Independent Viability Experts

FAO Ms. Lucy Buttery
Principal Planning Officer
South Holland District Council

Sent by email only

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Our ref: DN-0562
Your ref: H02-0064-21
Date: 23rd September 2021

Dear Ms. Buttery

PROPERTY ADDRESS: **17 Barbers Drove North, Crowland PE6 0BE**
INSTRUCTING BODY: **South Holland District Council**
APPLICANT: **Burmor Construction/Lion Investment Group Ltd**



Further to your instruction dated 2nd September 2021, we are pleased to report as follows.

1. Property Overview

1.1. The property is located on the south eastern edge of Crowland, a town about 11 miles south of Spalding, and approximately 9 miles north of Peterborough. Main road access to the site is via the B1040 which connects with the A16 circa 200m south-east of the site providing direct links to Spalding and Peterborough. The site is located just less than a mile from the natural centre of the town, where there is a post office, supermarkets, restaurants, and takeaways.

1.2. The site is situated immediately adjacent to James Road, on the south eastern edge of the town. Existing residential dwellings abut the south western boundary, on Barbers Drove North and abut the north eastern boundary on Thorney Road. The remaining north western boundary is formed of an open field and the south eastern boundary runs along James Road. Greenbank Drain runs north to south along the north eastern boundary.

1.3. The site is broadly rectangular to the most part, made up of two sections of land. The first to the west of the site comprises 17 Barbers Drive North, a two storey detached house and the second to the east of the site an equestrian paddock and wooden stable buildings. Access is currently via Barbers Drive North although proposed access will be via a single point, from James Road. A slight slope is noted downwards towards the southern edge of the site.

1.4. According to the PlanSurv Ltd ("PS") "Viability Assessment" dated 15th January 2021, the site area extends to 1.39Ha (3.43 acres) on a gross basis.

1.5. In terms of planning history, there have been no applications of material relevance to the current application in the past 10 years.

1.6. The current proposal is a full planning application (under ref. **H02-0064-21**) for:

> *"Demolition of existing dwelling and erection of 41 dwellings, new site access, internal roads and landscaping".*

1.7. This envisages the development of a range of 1.5, 2 and 2.5 storey dwellings with 2 to 4 bedrooms, configured as chalets, terraced, semi-detached and detached units, together with 1 bedroom apartments.

1.8. We have been provided with the following schedule of accommodation (from PS's appraisal model):

Type	Beds	No.	Sq m (each)	Sq m (total)
Flat	1	2	45	90
HT1 – Terrace	2	1	71	71
HT1 – End Terrace	2	2	71	142
HT2 – Terrace	2	2	79	158
HT2 – End Terrace	2	1	79	79
HT2 – Semi	2	4	79	316
HT2 – Detached	2	2	79	158
HT3 – Detached	3	9	88	792
HT4 – Detached	3	6	97	582
HT5 – 2.5 Storey Detached	3	3	100	300
HT6 – Semi	3	2	105	210
HT7 – 2.5 Storey Detached	4	4	124	496
HT8 – 1.5 Storey Chalet	3 or 4	3	133	399
Totals		**41**		**3,793**

2. Scope of Assessment and General Assumptions

2.1. PS submitted their "Viability Assessment" dated 15th January 2021; in this assessment they have considered 4 scenarios. PS state that "The proposed development is not economically viable when it includes a planning policy compliant level of affordable housing or any other planning obligations".

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 23rd September 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. PS's appraisal – summary

3.1. As stated above, PS have submitted their "Viability Assessment" dated 15th January 2021, which considers four scenarios. Two of these scenarios consider a cost plan estimate provided by RUA Construction Consultants, however PS state that the developer has estimated that he is able to carry out the construction works for a lower figure and as such a further two scenarios have been considered.

Scenario 1 – 25% Affordable Housing (RUA estimate) this produces a negative Residual Land Value of -£2,101,438.

Scenario 2 – 0% Affordable Housing (RUA estimate) this produces a negative Residual Land Value of -£1,501,254.

Scenario 3 – 25% Affordable Housing (developer estimate) this produces a negative Residual land Value of -£414,388.

Scenario 4 – 0% Affordable Housing (developer estimate) this produces a positive Residual Land Value of £185,796.

3.2. For the purposes of this section we have focused on PS' Scenario 1. To summarise this 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	31	£2,620	£8,110,000
Affordable housing (Affordable rent)	7	£1,348	£632,025
Affordable housing (SO)	3	£917	£210,000
Total	**41**		**£8,952,025**

Gross Development Cost (Outgoings)

Type	Detail	Total
Plot construction	£1,412.35 per sq m	£5,357,030
Garages	Single £10k / unit & double £20k / unit	£140,000
External works costs	24.69% of above build costs	£1,357,000
Contingency	9.57% of build costs above	£656,000
Abnormals	Various	£217,970
Professional fees	9.73% of combined build costs	£666,600
S106 contributions	Health and education (estimated)	£161,375
Sales & marketing	2.50% of GDV	£202,750
Sales legal fees (MV)	£750 per market dwelling	£23,250
Sales to RP legal fees	£1000 per dwelling	£10,000
Finance costs	6.50% debit	£392,767
Arrangement fees etc	Inc. Misc	£153,450
Acquisition costs	Legals, SDLT	£42,750
Developer's profit	20% on MV dwellings/6% on AH	£1,672,521
Total		**£11,053,463**

3.2 Based on the above appraisal assumptions, PS's appraisal returns a residual land value of – (minus) £2,101,438. As this is significantly below their benchmark land value of £900,000 this scheme is considered to be unviable with the full planning policies applied.

3.3 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

3.4 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.

3.5 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 30 dwellings)	Barbers Drove North (Jan 2021 based on 41 dwellings)
Density	30 dwellings per net Ha	32.78 dwellings per net Ha
Average Value	£1,900 per sq m	£2,620 per sqm
Average Size	100 sq m	92.51 sq m
Build Cost	£911 per sq m	£1,507 per sq m
Externals	10% on build cost	23.74% on build cost
Contingency	3% on build cost	9.28% on build cost
Professional Fees	7% on build cost	9.43% on build cost
S106	Up to £5,000 per dwelling	£3,936 per dwelling
Sales/Marketing	3% on revenue	2.5% on revenue
Developer Profit	17.5% Market, 6% Afford	20% Market, 6% Afford
BLV (inc abnormals)	£535,000 per net Ha	£893,725 per net Ha

4. CP Viability's appraisal

Gross Development Value (Revenue)

4.1. We have assessed the scheme mix as set out above in paragraph 1.8.

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

– 1 bed flat	45 sq m	£2,889 per sq m
– 2 bed terrace	71 to 79 sq m	£2,324 - £2,500 per sq m
– 2 bed end terrace	71 to 79 sq m	£2,254 - £2,595 per sq m
– 2 bed semi	79 sq m	£2,848 per sq m
– 2 bed detached	79 sq m	£3,228 per sq m
– 3 bed detached	88 to 97 sq m	£2,612 - £2,740 per sq m
– 3 bed detached (2.5)	100 sq m	£2,350 per sq m

– 3 bed semi	105 sq m	£2,286 per sq m
– 4 bed detached (2.5)	124 sq m	£2,258 per sq m
– 3 or 4 bed chalet	133 sq m	£2,895 per sqm

4.3. In support of these values, PS have not provided any evidence of sales data in the locality.

4.4. For the purposes of our review, we have initially focused on new build transactions since January 2019 within postcode area 'PE6' (in which the subject property is located).

4.5. The closest scheme identified through our Land Registry search is the Ashwood Homes, Kingsgate Mews development. Located on Crease Drove on the south western edge of Crowland, this site is around 0.5miles from the subject property. It is located in a similar situation, with existing residential housing nearby but in an edge of settlement location. This is therefore considered to be a strong comparable for the purposes of assessing the subject property. The sales values identified at Kingsgate Mews are as follows (limited to the most recent sales and similar dwelling types, where possible):

	Address		Pcode	Sq m	£ psm	Price	Date	Type
33	FINCHAM DRIVE	CROWLAND	PE6 0DN	99	£ 2,646	£262,000	22/05/2020	Detached
36	FINCHAM DRIVE	CROWLAND	PE6 0DN	99	£ 2,646	£262,000	10/07/2020	Detached
16	PAPWORTH DRIVE	CROWLAND	PE6 0DQ	99	£ 2,677	£265,000	09/10/2020	Detached
				99	**£ 2,657**	**£263,000**		
6	FINCHAM DRIVE	CROWLAND	PE6 0DN	100	£ 2,500	£250,000	17/04/2020	Detached
5	FINCHAM DRIVE	CROWLAND	PE6 0DN	100	£ 2,600	£260,000	09/04/2020	Detached
18	PAPWORTH DRIVE	CROWLAND	PE6 0DQ	100	£ 2,600	£260,000	23/10/2020	Detached
5	PAPWORTH DRIVE	CROWLAND	PE6 0DQ	100	£ 2,650	£265,000	30/10/2020	Detached
				100	**£ 2,588**	**£258,750**		
29	FINCHAM DRIVE	CROWLAND	PE6 0DN	119	£ 2,353	£280,000	28/02/2020	Detached
28	FINCHAM DRIVE	CROWLAND	PE6 0DN	119	£ 2,412	£287,000	20/03/2020	Detached
31	FINCHAM DRIVE	CROWLAND	PE6 0DN	119	£ 2,412	£287,000	15/05/2020	Detached
				119	**£ 2,392**	**£284,667**		
25	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,604	£192,700	27/03/2020	Semi
8	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,676	£198,000	06/12/2019	Semi
10	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,676	£198,000	13/12/2019	Semi
27	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,682	£198,500	31/01/2020	Semi
				74	**£ 2,659**	**£196,800**		
5	LITTLEBURY CLOSE	CROWLAND	PE6 0DP	68	£ 2,500	£169,995	31/10/2019	Terraced
4	LITTLEBURY CLOSE	CROWLAND	PE6 0DP	68	£ 2,500	£170,000	19/12/2019	Terraced
6	LITTLEBURY CLOSE	CROWLAND	PE6 0DP	68	£ 2,647	£179,995	31/10/2019	Terraced
				68	**£ 2,549**	**£173,330**		
21	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,459	£182,000	05/06/2020	Terraced
22	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,500	£185,000	27/03/2020	Terraced
23	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,500	£185,000	30/04/2020	Terraced
24	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,655	£196,500	27/02/2020	Terraced
20	FINCHAM DRIVE	CROWLAND	PE6 0DN	74	£ 2,689	£199,000	21/02/2020	Terraced
				74	**£ 2,561**	**£189,500**		
2	JOYCE CLOSE	CROWLAND	PE6 0DS	84	£ 2,155	£181,000	04/12/2020	Terraced
3	JOYCE CLOSE	CROWLAND	PE6 0DS	84	£ 2,321	£195,000	28/08/2020	Terraced
1	LITTLEBURY CLOSE	CROWLAND	PE6 0DP	84	£ 2,321	£195,000	26/02/2020	Terraced
1	JOYCE CLOSE	CROWLAND	PE6 0DS	84	£ 2,345	£197,000	23/10/2020	Terraced
				84	**£ 2,286**	**£192,000**		

4.6. As part of our analysis, we have summarised the average values achieved at Kingsgate Mews compared to the values put forward by PS at the subject scheme:

Dwelling type	Kingsgate Mews value £psm	PS Values £psm
Detached c. 100 sqm 2 storey	£2,588	£2,612
Semi c. 75 sq m 2 storey	£2,659	£2,848
Terrace c. 70 sq m 2 storey	£2,549	£2,324
Terrace c. 75 sq m 2 storey	£2,561	£2,500

4.7. As demonstrated above, the detached circa 100 sq m and semi circa 75 sq m values put forward by PS compare favourably to the Kingsgate Mews values. The terrace circa 70 sq m is around £200 per sq m below that achieved at Kingsgate Mews, but equally the semi-detached circa 75 sq m is around £200 per sq m above that achieved at Kingsgate Mews. On balance, these variations are considered to effectively cancel each other out and in this regard the values put forward by PS for the above dwelling types are considered to be reasonable.

4.8. As for the other dwelling types, we would comment on each in turn as follows:

- A market value of £130,000 (£2,889 per sq m) has been applied to the 1 bed flat. This is considered to be reasonable for a dwelling of this nature.

- For a detached dwelling of 79 sq m PS have adopted a value of £3,228 per sq m. This is therefore above the rate of £2,612 per sq m used for the larger 97 sq m detached dwelling type. This is considered to be in keeping with expectations. When considering a particular dwelling type (for example a 2 storey detached dwelling) typically the smaller the internal area, the higher the rate per sq m that is achievable (for reasons of quantum). On this basis, PS' suggested value of £3,228 per sq m follows our expectations and is therefore deemed acceptable.

- Likewise, for the detached dwelling of 88 sq m this has a value of £2,740 per sq m, which falls in between the values applied to the 79 sq m type and the 97 sq m type. This is in keeping with expectations and is therefore accepted.

- For the detached dwelling of 100 sq m we note that this is a 2.5 storey dwelling type. Houses of this nature typically attract lower rates per sq m when compared to equivalent 2 storey dwellings (again for reasons of quantum). PS' adopted rate of £2,350 per sq m therefore is around 10% lower than the £2,612 per sq m rate applied to the 2 storey detached dwelling of 97 sq m. This is in keeping with expectations and has therefore been accepted in our appraisal.

- This is also the case for the 2.5 storey detached dwelling of 124 sq m, which has a value of £2,258 per sq m. Again, following the general principle that when considering a particular dwelling type the larger the unit the lower the rate per sq m, it is therefore in line with expectations that this type has a lower rate per sq m than the 2.5 storey 100 sq m house. We have therefore accepted this allowance in our appraisal.

- The semi of 105 sq m has a value of £2,286 per sq m. This is considered to be at a suitable level when compared to the higher values applied to the smaller semi detached dwelling types.

- Finally, there is a 1.5 storey chalet style dwelling. We would expect this dwelling type to attract a higher rate per sq m 9following the principles set out above). The adopted rate of £2,895 per sq m is therefore deemed to be reasonable.

4.9. We have subsequently accepted all of the market values put forward by PS in their appraisal.

4.10. For the affordable rented dwelling, PS' allowances are equivalent to 51.06% to 53.00% of market value. This is considered to be reasonable and has been accepted in our appraisal.

4.11. However, for the shared ownership the range is 37.19% to 38.10. These allowances are considered to be significantly below expectations for this tenure basis. We have adjusted this to 67.5% of market value in our appraisal, which is more in keeping with ither schemes we have appraised and also the Local Plan testing.

Build costs

4.12. For the construction costs, PS' allowance can be summarised as follows (please note we have inputted the costs into categorised which we are familiar with and ones that can be compared to the Build Cost information Service ("BCIS") as well as other schemes we have appraised):

- Plot construction (including prelims & inflation)	£1,412.35 per sq m
- Garages	£140,000
- Externals	24.69% of above
- Contingency	9.57% of above
- Abnormals	£217,970

4.13. PS refer to a cost plan undertaken by RUA (dated December 2020) to arrive at these figures.

4.14. Firstly, we note that inflation has been factored into the build costs. Normal practice when testing viability is to exclude inflation, because the viability is being tested at a particular point in time. If inflation is included, then clearly inflation would also need to be factored into the sales values (which is not the case with PS' adopted values). In other words, when assessing viability inflation either has to be removed from both build costs and sales value or it has to be included for *both* sales vales and build costs. In our experience, the former is mostly commonly used (particularly for smaller scale schemes) as this recognises how difficult it is to predict inflation. In light of this, we have removed inflation from PS' adopted construction costs, which reduces the plot construction rate to £1,280.79 per sq m.

4.15. To 'sense check' this plot construction costs we consider it appropriate to refer to the Build Cost Information Service ("BCIS") database. In para 012 of the Planning Practice Guidance: Viability this states that when undertaking viability testing reference to the BCIS data is appropriate. This is therefore a database regularly used in the construction industry, providing average build price rates for different types of accommodation in different locations. Please note, the BCIS includes plot costs, contractor's margin / overheads and all scheme preliminaries, however it excludes standard externals, garages, contingency and abnormals, therefore these items need to be allowed for separately if the BCIS rate is applied.

4.16. However, to give the BCIS between January 2015 and Jan 2020 there were 138 separate housing schemes across the UK which were used for 'elemental' analysis in determining the various BCIS rates. Of this sample, the size of schemes ranged from 1 house to 109 houses, with an average of 18.96 houses per scheme submitted into the data. 68.84% of the sample comprised schemes consisting of 20 houses or less and only 6.52% of the sample (9 schemes) comprised 50 or more dwellings. In other words, the vast majority of the data used for analysis when determining the various BCIS rates was derived from small schemes implemented by either local or relatively small contractors. Furthermore, we understand that no volume house builder contributes to the database, therefore the efficiency savings that this type of builder is able to make with respect to both labour and material are not reflected in the figures. On this basis, the BCIS rates can be regarded as being high compared to the costs incurred by volume house builders. For a scheme the size of the subject property it is debatable as to whether the lower quartile or median rate should be applied. Whilst this is unlikely to attract a volume housebuilder, it would be delivered by a regional housebuilder who is likely to benefit from some efficiency savings on labour and materials when compared to smaller, more local house builders (which predominantly feed into the BCIS database).

4.17. In this regard, we have reviewed other similar scale schemes we have been involved with in South Holland in recent years of a similar scale, to assess the approach adopted with regards to the BCIS rates:

- Crease Drove, Crowland: 47 dwellings. In 2018 the applicant submitted a viability appraisal based on build costs which were slightly below the BCIS lower quartile rates.

- Crease Drove, Crowland: 49 dwellings. In 2018 the applicant submitted a viability appraisal based on build costs which were slightly below the BCIS lower quartile rates.

- Crease Drove, Crowland: 50 dwellings. In 2019 the applicant submitted a viability appraisal based on build costs which were slightly below the BCIS lower quartile rates.

- Former South View Primary School, Crowland: 22 dwellings. In 2019 the applicant submitted a viability appraisal based on the BCIS lower quartile rates.

- Land north of Witham Rd, Wygate Park, Spalding: 34 dwellings. In 2019 the applicant submitted a viability appraisal based on the BCIS median rates. The costs were not accepted in our review in favour of the lower quartile.

- Land south of Roman Road, Moulton Chapel: 55 dwellings. In 2021 the applicant submitted a viability appraisal which included costs that were 2.4% above the BCIS lower quartile rate.

- Land off Coalbeach Lane, Surfleet: 60 dwellings. In 2020 the applicant submitted a viability appraisal based on the BCIS lower quartile rates.

4.18. In previous schemes of a similar size to the subject property 3 of the 7 (all in Crowland) adopted costs below the BCIS lower quartile rate, 2 of the 7 applied the BCIS lower quartile rate, 1 showed costs 2.5% above the lower quartile and a further case the costs put forward by the applicant were rejected in favour of the lower quartile.

4.19. Having considered the above, there is a precedent in the local market for applying the BCIS lower quartile to the viability modelling for a scheme of this size and scale. We subsequently consider it appropriate in this instance to apply the current BCIS low quartile "Housing, mixed developments" rate, rebased to South Holland, which is £1,129 per sq m.

4.20. The costs put forward with respect to the garages are deemed to be broadly reasonable and have bene accepted in our appraisal.

4.21. With regards to external costs, we note that this totals £1,357,000, which equates to 30.69% of the BCIS lower quartile rate. By way of evidence, we have reviewed other similar scale schemes we have recently been involved with across the wider regions. We have identified 9 other greenfield sites we have appraised since Jan 2020 from across the wider regions (5 in the East Midlands and 4 in Yorkshire), providing between 30 and 47 houses. Whilst, for reasons of confidentiality, we are unable to disclose the full details of each appraisal submitted, we can refer to the sample averages. The overall sample average is 13.12%.

4.22. Having considered this, and also the Local Plan external cost allowance of 10%, we are of the view that PS' 30.69% allowance is above expectations for what appear to be standard external costs. Adopting a cautious approach a 15% allowance is deemed to be appropriate.

4.23. For contingency, we have again referred to the sample discussed above in paragraph 4.22. Please note, when we analyse the contingency allowance we measure this against the standard plot construction costs and standard externals only. The abnormals are therefore excluded from this measure, simply for the purposes of analysis, because abnormals vary significantly from site to site so can 'skew' the figures. The average contingency allowance put forward by applicants in their own viability assessments in this sample is 3.43% (when measured against standard plot construction costs and externals, but excluding abnormals). In light of this, PS' allowance of over 9% is considered to be significantly above expectations.

4.24. It is stressed that contingency is a cost in the appraisal which may not ultimately be realised, therefore it would be unfair for this to be overstated and this to be a key reason why Council policies cannot be delivered. Equally, though, the guidance does indicate that a contingency should be included. It is therefore important to balance contingency against the needs to deliver planning policies and the risk associated with development.

4.25. Within this context we stand by our view that a 3.5% contingency allowance when applied to the BCIS rate and standard externals only (which in capital terms is £177,997) is a reasonable rate for the purposes of a viability assessment.

4.26. With regard to what are considered to be site specific infrastructure / abnormal works costs, we note the following (which totals £217,970):

E/O for deeper foundations	71,750
E/O for cladding to elevations	61,500
E/O for feature elevation	15,000
Demolition of existing buildings & stables	25,000
E/O capping	38,720
Retaining wall	6,000

4.27. 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.

4.28. 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.

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

Professional fees

4.30. PS have included professional fees totalling £666,600 (equivalent to 13.11% of our adjusted build costs). As with contingency (see above para 4.23) our analysis measures professional fees against the standard plot construction and standard external costs only and therefore does not measure this against abnormals (for the reasons outlined in para 4.23).

4.31. By way of evidence, we have again referred to the sample discussed above in paragraph 4.21. The average professional fee allowance put forward by applicants in their own viability assessments in this sample is 6.82% (when measured against standard plot construction costs and externals, but excluding abnormals). In light of this, PS' allowance of is considered to be above expectations. We have adjusted this to 7% in our appraisal.

S106 / Other Council Policy Requirements

4.32. The Council's policy requires a 25% on-site affordable housing requirement (10 units).

	Affordable Rent	Shared Ownership
1 bed	2	-
2 bed	3	2
3 bed	2	1
Total	**7**	**3**

4.33. In addition, the Council has confirmed the following levels of developer contributions:

- NHS contribution £27,060
- Education £120,375

Marketing / legal costs

4.34. For sales and marketing costs, PS have allowed 2.5% 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 £10,000 for the affordable dwellings.

4.35. By way of evidence, and to 'sense check' this figure in relation to marketing / disposal fees, we have again reviewed the 9 similar scale greenfield schemes discussed above in paragraph 4.21. The average marketing costs put forward by applicants in their own viability assessments in this sample is 2.29% on revenue. PS' allowance is therefore deemed to be within an acceptable tolerance and has been accepted in our report. Furthermore, the legal costs are also deemed to be reasonable.

Finance

4.36. PS have allowed for these costs at a debit rate of 6.50%, with an additional £123,450 for arrangement fees and £30,000 for valuation and broker fees. The debit interest rate is considered to be reasonable. However, based on other schemes we have appraised, the arrangement fees and additional costs is above expectations. An allowance of £100,000 is considered to be sufficient for a scheme of this scale.

4.37. 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

4.38. PS adopt a profit equivalent to 20% on revenue for the market value units and circa 6% for the affordable. 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.

4.39. 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).

4.40. 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.

4.41. We have reviewed the 7 other schemes appraised across the district, referred to above in para 4.17. The profit levels applied in the modelling are as follows:

- Crease Drove, Crowland: 47 dwellings. 17.5% for MV / 6% AH
- Crease Drove, Crowland: 49 dwellings. 17.8% for MV
- Crease Drove, Crowland: 50 dwellings. 6% for AH (100% affordable scheme)
- Former South View Primary School, Crowland: 22 dwellings. 17.5% for MV
- Land north of Witham Rd, Wygate Park, Spalding: 34 dwellings. 15% for MV
- Land south Roman Road, Moulton Chapel: 55 dwellings. 17.5% for MV / 6.68% AH
- Land off Coalbeach Lane, Surfleet: 60 dwellings. 17.5% for MV / 4.57% AH

4.42. The Local Plan viability testing for South Holland (South East Lincs Local Plan) also assumed 17.5% profit on market value units, plus 6% on affordable.

4.43. Having considered all of 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

4.44. 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.

4.45. 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.

4.46. 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:

4.46.1. 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.

4.46.2. The EUV should disregard any hope value.

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

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

4.46.5. 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.

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

4.46.7. 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.

4.47. 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.

4.48. In their report, PS refer to a price paid for the site at £1,050,000 (July 2020). However, the Planning Practice Guidance: Viability is clear that purchase price is not a justification for adjusting planning policies.

4.49. PS go on to refer to a land sale at Crease Drove, purchased in March 2021 for £1,250,000 by Longhurst Group and use this to arrive at a value of £750,000 for the subject site. A 20% uplift is then applied to arrive at a benchmark land value of £900,000.

4.50. We do not agree to PS' approach, for the following reasons:

- The Planning Practice Guidance: Viability indicates that the primary approach to assessing benchmark land value is to identify the existing use value, plus a suitable premium. PS' approach is not reflective of existing use value, because this is based on development potential as the Crease Drove land transaction was a price paid to include 'hope value' for future development.

- When assessing existing use value, the guidance is clear that any 'hope value' should be excluded. In this regard, PS have arrived at an alternative use value, not an existing use value. This is important because the guidance indicates that the alternative use value should not attract an additional premium (as this already inherently included). The 20% uplift should not therefore be applied, which leaves an alternative use value / benchmark land value of £750,000 not £900,000.

- Furthermore, the Planning Practice Guidance: Viability states the following in para 014:

  Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

- It is not the case that because another site sold for a certain price that means it would be achievable elsewhere. This is because every site is unique and subject to key factors which influence value (such as scheme density, infrastructure requirements, abnormal costs, planning policies etc). It may have been the case that Longhurst Group overpaid for the Crease Drove site, which if the case means this should not be used in the viability modelling.

4.51. For the purposes of our review we have followed the guidance and focused on the existing use value plus premium method. The subject property comprises 2 elements, which we have appraised as follows:



- 17 Barbers Drove North: understood to be a 2 storey property which (according to the EPC register) extends to 94 sq m. According to Zoopla this has a current estimated value of £263,000. To this, we consider a 20% premium uplift to be suitable, which equates to £315,600 (being the benchmark land value for this element).

- For the remaining land (less a reasonable garden for 17 Barbers Drove North) we have assumed there are 3 acres available. As the existing use value we consider a paddock land values to be appropriate, at £15,000 per acre. We have assumed a premium uplift of 10 times this sum to give a benchmark land value of £150,000 per acre for this this element. In total this equates to £450,000 for this element.

4.52. Adding to the 2 elements together, we have subsequently arrived at a £765,600. This is therefore broadly similar to PS' figure of £750,000 (once the premium is removed, as explained above).

4.53. Having considered all of the above, we conclude that £750,000 is a reasonable benchmark land value for this scheme for the purposes of the viability modelling.

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 (based on the mix required by the Council as detailed above in para 4.32) plus £147,435 in S106 contributions. Please see the attached appraisal. This shows a residual land value of £928,074. As this is above our benchmark land value of £750,000 this is deemed to be viable with the full planning policies applied 9and with the affordable housing mix as set out in para 4.32).

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

Input	PS appraisal	CPV appraisal
Plot Construction	£1,412 psm	£1,129 psm
Externals	24.69%	15%
Contingency	9.57%	3.50%
Professional fees	9.73%	7.00%
Arrangement fees etc	£153,450	£100,000
Developer profit	20% MV / 6% AH	17.5% MV / 6% AH
Benchmark land value	£900,000	£750,000

5.3. 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%
	2,456.66 /m²	2,521.31 /m²	2,585.96 /m²	2,650.61 /m²	2,715.26 /m²
-5.000% 1,072.55 /m²	(£893,989) 16.000%	(£1,031,709) 16.000%	(£1,169,429) 16.000%	(£1,307,149) 16.000%	(£1,444,869) 16.000%
-2.500% 1,100.78 /m²	(£773,312) 16.000%	(£911,032) 16.000%	(£1,048,752) 16.000%	(£1,186,471) 16.000%	(£1,324,191) 16.000%
0.000% 1,129.00 /m²	(£652,634) 16.000%	(£790,354) 16.000%	(£928,074) 16.000%	(£1,065,794) 16.000%	(£1,203,514) 16.000%
+2.500% 1,157.22 /m²	(£531,957) 16.000%	(£669,677) 16.000%	(£807,397) 16.000%	(£945,117) 16.000%	(£1,082,837) 16.000%
+5.000% 1,185.45 /m²	(£411,280) 16.000%	(£549,000) 16.000%	(£686,720) 16.000%	(£824,440) 16.000%	(£962,160) 16.000%

5.4. This shows the impact on the residual land value 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) build costs were to increase by 2.5% and sales values were to stay the same this would result in a residual land value of £807,397 (which is still above our benchmark land value of £750,000 and therefore deemed viable).

5.5. In summary, contrary to the findings of PS, we conclude that the scheme can viably support the full 25% affordable housing requirement plus the S106 contributions of £147,435.

5.6. 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