APPENDIX 2 - THE ARCADE, BOGNOR REGIS - DEVELOPMENT APPRAISAL (APPRAISAL ASSUMPTIONS) - MARCH

Accommodation mix and areas	These are taken from *Appendix 1 - Architect's Design Pack* and transposed into the Accommodation & Rental Schedule worksheet. The residential mix of 28 x 1 bedroom apartments and 7 x 2 bedroom apartments reflects both market conditions and in particular the constraints of working within an existing, locally listed building (e.g. minimising changes to window locations and efficient use of existing drainage). The retail unit of c.72 sq m, which maximises the ground floor space after deducting the stairwell, is of a good size to meet local retail demand (see below)
Residential rental income	Local estate agent Cubitt & West whose offer is immediately adjacent to the Arcade has been involved throughout the design process, identifying individual rents for each apartment based on their unique characteristics (see Accommodation & Rental Schedule worksheet). If the properties were released today they would recommend a base rent of £995pcm for 1 bedroom apartments and £1,295pcm for 2 bedroom apartments, uplifted by £50pcm for private terrace, £50pcm for sea views and £100pcm for furnished accommodation in two showhomes. They have taken account of the fact that car parking is not available as part of the scheme, but assume an enhanced level of fit out relative to market sale homes (carpets, white goods etc - see below)
Residential operational expenses	This reflects the operational costs for the residential units, such as management, rent collection/arrears, void income, ongoing marketing, insurance and any maintenance and other operational costs that can't be recovered from tenants through service charge. Whilst a standard industry deduction is 25% of income, which is adopted in the Developer option, initial discussions with adjacent Cubitt & West and nearby Falcon Homes, which both offer residential management services, has identified that 20% is an adequate assumption given the management could be bolted onto existing local management arrangements
Retail rental income	The Council's existing retail lettings agent for the Arcade has been involved throughout the design process. The projected rent of £215psm & 6 month rent free period is based on recent Council lettings and current enquiries within the Arcade. They believe that this unit is particularly suited to a small food takeaway (such as a sandwich shop). The gross:net of 90% reflects the addition of a small toilet at the rear of the unit. No income is assumed from estate management office
Investment yield	Drawing on their experience advising landowners, developers and investors on market rent schemes along the South Coast Savills estimate that an appropriate investment yield for the residential only would be 6%, which is applied under the Developer option. However, Savills also identify that the residential development has the potential to enhance the value of the retail below (e.g. by reducing the risk of weather damage and bringing 35 new people/families who will spend in the Arcade as well as wider town centre) and in turn the combined asset would have a marriage value for the Council. This is assumed at this stage as a 0.25% reduction to the yield on the residential. The Council is intending to appoint Savills to prepare an investment valuation for the combined asset to support the Council's final decision to press ahead with the development.
Purchaser's costs	A total of 6.15% is applied under Developer option to meet an investor's SDLT, legal & agents costs. No Purchaser's costs are assumed under the Council option as the completed scheme will be retained
Other income	No grant is assumed under the Developer option. Given the importance of the Arcade to the town centre and its locally listed status, the Council has the opportunity to bid for additional grant funding from funds supporting town centre regeneration (such as the Shared Prosperity Fund) and heritage-led regeneration (such as the Heritage Lottery Fund). Initial exploration has begun to identify the most appropriate funds, bid timetable etc and a conservative £100k target has been identified. This grant would be to meet the additional design quality standards to reflect the character and heritage of the building rather than abnormal costs, as a result it is not entered in the Technical Annex.
Land acquisition cost	£180k is assumed under the Developer option based on the Existing Use Value estimated by Savills, which has been prepared assuming limited storage in the upper floors given its current poor condition. £35k for a Development Agreement is also assumed in the Developer option. A land value is not included in the Council option as Council already owns the Arcade
Vacant possession cost	With the exception of the clothes shop (which has its own access from within the unit and is not currently proposed for refurbishment) there are no tenants within the upstairs space. The Business Improvement District (BID) occupies the ground floor unit planned for demolition on soft, flexible terms, with the BID already exploring relocation options elsewhere in the town centre. As a result, vacant possession costs are envisaged

Planning costs	These comprise £75k for additional surveys, £25k for a planning/heritage consultant (which includes allowance for support with any other grant application, particularly where this has a heritage focus, and a S106/CIL viability waiver, which will be led by the development manager), £7k for stakeholder engagement, £3k for additional CGIs, £1,630 for pre-application advice (based on the Council's rates, including conservation officer attendance) and £16,664 for the planning fee for the 35 apartments and commercial unit calculated through the Planning Portal. An asbestos survey has been completed, which identifies asbestos needing to be removed, which is reflected in the accompanying Costplan and enabling works timetable in the accompanying Programme. A desktop site investigation has already been completed along with right to light and party wall visual inspections, neither of which identified any concerns. Oversailing requirements are not anticipated. Whilst there is no visual evidence of bird or bad occupation of the building these surveys will be completed prior to planning along with a transport study to demonstrate that there is adequate nearby on street parking to meet the needs of the development. An intrusive site investigation, which represents the majority of the budget, will also be required to inform the detailed structural design
Construction cost	The QS Wearesum has prepared an elemental costplan (Rev 1D) - see *Appendix 3 - Costplan* - is informed by Ridge's engineering advice (including structures, M&E, fire, desk top survey). This includes an abnormal cost schedule and inflation, using BCIS, to start on site in line with the accompanying programme. The enabling contract contains those elements of abnormal costs that can be progressed without planning permission (e.g. includes asbestos removal but excludes demolition of the BID building) - this allows progress to be made whilst planning is underway and mitigates risk to meeting OPE's requirement to let an enabling works contract by 31st March 2024. The enabling works contract is assumed to be 6 months and the main refurbishment/new build works contract to be 18 months on a traditional construction basis (although as MMC is confirmed as viable/deliverable a 3 month saving is anticipated). Both contracts include a 5% retention, with 2.5% released at practical completion and 2.5% when the 12 months defects liability period has passed
Development contingency	2.5% has been added to construction costs to allow for any increase in specification and therefore cost. A further £75k has been allowed should access be needed for works within ground floor retail units. See *Appendix 6 - Risk Assessment* for further detail
Professional fees	10% of construction cost (excluding inflation as fees will be fixed at the outset of the project) is assumed in total. This is a higher level than a new build scheme to address the additional refurbishment works and heritage character. This comprises budgets of 2% for development management, 3% architect/landscape/principal designer fee, 2.5% for structural/groundwork and mechanical & electrical engineering, 2.25% for employer's agent/cost consultant and 0.25% allowance for any other advice required (e.g. fire and transport engineering). These roles would be tendered in due course and other recent experience and informal discussions with the existing design team indicate that these budgets should be adequate
Statutory costs	Whilst Arun Council has both Section 106 and CIL requirements for residential schemes, it is envisaged that an application would be submitted along with the planning application to waive these on viability grounds. No off-site Section 278 works are needed as aside from increased bin collections the proposed scheme should not give rise to additional transport movements due to the lack of on-site car parking
Legal costs	The overall £75k budget comprises £60k for the construction contract, drafting initial lease (individual lettings covered under the operational expenses budget) and drafting initial management contract (similarly future management contract costs would be met through the operational expenses budget). A further £15k allowance is made for any other potential legal work needed. These budgets have been discussed with the Council's legal team and works would be contracted out to one of the Council's framework solicitors. A preliminary visual inspection has indicated that rights to light agreements are not expected to be required.
Other development costs	These comprise a NHBC or similar warranty (£1,500 per home), Energy Performance Certificate (EPC) (£150 per home), a Building Control fee of £15k (based on an estimate from the Council's Building Control team), £30k for FF&E (mailbox, wifi, seating on communal terrace etc) and apartment fit out (carpets/white goods)(£1,750 per home). In addition £12,500 is budgeted for fitting out two showhomes (£5,000 for a one bedroom and £7,500 for a two bedroom apartment) and a further £12.5k for marketing collateral (rightmove listing, a microsite, brochure etc). A retail letting fee of 12 months rent is also included. These figures have been informed by discussions with the Council's estates, technical/building services and building control teams and with agents Cubitt & West. Whilst warranties are not strictly required for market rental homes, taking these out at the construction stage preserves flexibility should the Council ever seek to sell the investment

VAT	VAT will be incurred on the refurbishment works, apartment fit out, professional fees, surveys etc. Full VAT recovery would be expected under the Developer option. Under the Council option initial discussions have already taken place with the Council's s151 officer and finance team and full VAT recovery is anticipated
Finance costs	Finance costs of 8% under the Developer option are inclusive of arrangement fee and legal costs and reflect recent deals on which Savills have advised. 5% Council borrowing rate taken from latest Debt Management Office figures (arrangement/legal fees not required). A 6 month enabling contract and 18 month build are assumed based on advice from the QS Wearesum (see programme). The finance costs take account of the upfront receipt of potential OPE BLRF grant
Developer's return	Under the Developer option, the Developer's return of 10% of cost assumes forward funding from an investor (along with the Developer receiving a 2% development management fee under the professional fee heading). It is assumed that the Council will only take a return once borrowing to fund the works is paid off
Value engineering	We believe that there is further scope to value engineer the scheme proposals and the appraisal calculates a target value engineering figure of c.£265k on a residual basis. The first opportunity for value engineering is through generating additional income. For example there is the possibility of seeking to vary the clothes shop lease, which is unusual in having an upper floor (with its own stair) which could enable the adjacent apartment 1.18 to switch from 1 bedroom to 2 bedroom. This would generate c.£50k of additional value net of any construction costs and fees negotiating the lease variation with the clothes shop tenant. Also whilst the construction costs have been inflated to start on site in line with OPE's requirements, the lettings will not take place for at least 2 years providing the possible opportunity for further income growth. Secondly, there is scope to make savings to costs by harnessing the expertise of the design team and both the enabling and main works contractors, e.g. through using MMC to create the new apartments realising a potential time (and hence finance cost) saving and bringing lettings and associated income forwards. Other potential areas of cost savings are identified in the costplan, although these will need to be explored with the Council's planners. Other areas of potential cost savings include Council finance costs which are currently at an all-time high and are expected to reduce from 5% before the project proceeds
Council capital contribution	ADC recognises in principle that it will need to invest capital towards the building fabric to maintain the long-term asset and has provisionally set £450k aside for this purpose. No interest is assumed on this part of the investment given that this is to protect the value of an existing asset rather than investing in a new asset
OPE grant	The OPE grant request is for the full cost of the enabling funding package undertaken prior to planning permission, with any remaining abnormal costs within the main works contract (e.g. demolition of the BID building) met by the Council as part of the wider project budget.
Exclusions	The appraisal excludes: costs associated with scheme feasibility and OPE bid preparation, including any work which may be undertaken whilst the bid is being assessed; and any modest rental loss from the BID commercial unit.