



GRASSCROFT

FINANCIAL VIABILITY REPORT

**Land at Kirkby Golf Club
Ingoe Lane, Kirkby**

On behalf of:

Greencircle

August 2021

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1. Introduction and Background

This report has been produced by Grasscroft Development Solutions, in support of a planning application for the proposed redevelopment of Kirkby Golf Course, Ingoe Lane, Kirkby.

The application site is comprised of Kirkby Golf Course, a municipal golf course located in Northeast Liverpool.

The subject site is immediately adjacent to Junction 6 of the M57, and is bounded by the A506 to the South, the M57 to the East, the Merseyrail Line to the North and Aintree Lane to the West. The location of the subject site is highlighted in Appendix 1.

The applicant proposes to redevelop and enhance the golf course in order to secure the long-term sustainable future of the course and facilities. The purpose of this report is to comment on the viability of the proposed development in light of market conditions, at the date of this report and to address the Very Special Circumstances in relation to the site and scheme depicted in Appendices 1 and 2.

2. Grasscroft Development Solutions

This report has been undertaken by Michael Coulter, a Director and Tom Merrills, a consultant at Grasscroft Development Solutions.

Grasscroft Development Solutions (GDS) is the development consultancy arm of the Grasscroft Property Company Ltd, which is a regional based residential and commercial development company.

The Grasscroft group of companies has been active within the North West, and wider area, for the past twelve years and has undertaken and completed a number of successful residential and commercial developments.

Michael Coulter has; a First Class Honours Degree in Building; a Master's Degree in Built Environment Research; and, is a Member of the Chartered Institute of Building. He has 20 years' experience, at the highest level within the property industry and has held senior and board level positions at a variety of development and building companies.

Michael's career has had a strong residential focus and as such he has been responsible for the development and delivery of a wide variety of private sector and social housing schemes within the North of England. These schemes have ranged from small new build projects to large urban regeneration initiatives, including Macintosh Village in Manchester which incorporated the UK's first 'eco tower'. Posts held by him have included:

- Roland Bardsley Homes Ltd – Director
- Taylor Woodrow Capital Developments – Associate Director
- Morrison Homes Ltd – Area Development Manager

Tom Merrills has a First Class Master's Degree in Surveying and has worked almost exclusively in residential development for the past 14 years.

Tom has both public and private sector development experience. He worked as a Development Manager for both Gleeson Homes and Keepmoat Homes and as a Land and New Business Manager for Countryside Properties, all of which are North West based residential developers. Tom was also employed at Plus Dane housing group, a Merseyside based Registered Housing provider where he managed multiple affordable housing developments.

Developments of note that he has managed include the North Huyton New Deal residential partnership, a scheme of 2,000 new homes in North Huyton, Knowsley; Norris Green Village in Liverpool, the residential led regeneration of 63 acres of cleared land with over 800 new homes and the acquisition of a number of residential development sites across the north west.

Taking into account the above demonstrable experience, the writers of this paper are in a very strong position to comment on the viability, or otherwise, of the current and future use of the site.

3. The Requirement for Viability Assessment

Within this section of the report the rationale for the need to assess viability on the subject site is considered.

The site is located within the Green Belt. Para 145 of the National Planning Policy Framework states that new buildings in the Green Belt are inappropriate unless one of the exceptions is met. Part B states the following:

“b) the provision of appropriate facilities (in connection with the existing use of land or a change of use) for outdoor sport, outdoor recreation, cemeteries and burial grounds and allotments as long as the facilities preserve the openness of the Green Belt and do not conflict with the purposes of including land within it”.

Pre-application advice has confirmed that:

“Parts of the proposal are appropriate development in the Green Belt as they meet NPPF para 145 (b). However, the proposal as a whole is inappropriate development in the Green Belt and very special circumstances would need to be demonstrated with any planning application. In particular, the planning statement will need to clearly explain the benefits of the scheme and how they will outweigh harm to Green Belt.”

The redevelopment of the golf course and the additional facilities are part of the proposals to secure the long-term sustainable future of Kirkby Golf Course and the purpose of this report is to present the financial viability of the scheme proposed and assess whether the proposals reflect the minimum quantum of development that is required in order to meet the Very Special Circumstances test.

4. Appraisal Methodology

The appraisals provided in support of this report have been produced using Prodev, a widely used proprietary appraisal software system produced and distributed by Interproperty Systems Ltd.

In completing the appraisal, reference has been made to the RICS guidance Assessing viability in planning under the National Planning Policy Framework 2019 for England, as issued in March 2021 and also the viability provisions set out within the PPG and the guidance notes appended to the DCLG document titled 'Section 106 Affordable Housing Requirement, Review & Appeal'.

Build costs for the development have been arrived at with reference to the BCIS Index and cost information provided by the applicant.

The applicant has also provided copies of detailed investigations, studies and reports that have been prepared regarding the site which have been taken into account. A number of industry experts have been consulted regarding various matters as set out in the report.

Market data has been provided by Grasscroft Development Solutions, following an extensive review of the market in the area, enquiries to local estate agents and following a review of available published data from the likes of Rightmove and Zoopla.

5. The Scheme

The applicant proposals involve redeveloping the site, identified in red in Appendix 1, for a redesigned and improved 18-hole golf course along with:

- New Club House, Bar and Function Suite
- Retention & Repair of existing club house to form golf-related grounds maintenance training academy.
- New 2-teir driving range.
- New Adventure golf course
- New 9-hole Academy Golf Course
- New Soccer Pitches
- New Bowling Green and Tennis Courts

A copy of the scheme masterplan is included at Appendix 2.

6. Appraisal Inputs

The Applicant has provided GDS with revenue/income projections for the various uses on site as highlighted in Figure 1 below:

Scheme Component	Forecast Income (Per Annum)
Adventure Golf Course	£ 350,000
New 9-Hole Course	£ 300,000
Refreshed 18-Hole Course, Club House Bar & Function Suite	£ 1,800,000
Driving Range	£ 800,000
Soccer Pitches	£ 150,000
Bowling Green & Tenns Courts	£ 100,000
	£ 3,500,000

Figure 1 – Revenue Projections Broken Down by Scheme Component

The overall revenue from the completed scheme is £3,500,000 per annum.

An optimistic assessment of the investment yield would be 9% for leisure/golf assets taking into account that the economic impact of Covid-19 has yet to be realised, with many parts of the UK leisure economy still either closed, under restrictions and subject to central government support.

Additionally, the site is under 150-lease to the applicant and the investment opportunity that can be offered is not for the freehold interest. This will have a dampening effect on investment yield.

Taking account of the above, the 9% yield (less purchasers' costs at 7.5%) represents an optimistic view.

Build Costs

Specialist third-party cost advice has been provided which details the costs of constructing the:

• New Golf Club House, Driving Range and External Works	£22,566,203
• Works to the existing 18-Hole Course	£ 1,000,000
• Works to the outfield area of the Driving Range	£ 1,000,000
• Adventure Golf course	£ 750,000
• New 9-hole academy course	£ 2,000,000
	<u>£27,316,203</u>

Figure 2 over the page summarises these costs, the full cost plan (Walker Sime) is included at Appendix 3.

2. Summary of Cost

Below is a summary of the estimated costs of the scheme. Please refer to Appendix A for the detailed breakdown of the costs and associated scope of works.

REF	ITEM	COST (£)
1	New Buildings and Structures – High Level £/m ² Allowances	11,338,975
2	Existing Buildings	-
3	Specialist Direct Works by Greencircle – ‘Below the Line’	-
4	Hard Landscaping to Site	2,959,069
5	Soft Landscaping to Site	488,245
6	Fencing, Railings and Walls	132,500
7	Site Furniture	335,500
8	Abnormals	1,558,664
9	External Playing Surfaces	1,441,250
	SUB TOTAL	18,254,203
10	Main Contractor Preliminaries – 15%	2,738,000
	SUB TOTAL	20,992,203
11	Main Contractors OH&P – 7.5%	1,574,000
	SUB TOTAL	22,566,203
12	Other Development Costs	Excluded
	SUB TOTAL	22,566,203
13	Design Development / Project Contingency – 10%	2,257,000
	SUB TOTAL	24,823,203
14	Inflation	Excluded
15	Professional Fees	Excluded
16	VAT	Excluded
	TOTAL	24,823,000
	COST RANGE MINUS 10%	22,000,000
	COST RANGE PLUS 10%	27,000,000
	Below the Line Costs:	
17	New Adventure golf installation; Greencircle Provisional Sum allowance	750,000
18	New 09 hole academy golf course; Greencircle Provisional Sum allowance	2,000,000
19	Existing 18 hole golf course improvements; Greencircle Provisional Sum allowance	1,000,000
20	Outfield area to driving range	1,000,000

Figure 2 – Summary Page of scheme cost plan (full report is included at Appendix 3)

Contingency

Walker Sime had allowed a 10% Design Development / Project Contingency which GDS consider to be slightly excessive and as such has been omitted. Instead, taking into account the challenges posed by this site, it is considered that a reasonably prudent developer would require a contingency to be included within their appraisal at this stage of the development cycle. In line with the writer's professional view and judgement on risk, a contingency sum equating to 5% of the total construction budget has been allowed.

Professional Fees

A fee allowance of 10% is included. This is a reasonable allowance for the nature of the subject site and in line with GDS's considerable experience of delivering projects of this size and type. The professional fees allowance covers the following services:

- Architect
- Landscape Architect
- Golf Course Architect
- Engineer (Civil and Structural)
- Services Engineer
- Fire Engineer
- Traffic Engineer
- Legals (draft S106 agreement etc.)
- Topographical Survey
- Site Investigations
- Ecological Reports
- NHBC or other building warranty costs
- Planning application fee
- Building Regulations application fee
- Planning Consultant
- Acoustic Consultant
- Visual Impact Assessor
- Air quality Assessor

Finance Costs

An interest rate of 6.5% which is approximately 6% above the 3-month UK LIBOR rate has been utilised. The interest rate utilised is very conservative with many funding institutions currently seeking to charge a much higher rate.

Developer's Return for Risk and Profit (before taxation)

The subject site is technically challenging and requires a high degree of specialist works including major earthworks, specialist building construction and managing a complex design and construction/delivery programme. Taking this into account, GDS consider that a developer would require a return at the upper end of the NPPG guided range (15% to 20%) of GDV to reflect the risks associated with the subject site.

The purpose of this report is to consider the Very Special Circumstances of developing the site. Therefore, balanced against the NPPG guidance is the Historic England guidance which advises the adoption of a developer profit *"appropriate to the circumstances"* and that *"Fundamental to the concept of enabling development is that the developer takes on the commercial risk. The level of developer's profit should be set to reflect those risks, and the public benefits, particularly securing the future of the significant place, must normally be delivered at the outset"*.

Taking account of the above, in order to reflect a conservative assessment of developer return for the purposes of financial viability, cognisant of the enabling development/very special circumstances case, but simultaneously reflective of the risks of the project, a developer margin of 15% of gross development cost has been adopted within this report.

6. Appraisal Commentary

In order to form a professional view on viability, GDS have produced the appraisal contained within Appendix 4.

Whilst the purpose of this report is not looking at a historic asset, GDS consider that it is appropriate to adopt the principles of enabling development to consider whether the development proposed justifies the very special circumstances principles. With regard to land value for the purposes of assessing the enabling development case, Historic England guidance states the following:

“The acquisition cost for the purposes of enabling development calculations should be the market value of the property in its existing condition and having regard to the advice of PPG 15. Given that the market value of a property is theoretically the sum remaining once development costs have been subtracted from end value, the result for some significant places in very poor condition will be negligible or negative.”

The advice goes on to note that:

“In financial terms, the case for enabling development normally rests on there being a conservation deficit. This is when the existing value (often taken as zero) plus the development cost exceeds the value of the place after development.”

To accord with appropriate enabling development guidance, GDS have adopted an enabling development approach to assessing the viability of the proposed development and have adopted a land value of zero in the appraisals contained within this report.

Adopting a developer return of 15% on cost and benchmarking residual land value against a land value of zero, the results are highlighted within Figure 3 below:

Description	<u>Appendix 4</u>
	Scheme Reflecting the Applicants Proposals
Land Value	£0
Threshold Profit (15% On Cost)	£5,805,418
Residual Profit Achieved	£1,474,128
Conservation Deficit ¹	-£4,331,290
Viability Concern	Yes

Figure 3 - * Where Conservation Deficit is a negative figure this is calculated as the deficit between a full developer margin, and the developer margin when a land value of zero is adopted.

The ‘Conservation deficit’ is expressed in Figure 3 as the difference between the residual profit achieved and a threshold profit of 15% on cost, adopting the appraisal inputs outlined within this report. This negative sum is the ‘shortfall’ within the appraisal from being able to deliver the 15% return.

The appraisals highlight that when the applicants’ proposals in full are delivered, there is a shortfall of c£1.5m against a 15% profit on cost i.e. the proposals deliver a 10.8% return which whilst demonstrating viability constraints, is deliverable.

In viability terms it is apparent that the quantum of development proposed represents the minimum quantum of development that would be required in order to secure the long-term sustainability of the golf course.

¹ The established methodology for assessing the viability of enabling development is derived from Historic England guidance so for the purpose of this report, the ‘deficit’ arising from the BLV less the RLV is still referenced as the ‘Conservation Deficit’.

Further Test

In order to assess whether the quantum of development meets the very special circumstances case, it is necessary to 'strip out' those works which do not comprise the 'core development' works.

The core development works are considered to be:

• New Golf Club House, Driving Range and External Works	£ 22,566,203
o Less the works for the External Playing Surfaces	-£ 1,441,250
	£ 21,124,953
• Works to the existing 18-Hole Course	£ 1,000,000
• Works to the outfield area of the Driving Range	£ 1,000,000

The appraisal contained at Appendix 4 reflects the above 'core development' works. Adopting a developer return of 15% on cost and benchmarking residual land value against a land value of zero, the results are highlighted within Figure 4 below:

Appendix 5	
Description	Scheme Reflecting Just the Golf Course Works
Land Value	£0
Threshold Profit (15% On Cost)	£4,923,843
Residual Profit Achieved	-£968,902
Conservation Deficit ¹	-£5,892,745
Viability Concern	Yes - Significant

Figure 4 - * Where Conservation Deficit is a negative figure this is calculated as the deficit between a full developer margin, and the developer margin when a land value of zero is adopted.

The 'Conservation deficit' is expressed in Figure 4 as the difference between the residual profit achieved and a threshold profit of 15% on cost, adopting the appraisal inputs outlined within this report. This negative sum is the 'shortfall' within the appraisal from being able to deliver the 15% return.

The appraisals highlight that when the applicants' proposals in full are delivered, there is a loss of c.£970,000 which demonstrates the proposals are undeliverable without the additional development.

In viability terms it is apparent that the quantum of development proposed represents the minimum quantum of development that would be required in order to secure the long-term sustainability of the golf course. Indeed a case could be made for additional or intensification of development at the site.

Matters of planning principle are addressed elsewhere in the application documents but in strict viability terms the proposals represent the minimum quantum of development in order to secure the future of the golf course and any scaling back of the proposals could serve to undermine deliverability of the proposals.

8. Conclusions

The appraisals contained within this report represent a robust assessment of the viability of the proposed development on the subject site.

This report has been produced utilising a recognised appraisal software package. Due regard has been given to guidance published by the RICS, the Growth and Infrastructure Act and the NPPF/NPPG. With regard to enabling development, Historic England notes that:

'Enabling development' refers to development that would usually be considered harmful but is considered acceptable because the resulting benefits outweigh the harm.'

The viability test that has been used adopts a zero-land value and includes the costs of delivering the golf course redevelopment and associated facilities which secures the long-term stewardship of the course. It is clear that even with a zero-land value and zero planning gain contributions, the viability of the subject site is finely balanced, and the quantum of development proposed is the minimum amount required in order to secure the delivery and long-term stewardship of the golf course. With regard to enabling development, Historic England guidance notes (when a conservation deficit exists) that:

"A development appraisal in such cases produces a negative residual value. If so, enabling development (provided it meets the other criteria in the Policy, p 5) may be justified, but only sufficient to cover the conservation deficit, i.e. to bring the residual value up to zero. Allowing too great a profit could result in permission being granted for more units than is necessary, whilst if sufficient profit is not allowed, the development may fail."

GDS have adopted a conservative developer return, risk-adjusted to accord with both NPPG Guidance on Viability and also by reference to Historic England guidance, to reflect the commercial risk undertaken by the developer. The enabling development argument presented within this case underpins the case that very special circumstances exist in order to support the proposed development, which in turn secures the delivery of the course remodelling, accompanying facilities and long term local economic benefits.

The appraisals contained within Appendices 4 & 5 clearly demonstrate that viability is a significant factor on the subject site, and this is therefore a material consideration in considering the quantum of development proposed and the Very Special Circumstances of the site.

The appraisal contained within this report assume a scheme consistent with that detailed in the planning application documents and represents a sustainable leisure development which complements the area and retains and enhances the existing golf course, securing the sustainable future of the facilities.

The viability tests that have been used compare the residual profit generated by the appraisals when adopting a land value of zero. It is clear that viability is a material consideration and that it would be unreasonable for the local authority to impose an additional burden on the development by seeking S106 contributions.

Any deterioration in viability either through increased delivery costs for the course, or by the application of significant S106 obligations, would need to be accompanied by a commensurate increase in the quantum of development proposed in order to maintain sufficient enabling development support.

9. Disclaimer

The contents of this report do not constitute a valuation, in accordance with the appropriate sections of the Valuation Standards (“VS”) and United Kingdom (“UKVS”) contained within the RICS Valuation – Professional Standards 2012 (the “Red Book”).

This report is addressed to Greencircle only and its contents should not be reproduced in part or in full without the prior written consent of Grasscroft Development Solutions.

This viability report is provided on a confidential basis to Greencircle. The report and its appendices should not be disclosed to any third parties (other than consultants instructed by Greencircle and the Council to review the report) under the Freedom of Information Act 2000 (sections 41 and 43(2)) or under the Environmental Information Regulations.

Appendix 1

Location Plan

Appendix 2

Scheme Layout

Appendix 3

Cost Plan

Appendix 4

GDS Appraisal Reflecting The Applicants Proposals

REVENUE

File: Full Scheme

Adventure Golf Course		350,000	
9 Hole Academy Course		300,000	
18 Hole Course Club House & Function Rms		1,800,000	
Driving Range		800,000	
Soccer Pitches		150,000	
Bowling Green & Tennis Courts		100,000	
Inv.Value-A	Net annual income	3,500,000	
	Capitalised at 9% Yield	38,888,889	
	Less Purchasers costs at 7.5%	2,713,178	36,175,711
Advance Income	for Inv.Value-A (23 months net rent)		6,708,333
(Net Income: 3,500,000) (Inv.Sales: 36,175,711)		REVENUE	42,884,044

COSTS

Site Legal Fees		25,000	
		Site Costs	25,000
Club House & Range Buildings & Externals		22,566,203	
Course Works To 18 Hole Course		1,000,000	
Outfield Area Of Driving Range		1,000,000	
Adventure Golf Installation		750,000	
New 9-hole Academy Course		2,000,000	
Contingency	at 5.00%	1,365,810	
Professional Fees	at 10.00%	2,731,620	
		Build Costs	31,413,633

INTEREST**(See CASHFLOW)**

7,264,125

6.50% pa	on Debt charged Monthly and compounded Monthly
Site Costs	Month 1 (Jun 21)
Building Costs	Month 1 to 36 (Jun 21 - May 24)
Inv.Value-A 9%	Month 59 (Apr 26)
Adv.Income-A 9%	Month 36 to 58 (May 24 - Mar 26)

PROFIT	4,181,285	COSTS	38,702,758
PROFIT/SALE	9.75%	PROFIT/COST	10.80%
IRR	N/A	RENT COVER	1.2 years
YIELD/COST	9.04%		

Appendix 5

GDS Appraisal Reflecting Only the Core Development

REVENUE

File: Just Course Works

18 Hole Course Club House & Function Rms		1,800,000	
Driving Range		800,000	
Inv.Value-A	Net annual income	2,600,000	
	Capitalised at 9% Yield	28,888,889	
	Less Purchasers costs at 7.5%	2,015,504	26,873,385
Advance Income	for Inv.Value-A (23 months net rent)		4,983,333
(Net Income: 2,600,000) (Inv.Sales: 26,873,385)		REVENUE	31,856,718

COSTS

Site Legal Fees		25,000	
		Site Costs	25,000
Club House & Range Buildings & Externals		21,124,953	
Course Works To 18 Hole Course		1,000,000	
Outfield Area Of Driving Range		1,000,000	
Contingency	at 5.00%	1,156,248	
Professional Fees	at 10.00%	2,312,495	
		Build Costs	26,593,696

INTEREST**(See CASHFLOW)**

6,206,925

6.50% pa	on Debt charged Monthly and compounded Monthly
Site Costs	Month 1 (Jun 21)
Building Costs	Month 1 to 36 (Jun 21 - May 24)
Inv.Value-A 9%	Month 59 (Apr 26)
Adv.Income-A 9%	Month 36 to 58 (May 24 - Mar 26)

PROFIT	-968,902	COSTS	32,825,621
PROFIT/SALE	-3.04%	PROFIT/COST	-2.95%
IRR	N/A	RENT COVER	-0.4 years
YIELD/COST	7.92%		