The Moray Council

Lossie Green, Elgin

Development Appraisal

August 2015

1. The Moray Council instructed a team led by Douglas Wheeler Associates and Austin-Smith:Lord to deliver a public design charrette in Elgin. Ryden is providing property market analysis and advice, focussing on Lossie Green.

2. This development appraisal is supplementary to Ryden's property market report. It uses local market evidence and development experience to assess the financial costs and returns of the development proposals emerging from the charrette.

3. *The 2011 Elgin: City for the Future masterplan indicatively showed 49,000 sq.m. new residential and commercial development. The 2015 mix for the Lossie Green / city centre north area reflects the charrette findings and current market potential and comprises 28,265 sq.m. of residential, commercial and community accommodation (excluding the potential Town Hall extensions).*

4. The 2015 public design charrette development mix has been appraised in full using KEL Delta software, which is a discounted cashflow[1] model for the property development industry. The principal evidence and assumptions for each of the development components are:-

   a. **Phase 1 :LG02 – Trinity Place / A941 Block.** 60 flats. 12-month build programme with a site start in 2015 (*this is simply an assumption that the appraisal is in current prices rather than a commitment to commence site works in 2015*). Prices £80,000 per flat. Construction cost £831 per sq.m. (gross). Assume 6 pre-sales and then rate of 1 unit per calendar month. Sales costs 1.5%.

   b. **Phase 1 :LG04 – Lesser Boroughbriggs – Apex Site.** Exit pricing £60,000 per room for 100 rooms (sale as no lease or

[1] The financial data used in conjunction with the property market data in 4a to 4i are:

- Appraisal assumes loan in place at 50% of GDC at 4.5% over duration of construction period till Feb 2026.
- Arrangement fee for finance for a hypothetical developer assumed at 2.5%.
- 5% contingency on all build costs.
- 7% for professional fees (architect, engineers, QS, etc)
- No adjustment as yet for S.75 or affordable housing or similar.
- Assume developer's profit at 25% of cost or 20% of value.

management agreement information). Construction cost of £1345 per sq.m.plus £2750 per room fit out.

c. **Phase 2 :LG01 – Elgin Town Hall Reconfiguration and Extension.** No details of costings or end use so the project is treated as cost neutral at this stage.

d. **Phase 2 :LG06 – Trinity Road West Site (Community Centre).** Assume 80% net:gross ratio and single let of this large building (4712 sq.m. gross internal floor area) at £161 per sq.m.toa quasi-Council operation for community use. Capitalised at 9%. Assumed build cost of £1291 per sq.m.

e. **Phase 3 :LG05 – Lesser Boroughbriggs West Site**. 39 flats. Construction starts January 2020 (12 months before Phase 1 sales completeand with a 12 month build programme). Costs and pricing as Phase 1. Assume no pre-sales as Phase 1 is still available and then sales rate of 1 unit pcm.

f. **Phase 4 :LG07 – Trinity Place Block (Aldi Site)**. 27 flats. Construction starts in February 2023 (12 months before Phase 3 sales complete and with a 12-month build programme). Pricing and costs as Phases 1 and 3. Assume no pre-sales as Phase 3 is still available then sales rate of 1 unit pcm.

g. **Phase 4 :LG07 – Trinity Place Block (Aldi Site)..** Single-storey 396 sq.m. retail unit at £118 per sq.m. rental with 80% net:gross ratio applied and capitalised at 10%. £861 per sq.m. build cost.

h. **Phase 4 :LG01 – Elgin Town Hall Reconfiguration and Extension.** As with LG01 (Phase 2), no details of costings or end use so the project is treated as cost neutral at this stage.

i. **Phase 5 :LG03 – Trinity Road East Block.** 51 flats. Construction starts in March 2025 (12 months before Phase 4 sales and with a 12-month build programme. Pricing and costs as Phases 1 and 3. Assume no pre-sales as Phase 3 is still available then sales rate of 1 unit pcm.

5. The appraised development outcome is a **deficit of -£13.23 million.** This is due to gross development costs of c.£41 million being insufficiently covered by a gross development value of c.£28 million. The costs include 25% developer’s profit on costs but no land value. The principal reasons for the deficit are core build costs for flats being 89% of the selling prices,

before adding fees, finance or profit; and the hotel showing a -39% loss on gross development costs. Neither the flats nor the hotel is currently viable. **The appraisal deficit confirms that, given the present condition of the private sector investment and development market, the Lossie Green masterplan would require to be a public sector-led economic development and regeneration project**.

6. As a broad guide the development could deliver the following outputs:

- Approximately 625 construction-related job-years over 11 years[2]
- Additional city centre population of approximately 350 people[3]
- Around 20,000 additional hotel bed nights and 30 direct jobs[4]
- Additional retail turnover of around£1.1 million[5]

Impacts of the Town Hall and of the end use within anew community centre are not assessed as there is insufficient detail at this stage. Similarly the hotel may include leisure and function space but this has not been assessed.

7. The development deficit should be capable of being reduced through **value-engineering** to optimise the project. This could include for example:

    - Involving a Registered Social Landlord or other non-private provider in early phase housing to spread initial costs and increase the build rate
    - Appraising deliverable hotel formats and models including leases, management agreements, Council participation and forward sale or funding

[2] Applying 20 jobs per £1 million construction cost from Scottish Government input-output multipliers (direct, indirect and induced)
[3] Assuming average 2 persons per unit
[4] Assuming occupancy of 60-65% and 1 job per 2 bedrooms (the 3-star rate from the English Partnerships employment density guide 2nd edition)
[5] Assuming £3100 per sq.m. per annum turnover from*Moray Cumulative Retail Impact Assessment – 2012 update*

- Appraising the residential market for the opportunity to introduce town house and terraced units to drive mix, pace and value alongside flats while maintaining density (this is currently happening in city locations)

- Critical appraisal of costs to reduce these where that is feasible without adversely affecting the development proposals

- Using a development agreement / licences to inject public assets into the programme and reduce the private sector cash lock-up

- Optimise the proposals for the community building by identifying revenue-producing uses, community demand for space, management options and designing the building accordingly.

- Considering whether introducing further commercial or employment uses may increase impacts and/or unlock funding opportunities, for example if an anchor user is potentially available

- Appraising the town hall reconfiguration, refurbishment, use and funding options (this is treated a cost-neutral here)

- Appraising the broad development and regeneration funding landscape including The Moray Council, Scottish Government, quango and private sources

8. Notwithstanding the development appraisal deficit indicated under current market conditions at paragraph 5, **it is important to have a masterplan for the strategic land at Lossie Green in place,** in order to inform public and private sector discussions and to allow Elgin to respond to and capture future market opportunities.