Independent Viability Experts

FAO Mrs Polly Harris-Gorf
Principal Planning Officer
South Holland District Council

Sent by email only

David Newham MRICS
Director
CP Viability Ltd
T: 01937 360 131
M: 07947 120 953
E: davidnewham@cpviability.co.uk

Our ref: DN-0586
Your ref: H09-0188-21
Date: 2nd November 2021

Dear Mrs Harris-Gorf

PROPERTY ADDRESS: Land off Wignals Gate Holbeach Spalding PE12 7HR
INSTRUCTING BODY: South Holland District Council
APPLICANT: Loosegate Homes c/o D Brown Construction Ltd

Further to your instruction dated 12th October 2021, we are pleased to report as follows.

1. Property Overview

1.1. The property is located on the south western edge of Holbeach, a market town circa 8 miles east of Spalding and 17 miles south of Boston. Main road access to the town is via Wignals Gate which leads to Spalding Road and runs west to east through the town and on to the A151, with north to south links via the A17 Newark on Trent to Kings Lynn route. More specifically, the subject site is situated to the south of Wignals Gate in a semi-rural position approximately 1 miles from the natural centre of the town.

1.2. The site is currently in an 'edge of settlement' location, with existing residential dwellings abutting the majority of the northern boundary, forming the gardens of those houses on Wignal's Gate and The Laurels, the remainder of that boundary forms the access point to the proposed site. The eastern boundary follows the line of New River and beyond that Hallgate Cemetery. The southern boundary is formed of open agricultural fields. To the west the applicant is in the process of building houses, many of which are already occupied, under phases one and two of the previous application as detailed below.

1.3. The current planning application (**H09-0188-21**) is for "Residential Development comprising 34 dwellings and associated works". However, this is essentially Phase 2 of a wider (neighbouring) development for 77 dwellings which has existing permissions under references **H09-0326-17** and **H09-0872-18** (referred to as Phase 1 of the overall scheme). Works have commenced within this Phase 1, with a number of dwellings having been completed and sold.

1.4. In short, the applicant is therefore seeking to increase a consented scheme of 77 dwellings to a larger development of 104 units (which is actually an increase of 27 rather than 34). For clarity, the wider 104 dwellings scheme forms the basis of the viability considerations.

1.5. The site has an irregular shape and comprises open level land, previously in agricultural use. A dirt track leads directly from Wignals Gate alongside New River, a narrow ditch type stream which runs along the eastern boundary. This dirt track forms the current site access and leads to the subject site which is currently in use as storage facilities for the existing build.

1.6. According to the Maxey Grounds ("MG") "Viability Assessment" dated 6th September 2021, the gross site area (including the approved permission extends to 7.20 Ha (17.79 acres). An area of woodland and open amenity space will be created on the southern portion of the site extending to 35% of the total space (2.9 Ha in total). This reduces the net developable area to 4.30 Ha (10.63 acres).

1.7. We have been provided with the following schedule of accommodation from MG's appraisal model (please note for the dwellings with integral garages MG have included the area of the garages in the gross internal areas for the purposes of calculating the build costs, however we have also shown the areas with garages excluded, as these are not normally taken into consideration when assessing sales values):

Type	Garages	Beds	No.	Sq m (each)	Total	Sq m (each) no garage	Total
Holly 4b	Integ double	4	14	256	3,584	225	3,150
Holly 3b	Det double	3	4	191	764	191	764
Cherry	Attach single	3	1	151	151	151	151
Cherry	Attach double	3	2	151	302	151	302
Yew	Integ single	3	13	135	1,755	120	1,560
Yew	Integ double	3	6	170	1,020	120	720
Blackthorn	Det single	3	10	151	1,510	151	1,510
Blackthorn	Det double	3	8	151	1,208	151	1,208
Hazel	Attach single	3	7	118	826	118	826
Hazel	Attach double	3	3	118	354	118	354
Pine	Det double	3	1	128	128	128	128
Alder		2	4	86	344	86	344
2 bed bung		2	7	97	679	97	679
2 bed bung	Det single	2	1	100	100	100	100
Poplar		1	4	62	248	62	248
Larch		2	8	82	656	82	656
Maple		2	6	78	468	78	468
Lime		3	4	102	408	102	408
Sycamore		4	1	128	128	128	128
Totals			**104**		**14,633**		**13,704**

1.8. The scheme therefore includes 33 integral garages and 37 attached / detached garages (19 single and 18 double).

2. Scope of Assessment and General Assumptions

2.1 MG submitted their "Viability Assessment" dated 6th September 2021 in support of the applicant company's proposal for a change to the Council's planning policy in respect of the amount of developer contributions appropriate to the amended scheme as proposed. The policy compliant scheme for 104 dwellings would include 25% affordable dwellings and S106 capital contributions totalling £604,300. MG's target policy compliant appraisal shows a scheme deficit of over £5m, leading to MG's conclusion that "...the development is still not viable, unless the developer accepts a profit level of below 17.5%"

2.2 We have been instructed to provide an independent viability assessment of the scheme, with a view to advising the Council as to the appropriate level of policy contributions that the scheme can viably deliver.

2.3 In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that in completing this instruction CP Viability Ltd have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

2.4 In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that prior to accepting this instruction we undertook a conflict of interest check. It is stressed that as an organisation we only provide independent viability reviews upon the instruction of Local Authorities and therefore can guarantee that we have not provided viability advice on behalf of the applicant for this scheme. Within this context and having undertaken a review we are unaware of any conflict of interest that prevents CP Viability from undertaking this instruction. If, at a later date, a conflict is identified we will notify all parties to discuss how this should be managed.

2.5 In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that the fee agreed to undertake this review is a fixed rate (covering the elements set out in our fee quote / terms of engagement) and is not performance related or a contingent fee.

2.6 In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that CP Viability Ltd is not currently providing ongoing advice to South Holland District Council in area-wide financial viability assessments to help formulate policy.

2.7 As stated within the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) it is now a mandatory requirement to provide sensitivity analysis of the viability results. This is to demonstrate to the applicant and decision maker the impact that changes to inputs have on the viability outcome and also to help the assessor reach an informed conclusion. We have subsequently undertaken sensitivity testing as part of this review.

2.8 We have assessed the viability of the scheme as at 2nd November 2021.

2.9 This assessment does not provide a critique of the proposed development design. Our role is limited to testing the viability of the proposals as detailed on the relevant planning applications.

2.10 We have relied on the information provided to us by the instructing body and the applicant and in particular information publicly available through the Council's planning portal website. We have not met either of the Instructing Body or the applicant.

2.11 In accordance with the RICS "Assessing viability in planning under the National Planning Policy Framework 2019 for England (Guidance Note 1st Edition, March 2021), our appraisal assumes a hypothetical landowner and a hypothetical developer. The intention of a viability assessment is therefore to identify the approach a 'typical' or 'average' developer / landowner would take to delivering the site for development. A viability assessment does not therefore seek to reflect the specific circumstances of any particular body (whether landowner or developer).

2.12 Our review also adheres to the guidance set out in the Planning Practice Guidance for viability, as published in July 2018 (and updated most recently in September 2019).

2.13 In undertaking our appraisals, we have utilised the ARGUS Development Appraisal Tool. This is an industry approved cash-flow model, designed specifically for development appraisals.

2.14 This report reflects the independent views of CP Viability, based on the research undertaken, the evidence identified and the experience of the analysing surveyor.

3. MG's appraisal – summary

3.1. As stated above, MG have submitted their principal appraisal dated 6th September 2021, which is based on a target policy compliant scheme providing 26 onsite affordable dwellings (25%) plus other S106 contributions totalling £604,300. This produces (on the basis of MG's assumptions) a scheme deficit of -£5,125,762, leading MG to the conclusion that all developer contributions (including affordable housing) should be removed.

3.2. MG model two further appraisal scenarios the first with 19 affordable dwellings and S106 contributions of £445,991 and the second with 8 affordable units and no S106 contributions. Both still produce a significant deficit. MG conclude that "...the development is still not viable, unless the developer accepts a profit level of below 17.5%".

3.3. To summarise MG's appraisal, we have categorised the costs provided under what we consider to be the most common sections of a viability appraisal. For example, all costs which we believe relate to the basic construction of a dwelling (including a contractor's margin or developer's overhead) have been allocated under "Plot construction". Any unusual costs are referred to as "Abnormals", and so on. This categorisation approach allows us to undertake a comparison between the subject scheme and other developments we have assessed.

Gross Development Value (Revenue)

Type	No.	Average £ per sq m	Total
Market Value Houses	78	£2,143	£24,651,000
Affordable housing (Affordable rent)	18	£1,114	£1,707,854
Affordable housing (SO)	8	£1,377	£916,796
Total	**104**		**£27,275,650**

Gross Development Cost (Outgoings)

Type	Detail	Total
Plot construction	£1,273.59 per sq m (14,633 sq m GIA)	£18,636,405
Garages	16x single@£9k / 21x double @13k	£417,000
External works costs	13.90% of build costs	£2,648,000
Contingency	2.74% of build costs	£595,510
Professional fees	5.62% of build costs	£1,219,790
Abnormals	Various @ £8,593 per acre	£152,885
S106 contributions	Education/Health	£604,300
Sales & marketing	3% of GDV	£739,530
Sales legal fees (MV)	£750 per market dwelling	£58,500
Sales to RP legal fees	£462 per dwelling	£12,000
Finance costs	6.25% debit	£727,202
Arrangement fees etc	Inc. broker fee	£25,000
Benchmark land value	£111,291 per acre	£1,980,000
Acquisition costs	Legals, SDLT	£103,350
Developer's profit	17.50% on MV dwellings/6.40% on AH	£4,481,940
Total		**£32,401,412**

3.4. Based on the above appraisal assumptions, MG's appraisal returns a deficit of – (minus) £5,125,762. This is an unviable outcome; MG conclude that the affordable housing and S106 contributions adopted in their appraisal should accordingly be reduced to 8 affordable dwellings and zero contributions, and even then, the developer would need to reduce their profit margin expectations downwards from 17.5% to make the scheme viable.

3.5. The Planning Practice Guidance on viability states the following:

Where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. Paragraph 007

Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then. Paragraph 008

3.6. When there is a Local Plan in place (as is the case for South Holland District Council through the South East Lincolnshire Local Plan) the PPG therefore requires an applicant to demonstrate what has changed since the plan was brought into place and also specifically to comment upon what is different between the site-specific circumstances of the scheme and what was used in the viability testing which informed the plan.

3.7. MG do specifically comment upon this in their report. It is noted that the main points affecting the viability position for the site in question are:

- The density of the scheme is lower than assumed in the Local Plan.
- Build costs have increased by circa 30% compared to those assumed in the Local Plan. However, sales values have only increased by around 11% compared to the figures used in the Local Plan.
- External / site specific infrastructure costs are significantly higher than the assumption in the Local Plan.

3.2 MG comment that these factors combined result in a different viability position when compared with the Local Plan and reassessment of the viability position is required for this development to be delivered.

3.3 We have subsequently reviewed the South East Lincolnshire Local Plan and plotted the assumptions used at the subject scheme against the assumptions used (for a similar scheme type) in the Local Plan testing:

Appraisal Input	**2017 Viability Study (Rates/Percentages for 150 dwellings)**	**Wignal's Gate, Holbeach (based on 104 dwellings)**
Density	35 dwellings per net Ha	24.19 dwellings per net Ha
Average Value	£1,900 per sq m	£2,143 per sqm
Average Size	100 sq m	141 sq m
Build Cost	£911 per sq m	£1,273.59 per sq m
Externals	10% on build cost	13.90% on build cost
Contingency	3% on build cost	2.74% on build cost
Professional Fees	7% on build cost	5.62% on build cost
S106	Up to £5,000 per dwelling	£5,811 per dwelling
Sales/Marketing	3% on revenue	3% on revenue
Developer Profit	17.5% Market, 6% Afford	17.5% Market, 6.40% Afford
BLV (inc abnormals)	£535,000 per net Ha	£496,020 per net Ha

3.4 As shown above, there are a number of differences between the assumptions applied to MG's appraisal testing and that used in the South East Lincolnshire Plan viability.

4. CP Viability's appraisal

Gross Development Value (Revenue)

4.1. We have assessed the scheme mix as set out above in paragraph 1.7.

4.2. In their assessment, MG's average market values can be summarised as follows:

– 2 bed det bungalow	97-100 sq m	£2,577 - £2,600 per sq m
– 2 bed semi	86 sq m	£1,860 per sq m
– 3 bed det bungalow	118 sq m	£2,542 to £2,712 per sq m
– 3 bed det bungalow	128 sq m	£2,542 per sq m
– 3 bed det bungalow	151 sq m	£2,185 to £2,318 per sq m
– 3 bed detached	135 sq m	£1,867 per sq m
– 3 bed detached	120 sq m	£2,100 to £2,326 per sq m
– 3 bed detached	151 sq m	£1,821 to £1,887 per sq m
– 3 bed detached	191 sq m	£1,702 per sq m
– 4 bed detached	256 sq m	£1,956 per sq m

4.3. In support of these values, MG state that "...the values adopted for Wignals Gate, Holbeach are based on what has been achieved the Client's site so far, which constitutes clear and strong evidence to justify the values adopted." No other evidence is put forward to support the adopted sales values.

4.4. We agree that the values achieved within Phase 1 provide the strongest indication of value for the rest of the site. By way of summary, the values stated to have been achieved compare to MG's allowances as follows:

Dwelling type	Phase 1 achieved price	MG allowance in appraisal
Holly (4 bed)	£430,000 - £440,000	£440,000
Cherry attached single garage	£275,000	£275,000
Cherry attached double garage	£285,000	£285,000
Yew integral single garage	£215,000 to £252,500	£252,000
Alder	£160,000	£160,000
Blackthorn detached single garage	£325,000 to £330,000	£330,000
Blackthorn detached double garage	£350,000	£350,000
Pine detached double garage	£335,000	£335,000
Hazel attached single garage	£300,000	£300,000
Hazel attached double garage	£320,000 - £350,000	£320,000

4.5. For the above dwelling types MG's allowances are therefore consistent with the purported sales achieved within Phase 1 of the scheme. **However, we would stress that as these sales have either recently been completed or are currently sold subject to contract we are unable to verify these against the Land Registry records. We would therefore advise that the Council seeks written confirmation from the applicant's solicitor to confirm that the above figures have been or will be submitted to the Land Registry in due course. Assuming that this can be provided, we agree that these figures should be used in the viability testing.**

4.6. Working on the assumption that the above sales values will be verified by the applicant in due course, we have considered the other dwelling types that form part of the wider scheme (being Holly 3 bed detached double garage, Yew integral double garage and the 2 bed bungalows). We would comment on each as follows:

Holly 3 bed double garage 191 sq m – MG apply a value of £325,000 (£1,702 per sq m). This compares to £285,000 (£1,887 per sq m) achieved for the Cherry 3 bed attached double garage. For an extra 40 sq m plus a detached garage we consider that a slightly higher figure is achievable than allowed for by MG. This can be adjusted to £335,000 (£1,754 per sq m).

Yew 3 bed Integral double garage 120 sq m – MG apply a value of £279,167 (£2,326 per sq m). This compares to £252,000 (£2,100 per sq m) achieved for the Yew 3 bed integral single garage. MG's allowance therefore compares favourably.

2 bed bungalows 97 & 100 sq m – MG apply a value of £250,000 and £260,000 (£2,577 to £2,600 per sq m). Within the context of the values achieved in phase 1 for the larger 3 bed detached bungalows MG's allowance compares favourably.

4.7. In addition, we do note that a number of properties are also currently being marketed for sale on site. We have subsequently compared these to MG's suggested values:

Pygott & Crone Website Asking prices at Wignals Gate	Net sales Values (after incentives) adopted by MG	Difference
Holly 3 bed 2 storey detached asking price £335,000	Holly 3 bed 2 storey detached £325,000	-£10,000
Holly 3 bed 2 storey detached asking price £325,000	Holly 3 bed 2 storey detached £325,000	£0
Cherry 3 bed 2 storey detached double garage asking price £325,000 sold STC	Cherry 3 bed 2 storey detached £285,000	-£40,000
Yew 3 bed 2 storey detached double integral garage asking price £289,950	Yew 3 bed 2 storey detached double integral garage £279,167	-£10,783
Yew 3 bed 2 storey detached double integral garage asking price £279,950 sold STC	Yew 3 bed 2 storey detached double integral garage £279,167	-£783
Yew 3 bed 2 storey detached single integral garage asking price £260,000 sold STC	Yew 3 bed 2 storey detached single integral garage £252,000	-£8,000
Yew 3 bed 2 storey detached single integral garage asking price £252,000 sold STC	Yew 3 bed 2 storey detached single integral garage £252,000	£0
Yew 3 bed 2 storey detached single integral garage asking price £245,000 sold STC	Yew 3 bed 2 storey detached single integral garage £252,000	+£7,000

4.8. The Cherry house type with an asking price of £325,000 is considered to be anomalous, as this is 151 sq m but is shown on Pygott & Crone's website to have the same value as a much larger detached dwelling of 191 sq m. A for the other differences where MG's allowances are lower this is likely to be a reflection of sales incentives.

4.9. Overall, we consider MG's adopted values to be broadly reasonable for the purposes of the viability testing, except for the Holly 3 bed 2 storey detached, which we have uplifted to £335,000.

4.10. For the affordable rented units, MG's average transfer value allowance equates to £1,114 per sq m. We have recently undertaken a viability assessment of a scheme of 81 dwellings in Holbeach (involving MG) where the average affordable rented transfer allowance equated to £1,355 per sq m. On this basis, MG's allowances appear to be below expectations. That said, a number of the dwelling types at the subject scheme are larger than at the comparable Holbeach development and we would expect these to attract a lower rate per sq m (for reasons of quantum and affordability). In light of this we have reduced the average to £1,250 per sq m in our appraisal.

4.11. For the shared ownership units, MG's average transfer value allowance equates to £1,377 per sq m. In the comparable Holbeach scheme referred to above in para 4.7 the average equated to £1,554 per sq m. Again, making a slight adjustment for some of the units being larger at the subject scheme, we consider an average of £1,500 per sq m to be appropriate.

<u>Build costs</u>

4.12. For their standard plot construction costs, MG refer to the Build Cost Information Service ("BCIS") database. This is a database regularly used in the construction industry, providing average build price rates for different types of accommodation in different locations.

4.13. MG apply what they refer to as "...the weighted average BCIS lower quartile figure", for the various different dwelling types. BCIS rates exclude external works costs, garages, contingency and abnormal works costs and as such these need to be included elsewhere in the appraisal.

4.14. MG make an additional allowance for external works. What we consider to be 'standard' external works (site preparation, road and sewers, landscaping / public open space and plot specific externals) equates to £2,648,000 (13.90% of the basic plot construction costs).

4.15. Further allowances are made for garages (£9,000 for attached / detached singles and £13,000 for attached / detached doubles) and a contingency sum equivalent to 2.74% of the plot construction, externals and garages. Finally, abnormals / site specific infrastructure costs are included, totalling £152,885.

4.16. Firstly, with regards to the date of the BCIS figures applied. We note that MG have used the 3rd quarter rates for 2021 for the whole of the scheme. However, as noted in their Appendix IV, Phase 1 (for the 77 dwellings) commenced on 1st March 2020, with an anticipated completion on 31st December 2022. Since commencement, as detailed in MG's Appendix III, 43 dwellings have sold. Based on our calculations, this equates to 2,951 sq m of bungalows and 2,373 sq m of 2 storey dwellings that have been constructed and sold in between March 2020 and Sept 2021. It is not therefore appropriate to apply build costs based on 3rd quarter 2021 rates for these dwellings, as these were constructed prior to this period. Instead, we consider it appropriate to apply a mid-point BCIS rate between March 2020 and Sept 2021 (which would be Dec 2020).

4.17. For clarity, for the 43 dwellings completed and sold (being 2,951 sq m of bungalows and 2,373 sq m of 2 storey dwellings) we have subsequently applied BCIS rates from Dec 2020. For the remaining units (which we calculate as bungalows totalling 2,322 sq m and 2 storey totalling 6,987 sq m) we have applied a BCIS rate as at November 2021.

4.18. Secondly, in terms of the appropriate BCIS rate to apply we disagree with MG's approach to arriving at a base build costs figure. The rates for individual house types are based on significantly smaller sample sizes and therefore can be regarded as being less reliable. For example, the individual rate for detached dwellings is based on a sample of 21. In comparison, the sample sizes for general estate housing (2 storey) is based on a sample of 1,168. For this reason, we consider the 'general' rates to be more reliable here, rather than the specific dwelling types.

4.19. The rates relevant rates identified from the BCIS data can be summarised as follows:

- Bungalows completed and sold	2,951 sq m	-	£1,196 per sq m (Dec 20)
- 2 storey completed and sold	2,373 sq m	-	£1,062 per sq m (Dec 20)
- Bungalows to be built	2,322 sq m	-	£1,279 per sq m (Nov 21)
- 2 storey to be built	6,987 sq m	-	£1,130 per sq m (Nov 21)

4.20. Overall, the above equates to a build cost totalling £16,914,670 (which is an overall blended rate of £1,155.93 per sq m).

4.21. The allowances adopted for garages (£9,000 for single and £13,000 for doubles) are considered to be in keeping with other appraisals we have assessed in the region. As the BCIS rate excludes garages, we therefore agree that it is appropriate to allow for these costs separately.

4.22. With respect to the external works, based on our adjusted plot construction rate these equate to 15.28% of the plot construction / garage costs. We typically see external costs at circa 15% of the BCIS rates, therefore these costs are in line with expectations and have been accepted in our appraisal.

4.23. With regard to contingency, MG's allowance is equivalent to 2.98% of our adjusted combined plot construction, garages and external costs. We typically see contingency costs at circa 3%, therefore these costs are in line with expectations and have been accepted in our appraisal.

4.24. With respect to abnormals / site specific infrastructure costs, the following allowances are included:

- SUDS £92,160
- Dewatering £60,725

4.25. The above totals £152,885 (£35,555 per net Ha).

4.26. It is stressed that the impact of abnormal / site specific infrastructure costs can be offset (at least partially) by reductions in the benchmark land value. The Planning Practice Guidance (PPG) publication on viability (published alongside the NPPF and recently updated in September 2019) states that benchmark land values should "reflect the implications of abnormal costs; site-specific infrastructure costs; and professional costs". In other words, the higher the abnormals / infrastructure works, the lower the benchmark land value and vice versa. This is also discussed below under the 'benchmark land value' section.

4.27. In this respect, if at a later date savings were found in the abnormal costs or additional costs were identified this will not necessarily impact on the overall viability outcome. This is because the benchmark land value would also need to be adjusted, which would largely offset any changes in the abnormals.

4.28. Having considered the above, for the purposes of our review we have accepted the abnormal costs as put forward in MG's appraisal. This is on the basis that the benchmark land value reflects the level of abnormal costs.

Professional fees

4.29. MG have included professional fees which are equivalent the equivalent of 6.11% of our adjusted standard build costs. We typically see professional fees at circa 6%, therefore these costs are in line with expectations and have been accepted in our appraisal.

S106 / Other Council Policy Requirements

4.30. The Council's policy requires a 25% on-site affordable housing requirement (26 units). MG adopt the following split:

	Affordable Rent	Shared Ownership
1 bed	2	2
2 bed	12	3
3 bed	3	2
4 bed	1	1
Total	**18**	**8**

4.31. In addition, MG allow for the following S106 contributions:

• NHS contribution	£46,176
• Education	£558,124

Marketing / legal costs

4.32. For sales and marketing costs, MG have allowed 3% on the market value revenue. For sales legal costs, an additional allowance of £750 per unit has been applied to the market value units, plus £12,000 for the affordable dwellings. This is considered to be in line with expectations and has been accepted in our appraisal.

Finance

4.33. MG have allowed for these costs at a debit rate of 6.25%, with an additional £25,000 for arrangement fees and other costs. This is considered to be reasonable. We have subsequently adopted the same in our appraisal.

4.34. To calculate the finance, we have inputted our appraisal data into the ARGUS Development Appraisal Toolkit, which is an industry approved discounted cash flow model (appended to this report).

Developer's profit

4.35. MG adopt a profit equivalent to 17.5% on revenue for the market value units and circa 6.40% for the affordable.

4.36. For a scheme of this size and nature we believe it is appropriate to apply a profit margin expressed as a percentage of the revenue.

4.37. In our experience profit margins fluctuate depending on the nature of the scheme and the type of developer implementing the project. However, and only as a broad guide, we tend to see profit margins in the region of 15% to 20% of revenue. This range is now also explicitly referenced in the recent PPG publication (albeit within the context of plan viability testing).

4.38. It is stressed, however, that affordable dwellings are assumed to attract a lower profit requirement. This is because the risk associated with delivering affordable units is less than market value dwellings, as they are typically transferred in bulk to a single party and are often 'pre-sold' even before construction has been completed. We usually see a reduced profit in the region of 5%-6% on revenue for affordable dwellings.

4.39. Having considered this and the above, we conclude that an allowance of 17.5% is acceptable for the market value dwellings, together with 6% for the affordable.

Benchmark land value

4.40. The Benchmark Land Value ("BLV") attempts to identify the minimum price that a hypothetical landowner would accept in the prevalent market conditions to release the land for development. Whilst a relatively straight forward concept in reality this is open to interpretation and is generally one of the most debated elements of a viability appraisal. It is also often confused with market value, however the guidance stresses that this is a distinct concept and therefore is different to market value assessments.

4.41. The standard approach is to run an initial appraisal based on all of the above fixed inputs to arrive at a site value for the site. In accordance with the RICS guidance, this 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. If the residual site value falls below this figure, then the scheme is deemed to be unviable.

4.42. Viability assessors are provided some guidance through the National Planning Policy Framework ('NPPF') and Planning Practice Guidance ('PPG'), as published on 24th July 2018 (and updated in May/September 2019). This provides a more up to date guide to undertaking viability assessments and can be regarded as superseding certain elements of the above 2012 documents. One area which the PPG deals with is in relation to assessing BLV, stating the following:

4.42.1. To define land value for any viability assessment, a benchmark land value should be established on the basis of 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.

4.42.2. The EUV should disregard any hope value.

4.42.3. Benchmark land value should reflect the implications of abnormal costs, site specific infrastructure costs and professional site fees.

4.42.4. Benchmark land value should be informed by market evidence including current uses, costs and values wherever possible.

4.42.5. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

4.42.6. Under no circumstances will the price paid for land be a relevant justification for failing to accord with the relevant policies in the plan.

4.42.7. Alternative Use Value of the land may be informative in establishing benchmark land value. However, these should be limited to those uses which have an existing implementable permission for that use. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.

4.43. In other words, the Council should not subsidise (through a loss of planning policy contributions) any overbid made when acquiring the site. Any overbid (or indeed underbid) for a site should therefore be disregarded when considering the BLV. As part of the process of reviewing viability it is down to the assessor to determine whether a price paid is an appropriate figure (or not) to use as a BLV.

4.44. In their report, MG calculate the existing use value as being based on agricultural land value (which they suggest is around £10,000 per acre or £25,000 per gross hectare). This is considered to be broadly reasonable and is consistent with what has been agreed on other sites elsewhere.

4.45. MG arrive at a benchmark land value of £1,980,000. This is 11 times the existing use value (when assessed on a gross area basis).

4.46. Based on the net developable area, MG's benchmark land value plus the scheme abnormals totals £2,132,885. This is equivalent to £496,020 per net Ha. In comparison, in the Local Plan testing, the benchmark land value and abnormals combined equated to £535,000 per net Ha. MG's allowance is therefore considered to be broadly within an acceptable tolerance of the Local Plan allowance.

4.47. Furthermore, we would stress that we have been involved with a number of other viability cases across the district where benchmark land values / abnormal costs (when combined) have equated to around £535,000 per net Ha (some being slightly below this level and some being slightly above).

4.48. Overall, our view is that MG's allowance is broadly reasonable within the context of the Local Plan testing and also other schemes we have appraised across the District. On this basis we have accepted their figure in our appraisal.

5. Appraisal results and conclusions

5.1. We have run an appraisal for the scheme as proposed incorporating the various appraisal inputs detailed above. Our initial approach was to apply the full planning policy requirements, including a 25% onsite affordable housing provision plus £604,300 in S106 contributions. However, this returned an unviable outcome. On a 'trial and error' basis we have reduced the planning policy contributions (initially focusing on affordable housing provision) until a viable outcome is achieved. Please see our attached appraisal. With nil affordable housing and nil S106 contributions, at the benchmark land value of £1,980,000, the scheme generates a developer profit equivalent to 13.91% on revenue. The Planning Practice Guidance refers to a range of 15% to 20% for developer profit in viability appraisals, therefore this scheme falls below that even before any planning policies are factored in.

5.2. As per the requirements of the guidance, we have also run sensitivity testing, as follows:

	Sales: Rate /m²				
Construction: Rate /m²	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
	2,048.21 /m²	2,102.11 /m²	2,156.01 /m²	2,209.91 /m²	2,263.81 /m²
-5.000%	(£1,980,000) 12.456%	(£1,980,000) 14.804%	(£1,980,000) 17.020%	(£1,980,000) 19.112%	(£1,980,000) 21.090%
-2.500%	(£1,980,000) 10.804%	(£1,980,000) 13.202%	(£1,980,000) 15.468%	(£1,980,000) 17.609%	(£1,980,000) 19.634%
0.000%	(£1,980,000) 9.145%	(£1,980,000) 11.593%	(£1,980,000) 13.908%	(£1,980,000) 16.097%	(£1,980,000) 18.169%
+2.500%	(£1,980,000) 7.482%	(£1,980,000) 9.980%	(£1,980,000) 12.342%	(£1,980,000) 14.579%	(£1,980,000) 16.696%
+5.000%	(£1,980,000) 5.813%	(£1,980,000) 8.362%	(£1,980,000) 10.772%	(£1,980,000) 13.054%	(£1,980,000) 15.217%

5.3. This shows the impact on the developer profit if sales values were to increase / decrease at 2.5% intervals and likewise if construction costs were to increase / decrease at 2.5% intervals. By way of explanation, if (for example) sales values were to increase by 2.5% but construction costs remined the same, the developer profit would increase to 16.09%. This would still be below the 17.5% rate deemed appropriate for a scheme of this scale (and used in the Local Plan viability testing).

5.4. For illustrative purposes, the key differences between our base appraisal and the MG assessment are as follows:

Input	MG appraisal	CPV appraisal
Market Values average	£2,143 psm	£2,156 psm
Plot Construction	£19,053,405	£16,914,670
Finance	£727,202	£441,158

5.5. However, despite these significant differences our appraisal still shows (like the applicant's assessment) that the scheme is unable to viably support any planning policy contributions.

5.6. Please note, the key reason why the viability outcome is worse than shown in the Local Plan wide viability testing is due to the density of the proposed scheme (circa 24.19 dwellings per net Ha) being significantly lower than used in the Local Plan testing (35 dwellings per net Ha). To put this into context, if a 35 dwelling per net Ha density was applied to the subject scheme this would equate to 151 dwellings. We have run a draft appraisal on this basis (adopting the same assumptions set out in Section 4) and find that this would generate a surplus, which could be diverted into planning policy requirements. The low density of the proposed development is therefore driving the viability pressure.

5.7. The other key issue is the sales values achieved on site. These have performed relatively poorly and have not kept up with build costs inflation. However, the evidence cannot be ignored as these are sales shown from within the scheme (assuming these can be verified, as discussed above in Section 4).

5.8. Our conclusions remain valid for 6 months beyond the date of this report. If the implementation of the scheme is delayed beyond this then market conditions may have changed sufficiently for our conclusions on viability to be adjusted. Under this scenario we would strongly recommend the scheme is re-appraised.

Yours sincerely

David Newham MRICS
Director
CP Viability Ltd