
Unit 2	66.2
Unit 3	66.2
Unit 4	73.3
Unit 5	57.3

Appraisal

As I say, there are two types of appraisal, a development appraisal which starts from a known site value and ends with a profit/loss margin, and a residual appraisal which ends with a site value. Valuers generally use the second, as they are endeavouring to get to a site value. However, for this purpose, the development appraisal is more appropriate, and I have run two such appraisals, appended, one with and

the other without an affordable unit. I have done these using the input information as provided, as far as possible, and will comment on this below.

Gross Development Value

This is the sum of the likely sale price of the individual units. I have adopted the figures as provided by John Sears, totalling £915,000 including the affordable unit (Unit 3) at £95,000 in the first appraisal. In the second I have adopted the same figures, except with Unit 3 at the same figure as Unit 2, giving a total of £1,040,000.

I have to say that I do not entirely agree with these figures, although John Sears is a well known and respected agent in the town. However, the range of figures given is quite broad, when analysed on a floor area basis, and I am surprised that he considers the single bedroom Unit 1 to have the same value as the proposed two bedroom cottages, which are larger. In addition, there would generally be a premium for new build. Having said that, I have adopted his figures.

Site Value

I have looked at this three ways. First, I have carried out a residual appraisal to give a site value. I do not append this, but it does show a residual site value of £221,428, based on my own calculation. Secondly, in my general experience, site values are currently around 25% of the Gross Development Value. On £915,000, this would be £228,750. Finally, I would expect the plots to have a value of £60,000 each. On the four private plots, this would be £240,000.

Based off this, I have taken a site value of £230,000 in both appraisals. I note that in his letter to Epping Forest District Council, of 07 September 2010, Mr Hayhurst mentioned a figure of £240,843.75. Net of purchase costs, see below, this compares closely to my figure.

Purchase Costs

Based off this, purchase costs would be £6,900, as shown in both appraisals. While Mr Hilder owns the site already, and it could be argued this is irrelevant, any valuation assumes a market transaction, and any prospective purchaser would reflect the cost of purchase, so it is appropriate to include it.

Development Costs

I have adopted, in both appraisals, the figure as given by Thornwood Construction of £573,750 (£546,750 + 5% contingency). I have to say that I consider this figure to be rather high, but it is a complicated scheme, with requirements to comply with conservation specifications, and, on the small size units, the average cost would be high. There is also a possibility, because of the presence of the cypress trees just outside the boundary, that the footings of Units 2 & 3 would have to be reinforced, deepened or piled. Mr Hilder told me he had a quotation of £2,440 for the archaeological inspection. I have adopted this figure. I have allowed £10,000, my own figure, for the contamination investigation. However, if remedial works are found necessary, this could impact on cost. I have assumed, because the site is virtually completely covered with concrete, that contamination would not be present, although I have not seen any soil reports nor can I

Rear of 103 High Street, Ongar, CM5 9DX



comment on the historic use. It is not until investigation has been completed that this can be quantified. However I consider the allowance I have made to be appropriate for this calculation. I have then allowed for a 5% contingency, plus fees at 6%, which is the rate I apply generally. This would be £35,229. Mr Hilder gave me a breakdown of his fees, totalling slightly more than this. Whilst this gives some check, I consider it appropriate to adopt my usual calculation, as I would expect for any prospective purchaser.

Finance

I have taken twelve months from start to completion of the sale of the final unit, with concurrent nine months on the building costs (at half the amount to allow for the costs to be incurred over that period). I have adopted 6% interest. While it would not be possible to borrow the whole amount, it is usual to build in an interest allowance on the developer's own funding contribution as well.

Sales

I have adopted the John Sears' figures, and kept them the same in both appraisals, except for Unit 3. I have then taken sale costs (legal and agents' fees). There is a consequent knock on effect on costs in the second appraisal as a result of the higher sale figure for Unit 3.

Value Added Tax

I have disregarded the implications of VAT, as I have assumed any developer would be able to offset it (VAT being payable on the difference between input and outputs).

Profit/Loss

As will be seen from the summaries of the two appraisals, the Gross Development value is different, but the site, acquisition, development costs and finance remain the same. There is a small difference in sales costs. The appraisal allowing for one affordable unit shows a profit of £9,307. This represents 1% (on Total Development Costs). The normal target developers expect is 20%, although in the current economic climate 15% is deemed acceptable. The second appraisal, without an affordable unit, produces a profit of £131,807, 14.5%.

Conclusion

In my opinion the scheme is not viable with an affordable housing unit, and is unlikely to be built out. Without such a unit, it is viable, although the profit margin is just below target.

I trust this provides the information you require, but please feel free to contact me if I can be of further assistance. Meanwhile, I enclose my fee account to Mr Hilder in the sum as agreed.

Yours faithfully

[Redacted signature box]

**GE NICHOLLS FRICS FAAV
KEMSLEY LLP**



Access off High Street



Rear Yard area, where Units 2 & 3 would stand



From rear



Proposed Unit 1		Front demolished, rear to be Units 4 & 5	
APPRAISAL		WITH ONE AFFORDABLE UNIT	
Subject: Land Rear of 103 High Street, Ongar			
Date: 17 January 2011			
CAPITAL VALUE		m ²	sq ft
Unit 1	separate, 1 bedroom	46.9	505
Unit 2	semi detached 2 bedrooms	66.2	713
Unit 3	semi detached 2 bedrooms	66.2	713
Unit 4	adjoining, 1 bedroom	73.3	789
Unit 5	adjoining, 1 bedroom	57.3	617
Gross Development Value		£ 915,000	
Less		Costs	
Site		230000	
Purchase costs			
	agents at 1.5 %	3450	
	legal fees 0.5 %	1150	
	stamp duty 1 %	2300	
development costs			
	floor area 309.9 m ²		
	As Thomwood Construction	546750	
	archaeological	2440	
	contamination, allow	10000	
	contingency 5.0 %	27960	
	fees at 6.0 %	35229	
finance			
	at 6.0 %		
	site 12 months	14214	
	building 9 months	13901	
sales			
	agents at 1.5 %	13725	
	legal at % 0.5 %	4575	
PROFIT/LOSS		1.0 %	
		9307	
		915000	
Summary			
Gross Development Value		915000	
Less:			
	site	230000	
	acquisition costs	6900	
	development costs	622378	
	finance	28115	
	sale costs	18300	
	profit/loss	9307	
		915000	

APPRAISAL			NO AFFORDABLE UNIT		
Subject: Land Rear of 103 High Street, Ongar					
Date: 17 January 2011					
CAPITAL VALUE			m ²	sq ft	total
Unit 1	separate, 1 bedroom		46.9	505	£ 220,000
Unit 2	semi detached 2 bedrooms		66.2	713	£ 220,000
Unit 3	semi detached 2 bedrooms		66.2	713	£ 220,000
Unit 4	adjoining, 1 bedroom		73.3	789	£ 185,000
Unit 5	adjoining, 1 bedroom		57.3	617	£ 195,000
Gross Development Value					£ 1,040,000
Less					
			Costs		
Site			230000		
Purchase costs					
	agents at	1.5 %	3450		
	legal fees	0.5 %	1150		
	stamp duty	1 %	2300		
development costs					
	floor area	309.9 m ²			
	As Thornwood Construction		546750		
	archaeological, allow		2440		
	contamination, allow		10000		
	contingency	5.0 %	27960		
	fees at	6.0 %	35229		
finance	at	6.0 %			
	site	12 months	14214		
	building	9 months	13901		
sales					
	agents at	1.5 %	15600		
	legal at %	0.5 %	5200		
PROFIT/LOSS			14.5 %		
			131807		
			1040000		
Summary					
Gross Development Value			1040000		
Less:					
	site		230000		
	acquisition costs		6900		
	development costs		622378		
	finance		28115		
	sale costs		20800		
	profit/loss		131807		
			1040000		



A proposed layout, not to scale



A Site Plan 1:1000

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PROPERTY CONSULTANTS

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 Subject: 108-110, 112, 114, 116, 118, 120, 122, 124, 126, 128, 130, 132, 134, 136, 138, 140, 142, 144, 146, 148, 150, 152, 154, 156, 158, 160, 162, 164, 166, 168, 170, 172, 174, 176, 178, 180, 182, 184, 186, 188, 190, 192, 194, 196, 198, 200, 202, 204, 206, 208, 210, 212, 214, 216, 218, 220, 222, 224, 226, 228, 230, 232, 234, 236, 238, 240, 242, 244, 246, 248, 250, 252, 254, 256, 258, 260, 262, 264, 266, 268, 270, 272, 274, 276, 278, 280, 282, 284, 286, 288, 290, 292, 294, 296, 298, 300, 302, 304, 306, 308, 310, 312, 314, 316, 318, 320, 322, 324, 326, 328, 330, 332, 334, 336, 338, 340, 342, 344, 346, 348, 350, 352, 354, 356, 358, 360, 362, 364, 366, 368, 370, 372, 374, 376, 378, 380, 382, 384, 386, 388, 390, 392, 394, 396, 398, 400, 402, 404, 406, 408, 410, 412, 414, 416, 418, 420, 422, 424, 426, 428, 430, 432, 434, 436, 438, 440, 442, 444, 446, 448, 450, 452, 454, 456, 458, 460, 462, 464, 466, 468, 470, 472, 474, 476, 478, 480, 482, 484, 486, 488, 490, 492, 494, 496, 498, 500, 502, 504, 506, 508, 510, 512, 514, 516, 518, 520, 522, 524, 526, 528, 530, 532, 534, 536, 538, 540, 542, 544, 546, 548, 550, 552, 554, 556, 558, 560, 562, 564, 566, 568, 570, 572, 574, 576, 578, 580, 582, 584, 586, 588, 590, 592, 594, 596, 598, 600, 602, 604, 606, 608, 610, 612, 614, 616, 618, 620, 622, 624, 626, 628, 630, 632, 634, 636, 638, 640, 642, 644, 646, 648, 650, 652, 654, 656, 658, 660, 662, 664, 666, 668, 670, 672, 674, 676, 678, 680, 682, 684, 686, 688, 690, 692, 694, 696, 698, 700, 702, 704, 706, 708, 710, 712, 714, 716, 718, 720, 722, 724, 726, 728, 730, 732, 734, 736, 738, 740, 742, 744, 746, 748, 750, 752, 754, 756, 758, 760, 762, 764, 766, 768, 770, 772, 774, 776, 778, 780, 782, 784, 786, 788, 790, 792, 794, 796, 798, 800, 802, 804, 806, 808, 810, 812, 814, 816, 818, 820, 822, 824, 826, 828, 830, 832, 834, 836, 838, 840, 842, 844, 846, 848, 850, 852, 854, 856, 858, 860, 862, 864, 866, 868, 870, 872, 874, 876, 878, 880, 882, 884, 886, 888, 890, 892, 894, 896, 898, 900, 902, 904, 906, 908, 910, 912, 914, 916, 918, 920, 922, 924, 926, 928, 930, 932, 934, 936, 938, 940, 942, 944, 946, 948, 950, 952, 954, 956, 958, 960, 962, 964, 966, 968, 970, 972, 974, 976, 978, 980, 982, 984, 986, 988, 990, 992, 994, 996, 998, 1000

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APPENDIX 2: Additional Information

John Sear Estate Agents



7 February, 2011

Mr J. Hilder
C/o JSP Design
1 Basons Yard
High Street
Chipping Ongar
Essex
CM5 9AA

Dear Mr Hilder

re: Proposed development site to the rear of 103 High Street, Chipping Ongar, Essex.

Further to our letter to you on the 23rd July 2010. I write to confirm that the values of the above properties are unchanged with the exception of plot 3 which should be valued the same as the adjoining property i.e. £220,000 as this is no longer deemed low cost housing, although plot 1 is a much smaller property the reason I have valued this also at £220,000 is that it is detached and will retain a lot of its original character.

I trust this information will answer your questions satisfactory, if I can be of further assistance please do not hesitate to contact me.

Yours sincerely



John Sear
ANAEA

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Thornwood Construction Group

Our Ref: SH/CJ

8 February 2011

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Dear Sirs,

Land and buildings rear of 103 High Street, Ongar, Essex CM5 9DX

I refer to our telephone conversation and I thank you for forwarding a copy of a letter dated 19th January 2011, prepared by Mr. Nicholls of Kemsley LLP.

You have asked me to comment upon our construction costs, in light of his comment on page 4 of his report.

The construction costs were arrived at having due consideration for the difficulties of this particular site.

Specifically, ingress and egress to the site is very narrow and difficult, and we anticipate that a large element of off-loading and delivery will need to be carried out from the High Street and taken by smaller vehicles into the rear of the site, due to the restricted width and access. There may be a need for some crane off loading, and almost certainly concrete pumps will be required.

We therefore anticipate significantly more cost to be incurred in running a site in this manner.

We have anticipated, as Mr. Nicholls correctly assumed, that there would be quite a lot of exterior work which we have allowed for, in terms of contamination removal in the first instance, and thereafter in the formation of hard landscaping parking areas and amenity space provision.

The construction costs for each unit therefore, whilst representing the majority of the build costs, do not themselves give a full picture of the overall cost of this development, and we have also of course added a 5% contingency which has been netted down by Mr. Nicholls in his letter.

On balance therefore, whilst the construction costs may seem superficially high, we have adopted a realistic position in pricing the work, in anticipating the difficulties of running the contract on such a tight site, surrounded by so many other properties leading to a substantial amount of Party Wall related construction work.

We have attempted therefore to provide a costing which we can work to in order to provide the client, Mr. Hilder, with a realistic appraisal of his likely development construction costs.

The figures were given in July 2010 and there has been some upward pressure on pricing, but we are currently standing by the prices submitted.

I trust this is sufficient for your purposes, and will reassure Mr. Nicholls that we have endeavoured to consider all of the factors likely to affect the price and duly accommodated them within our budget costings.