Appendix B

FINANCIAL VIABILITY REPORT

PROPOSED DEVELOPMENT AT

LAND OFF HIGH ROAD/PINFOLD LANE, WESTON, LINCS.

20 JANUARY 2021

ATLAS DEVELOPMENT SOLUTIONS LTD

LAND – PROPERTY – AFFORDABLE HOUSING

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APPENDICES

1. EXECUTIVE SUMMARY

1.1. The proposed development at Weston by Persimmon Homes will deliver a total of 150 residential dwellings.

1.2. The site measures approximately 15.15 acres gross and 8.75 acres net. It is currently used for agricultural purposes but does have an extant planning permission for a scheme of 57 residential dwellings.

1.3. Pre application discussions with the local authority have determined that via a Section 106 Agreement, various financial contributions and the provision of on-site affordable housing will be required.

1.4. Although the proposed site is ‘greenfield’, there are a raft of costly and onerous abnormal factors effecting development.

1.5. The cost of addressing these abnormal factors eliminates the ability to fully meet these obligations. Therefore, in order to have a financially viable scheme, reduction is required to the level of affordable housing and financial contributions being sought.

1.6. The key consideration in this instance is the residual land value of the site. As the financial appraisals appended to this report show, the policy compliant position that includes 25% affordable housing and full Section 106 payments generates a negative land value and thus an unviable scheme.

2. SECTION 106 CONTRIBUTIONS

2.1. The following Section 106 Contributions are being sought:

- 25% Affordable Housing (assumed tenure split 70% Affordable Rent and 30% Intermediate)

• Education	£661,928
• Health	£99,000
• Travel Plan	£25,000
TOTAL	**£785,928**

3. CAPITAL COSTS

Land Value

3.1. Clearly, land valuation is not an exact science and many of the variables that drive the valuation process can be quite subjective. It is crucial, therefore, to objectively measure the impact of the costs associated with planning obligations and ensure that they do not preclude the provision of competitive returns to a willing landowner and willing developer to enable the development to be deliverable.

3.2. It is evident that regard must be had both to the interests of developers and landowners when making judgements on development viability in the planning process. It should not be assumed that all burdens are capable of being borne by a reduction in the value attributable to the owner of the site.

3.3. Ultimately, where planning obligation liabilities reduce the site value to the landowner and the return to the developer below an appropriate level, land will not be released and/or development will not take place. Obviously, such a situation would not be conducive to the stated aim of the Government that the planning system should do everything it can to support sustainable economic growth and not act as an impediment.

3.4. Standard residential development appraisal methodology uses the Residual Valuation approach. This represents the value of the land calculated by deducting the total development costs and development profit from the gross development value, with the balance being the ‘residual’ available to purchase the land.

3.5. In accordance with RICS guidance, the residual site value can then be compared to the ‘benchmark land value’ (which is the minimum price that a hypothetical landowner would accept and a hypothetical developer would pay for the scheme to be delivered). If the residual site value is above this ‘benchmark’ then the scheme is viable. However, if the residual site value falls below this figure, then the scheme is deemed to be unviable.

3.6. Recent guidance in this respect is detailed within the National Planning Policy Framework (NPPF) and Planning Practice Guidance (PPG) as published in July 2018.

3.7. To define land value for any viability assessment, a benchmark land value should be established based on the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.

3.8. Recent negotiations with the Government's District Valuer Services (DVS) would suggest that land of this nature has an existing use value of circa £10,000 per acre.

3.9. In terms of uplift, this can typically range from 5 to 25 times the existing use value. The upper end of the range tends to reflect smaller sites, in higher value locations with no abnormal costs. The lower end of the range typically reflects larger schemes, in lower value areas with high abnormals.

3.10. In this instance, the net site area is 8.75 acres. Taking an EUV of £10,000 per acre and applying a mid-range uplift premium of 12.5, results in a benchmark land value of £1,093,750.

Build Costs

3.11. Estimated build costs have been derived by using the current BCIS lower quartile figure for general estate housing in South Holland (as is advocated by the DVS). The current figure is £1,066 per sqm. In addition, standard practice is to allow a further 15% for external works. Therefore, the build cost figure used in the appraisals is £1,066 plus 15% = £1,226.

3.12. The abnormal factors effecting development are as follows:

Soakaways / SUDS	£157,500.00
Acoustic fencing / bunding	£34,500.00
Service Abnormals - Diversion Mains	£11,000.00
Acoustic treatments to houses	£6,500.00
Commuted sum for Open Space Maintenance	£225,000.00
Foul pump station	£100,000.00
Rising main	£44,000.00
Substation	£50,000.00
Attenuation basin	£20,000.00
Archaeology	£100,000.00
278 Works A151	£150,000.00
Ecology	£15,000.00
Piling (RB quote)	£679,800.00

Ground Beams	£675,000.00
Piling Mat	£375,000.00
Total	**£2,643,300**

3.13. Relevant technical reports to substantiate these abnormal costs can be provided on request.

Professional Fees, Finance & Profit

3.14. A professional fees allowance of 6% has been allowed. This is in line with other similar sized schemes in the East Midlands.

3.15. Finance has been included at an interest rate of 6% without any additional fees.

3.16. Recent dialogue with the DVS suggests that in the East Midlands and North, 17.5% profit is reasonable. Consequently, this is the figure adopted in the appraisals.

4. SALES VALUES

4.1. For the 'policy compliant' appraisal including 25% affordable housing, the following mix and values have been used:

No.	Type	Beds	Sqft	Total Sqft	Tenure	Value £	Total £
18	Alnmouth	2	642	11,556	Open Market	155,000	2,790,000
19	Danbury	3	811	15,409	Open Market	175,000	3,325,000
13	Delmare	3	993	12,909	Open Market	195,000	2,535,000
19	Sherwood	3	969	18,411	Open Market	215,000	4,085,000
8	Charnwood	4	1,012	8,096	Open Market	220,000	1,760,000
10	Saunton	4	1,034	10,340	Open Market	190,000	1,900,000
7	Burnham	4	1,115	7,805	Open Market	225,000	1,575,000
2	Greenwood	4	1,221	2,442	Open Market	240,000	480,000
6	Marston	4	1,230	7,380	Open Market	230,000	1,380,000
6	Whiteleaf	4	1,259	7,554	Open Market	250,000	1,500,000
4	Kielder	4	1,415	5,660	Open Market	270,000	1,080,000
8	Aster	1	522	4,176	Rent	64,181	513,451
10	Haldon	2	772	6,176	Rent	85,575	855,752
8	Rendlesham	3	923	5,538	Rent	96,272	770,177
1	Ennerdale	4	1,057	1,057	Rent	106,969	106,969
6	Haldon	2	772	6,176	Intermediate	109,727	658362
5	Rendlesham	3	923	6,461	Intermediate	131,189	655,945
150				**137,146**			**25,970,656**

4.2 Open market sales values have been provided by the developer.

4.3 Capital values for the affordable housing units have been generated by the appraisal system and equate to circa 50% of OMV for the rented dwellings and 68% of OMV for the intermediate dwellings.

5. **FINANCIAL IMPLICATIONS OF SECTION 106 CONTRIBUTIONS**

5.1. To gauge the actual financial effect of the Section 106 contributions, appraisals have been prepared on the basis of four different scenarios. Firstly, on a 'policy compliant' basis with all contributions included; and then with reducing levels of contributions.

5.2. The full financial appraisals are attached at Appendix 1.

5.3. Below is a summary table showing the residual land values for the proposed scheme with each of the different scenarios:

Financial Viability Projections

No of Market Sale Units	No of Affordable Housing Units	S106 Financial Contributions £	Residual Land Value £
112	38	785,928	-640,126
131	19	785,928	-17,632
150	0	785,928	761,432
150	0	382,000	1,093,307

Benchmark Land Value = £1,093,750

5.4. The appraisals demonstrate that the policy compliant scheme is completely unviable as a negative residual land value of -£640k is generated.

5.5. Only by removing the affordable housing and/or reducing the financial contributions can a positive residual land value be achieved.

5.6. Removing the affordable housing and reducing the financial contributions to a total of £382,000 results in the residual land value getting to the same level as the benchmark value and thus becoming a viable scheme. This appears to be the optimum position.

6. **CONCLUSIONS**

6.1. The financial appraisals clearly demonstrate that the scheme is not capable of providing the full range Section 106 requirements.

6.2. Only with removal of the affordable housing and significant reduction to the financial contributions does the scheme become viable.

6.3. It is appreciated that in order to help fund local services, it is necessary for the local authority to seek to maximise the planning gain output from all residential schemes. However, applying the policy position on all sites, irrespective of site specific factors, is not always appropriate and in this case will render the scheme unviable.

6.4. In this instance, therefore, the Council’s co-operation is required to help facilitate and safeguard delivery of the scheme.

6.5. Therefore, in this instance, it is recommended that planning permission is granted with a reduced package of Section 106 contributions: Zero affordable housing and financial contributions capped at £382,000.