

Dalnair Estate Economic Supporting Statement

Introduction

FM Dalnair Ltd was set up in 2016 to redevelop the abandoned Dalnair castle and grounds based on a consent and approval from 2014 that had an economic supporting statement. In principle, the surplus funds generated from the development and completion of the new build homes was to go towards the redevelopment of Dalnair Castle and its grounds, along with planning gain. A reasonable developers profit of 25% was also included in the agreed and approved enabling proposal.

FM Group provided a loan to FM Dalnair Limited initially to allow the Castle to be saved by treating the dry rot infestation and making the Castle wind and watertight as a first stage of enabling work, and to safeguard the integrity of the Castle. Further bank finance has been introduced since to fund development works.

Since then, the development has been completed in stages with the Courtyard, Walled Garden , Castle and Mid Dalnair elements having been completed over the years. The project has taken far longer than originally envisaged with new regulations and costs being attached to the Castle redevelopment since inception in 2014.

We have attached some important documents to help understand the current status of the project (i) The V3 July 2014 Development viability proposal and (ii) FM Dalnair Ltd 2022 Accounts and the FM Dalnair Ltd 2023 Management Accounts

Delays

The complications in developing the Castle and the difficulty in obtaining a building warrant meant that the Castle restoration took almost 4 years to complete instead of the proposed 18 months. The new fire regulations meant sprinkler tanks and systems required to be introduced, along with new fire alarm systems. The dry rot in the Castle meant that all floors had to be totally removed and re-installed, and treatments to the entirety of the building were extensive and prolonged.

The mains services to the various development areas outlined above took an extended period of time and have involved upgrading of the local water main service to the site . This was not intended at the time and has been a considerable additional cost and delay to the project.

The Covid 19 outbreak and ongoing consequences seen throughout the world has resulted in delays with site closure, approvals, procurement of materials and general progress all being significantly delayed over an extended 2 year period

In addition, the collapse of the neighbouring main road bridge has meant that sales interest was significantly reduced over a period of time when access to the site became very difficult.

The initial 4 year project is now entering into year 7 and is now envisaged to complete in year 8 if planning and building warrant approvals are in place.

Cost Impact

The delays to the project outlined above have resulted in additional management and prelim costs which have almost doubled over the period.

The cost inflation for all building material supplies and labour have increased costs by almost 40% over the period of development

The cost of finance over and above loan made by the FM Group has almost doubled from 5.5% to 10% and this added ongoing cost significantly affects both profitability and ability to develop the site.

These factors render the project unviable against the 2014 economic analysis and it is testament to FM Group that the project has been delivered to date in the face of these challenges.

Economic Analysis to Date

FM Group were not party to the 2014 enabling proposal that secured planning approval and therefore have eventually obtained a copy of this document and would advise as follows:

The 2014 appraisal includes for a 25% developers profit and was based on the minimum planning requirements to meet the financial objects of the Castle. It also included an allowance of £25,000 for the pedestrian bridge only.

As at August 2022 the filed accounts show that FM Dalnair Ltd have a net asset position of £78,000 to show for the 6 years of development involvement. The management accounts to 31 August 2023 show net assets of £68,000. This takes no cognisance of the loan made from the FM Group or for interest payments on the loan and therefore the project analysis clearly overall shows a loss to the company. This is a simple analysis of the profitability of the project and lack of any return to date. It should be highlighted that the enabling proposal was intended to generate a developers profit, which is reasonably expected at circa 25% of turnover and therefore should be in excess of £1,000,000 however in reality has been negligible.

It is therefore a relatively simple exercise to calculate that the enabling income to date less the costs to date have achieved very little by way of return for the developer.

Planning consent for the final 4 homes is in place and a Section 75 is still to be signed to allow release of this development land, which needs infrastructure and services to be delivered. The development of these final plots will fail to meet the proposals outlined in the 2014 appraisal and a number of site issues remain to be resolved

The development should of generated sufficient funds to allow completion of works and a reasonable developers profit for the various reasons outlined above it has failed to do so and the Developer seeks to try and meet those original agreed and approved objectives

Economic Analysis to Completion

There are only 4 homes currently with planning consent and the economic analysis as per the above point is **NIL to Negative £2.5M in value**, depending on whether it is considered that FM should make a profit or not, with standard practice for a developer being circa 25% profit and indeed the original agreed v3 Development viability providing for a 25% profit

There are still planning obligations and site works to be dealt with which can be summarised as follows

- (i) Installation of a pedestrian bridge to link the site to Croftamie, which could not progress until the road bridge works were complete and handed over (The Council has a cost of £97,000 for these works as advised 1.12.23). FM had presented contractor costs at a lesser amount in preceding years but were unable to action these works. The original v3 Developer Viability had a cost of £25,000 in the agreement
- (ii) Installation of a path to connect to the pedestrian bridge, which involves the completion of South Dalnair homes and a path connection with a further estimated cost of £60,000.
- (iii) Ground and clay soil conditions have meant that additional drainage via an amendment to warrant has been requested by Local Authority and is being finalised by the engineer and BCO. The drainage is to assist the overall development deal with the high levels of rain and the poor soil conditions and, as currently drawn, has an additional cost of £80,000 to complete for the benefit of the existing owners.
- (iv) The abandoned site compound left by the main contractor (in liquidation) at Mid Dalnair, where two proposed housing are to be located, requires to be cleared and tidied and this has become an additional cost along with the problems associated with the main contractor's defective workmanship at the Walled Garden. These costs are estimates at present in the range of £100,000 - £150,000, depending on how extensive the issues turn out to be, and are costs to the enabling development still to be incurred with no ability for recourse to the contractor.

The costs to complete the development works are estimated at around £360,000 prior to the development of the 4 remaining plots, which need to generate sufficient surplus to meet these costs along with outstanding profit, funding costs, design and development costs, and sales and marketing costs.

The 4 consented plots do not generate sufficient funds to allow this to be progressed and therefore a considered solution involving a further 3 homes will allow the completion of the development.

This gives a revised Economic Statement for 7 homes (4 existing consented and 3 additional) to be presented as the justification to complete the development and deal with the issues as noted above and discussed with the Local Authority. It provides for no profit to FM, however at least allows costs to be met and the issues dealt with and the development completed.

Planning and Design

The location of the additional 3 homes has been considered with the planning department as follows:

- (i) One additional unit to be located at South Dalnair, alongside the 4 consented homes, to complement the current approved proposed development.
- (ii) Two additional homes to sit alongside the Mid Dalnair development, located on the disused site compound area. These are located to allow for all construction access and egress to be from the South Dalnair Development and thus avoid disruption to residents within the development

The proposed house designs replicate the already approved homes within the estate and complete the enabling development to a satisfactory conclusion for all stakeholders

Summary

FM promote the additional 3 homes within Dalnair Estate under an extension of the existing ENV 18 approval in 2014. Over 10 years the increased costs and issues that have been incurred can be met by this additional consent and allow Dalnair Estate to be completed for the benefit of residents and Dalnair Castle. A further contribution to the pedestrian bridge and path linkage could also be completed.

An early approval would be welcome as costs and issues are only increasing over time and works can be commenced from April 2024 if this revised planning consent can be achieved.