

Viability Assessment – Summary Report

Property: Harrington Drive Crowland Peterborough Lincolnshire
Planning ref: H02-1006-21 / H02-0166-22 / H02-0167-22
Applicant: Ashwood Homes

Overview

The property is located to the south eastern edge of Crowland, around 0.75 miles from the village centre. There has been recent new build activity within Crowland, including a recent site delivered by Ashwood Homes a few hundred metres north of the subject site. The site itself currently comprises undeveloped agricultural land. This is an irregular shape and extends to 1.68Ha (4.15 acres) on a gross basis.

The applications are as follows:

H02-1006-21 “Erection of 42 dwellings with associated parking, garages, roads and sewers”

H02-0166-22 “Erection of 5 dwellings with associated garages and external works”

H02-0167-22 “Erection of 5 dwellings with associated garages and external works”

The applications are to be considered as a whole for the purposes of developer contributions and viability.

CP Viability has been instructed to undertake an independent review to determine what level of affordable housing / S106 contributions can be viably delivered.

Our review has been undertaken in accordance with the relevant RICS guidance, as well as the Planning Practice Guidance on viability.

Key considerations

Acting on behalf of the applicant, Maxey Grounds submitted a viability appraisal in September 2022. This concludes that “...the site is clearly not viable for development on the basis of the provision of the affordable housing and S106 cash contributions at the level appraised within this FVA”.

This viability outcome is contrary to the results of the Local Plan viability work (from 2017), which was used to inform the policies set out in the South East Lincolnshire Local Plan.

As per the requirements of the guidance, we have compared Maxey Grounds appraisal assumptions against those used in 2017 Local Plan testing, summarised as follows:

Appraisal Input	2017 Viability Study (for 30 dwellings)	Harrington Drive (based on 52 dwellings)
Density	30 dwellings per net Ha	34 dwellings per net Ha (based on assumed gross to net ratio of 90%)
Average Value	£1,900 per sq m	£2,741 per sqm
Average Size	100 sq m	91.19 sq m
Build Cost	£911 per sq m	£1,354 per sq m
Externals	10% on build cost	18.05% on build cost
Contingency	3% on build cost	2.89% on build cost
Professional Fees	7% on build cost	5.11% on build cost
S106	Up to £5,000 per dwelling	£16,045 per dwelling
Sales/Marketing	3% on revenue	3% on revenue
Developer Profit	17.5% Market, 6% Afford	17.5% Market, 6% Afford
BLV (inc abnormals)	£535,000 per net Ha	£677,286 per net Ha

As shown above, there are a number of differences between the assumptions applied to Maxey Ground's appraisal testing and that used in the South East Lincolnshire Plan viability. These include scheme density, average value, average dwelling size, build costs, externals, professional fees and benchmark land value.

We have subsequently reviewed Maxey Grounds various appraisal assumptions. As part of this process we have looked to identify evidence for each assumption, to test whether Maxey Grounds' allowance are reasonable or should be adjusted in the viability modelling. Based on our review we concluded that, based on the identified evidence, it was deemed necessary to adjust a number of Maxey Grounds' assumptions, as follows:

Input	MG appraisal	CPV appraisal	Difference
Revenue (average market value)	£2,741 psm	£2,786 psm	£173,500
Construction	£1,354 psm	£1,235 psm	£564,298
Benchmark land value	£460,000	£425,000	£35,000
		Total	£772,798

As a result of the above adjustments our appraisal demonstrated that the scheme was viable with 13 onsite affordable units (25%), plus S106 contributions totalling £660,320. This compares to the policy requirement of 25% onsite affordable housing plus S106 contributions totalling £834,320.

In short, we agree that a reduction in the policy provision is justified here on viability grounds. However, the level of reduction we considered necessary was to reduce the Parish Council contribution down from £800,000 to £626,000.

Please note, in the event that the Council prefers for the full Parish Council contribution to be made this would reduce the affordable housing provision by around 2/3 units (dependent on the tenure mix), which is equivalent to a circa 19% to 21% affordable housing provision.



Independent Viability Experts

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Our ref: DN-0731

Your ref: H02-1006-21

H02-0166-22

H02-0167-22

Date: 26th September 2022

Dear Ms. Buttery

PROPERTY ADDRESS: Harrington Drive Crowland Peterborough Lincolnshire

INSTRUCTING BODY: South Holland District Council

APPLICANT: Ashwood Homes



Further to your instruction dated 12th September 2022, 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. Furthermore, the site is located immediately adjacent to James Road, which runs the length of the town and runs parallel with the A16. The site is located circa 0.75 of a mile from the natural centre of the town, where there is a post office, supermarkets, restaurants, and takeaways.
- 1.2. As stated above, the site is situated immediately adjacent to James Road, to its south eastern boundary. Existing residential dwellings abut the western and northern boundary, on Peterborough Road. To the northern tip of the site, the boundary is comprised of Peterborough Road and Harrington Drive. The eastern boundary is formed of existing residential housing on Harrington Drive.
- 1.3. In terms of new build activity within the local area, the applicant has recently progressed the following developments:
 - **Kingsgate Mews, Crowland:** a development of 108 plots situated immediately to the west of Crease Drove and south of Monks Meadow, around 400m to the north west of the subject site.
 - **Abbey Farm, Crowland:** like the subject site this has a frontage onto James Road and is situated a few hundred metres to the north of the subject site.

- 1.4. The site is irregular in shape and broadly flat. This is formed of three separated applications which are to be considered as a whole for the purposes of developer contributions and viability.
- 1.5. According to the Maxey Grounds (“MG”) “Viability Assessment” dated 8th September 2022, the site area extends to 1.68Ha (4.15 acres) on a gross basis.
- 1.6. The applications are as follows:
- H02-1006-21** *“Erection of 42 dwellings with associated parking, garages, roads and sewers”*
- H02-0166-22** *“Erection of 5 dwellings with associated garages and external works”*
- H02-0167-22** *“Erection of 5 dwellings with associated garages and external works”*
- 1.7. We have been provided with the following schedule of accommodation:

Type	Beds	No.	Sq m (each)	Sq m (total)
Dee End Terrace	2	2	68	136
Dee Terrace	2	1	68	68
Dee Semi	2	6	68	408
Clyde Semi	3	10	73	730
Aire Semi	3	1	84	84
Leicester V Detached	3	2	95	190
Mere Semi	3	1	100	100
Mere Detached	3	4	100	400
Lock Detached	3	1	100	100
Rutland Detached	3	1	102	102
Severn Detached	4	5	125	750
Stamford Detached	4	2	145	145
Humber Detached	4	1	147	147
Tay Detached	4	1	164	164
Ouse Detached	4	1	169	169
Chester Detached	5	1	213	213
A575 Quad	1	4	53	212
A732 End Terrace	2	2	68	136
A732 Terrace	2	1	68	68
A902 End Terrace	3	2	84	168
A902 Terrace	3	1	84	84
A902 Semi	3	2	84	168
Totals		52		4,762

2. Scope of Assessment and General Assumptions

- 2.1. MG submitted their “Viability Assessment” dated 8th September 2022; in this assessment they have considered 3 scenarios. MG state that “...the site is clearly not viable for development on the basis of the provision of the affordable housing and S106 cash contributions at the level appraised within this FVA”.
- 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 26th September 2022.
- 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 “Viability Assessment” dated 8th September 2022, which considers 3 scenarios.

Scenario 1 – 52 units with 25% Affordable housing units and S106 cash contributions of £834,320 and a fixed land value of £460,000, this produces a deficit (to a viable position) of -£915,159.

Scenario 2 – 52 units with 25% Affordable housing units, but with nil S106 cash contributions and a fixed land value of £460,000, this produces a deficit (to a viable position) of -£50,519.

Scenario 3 - 52 units with 23% Affordable housing units and nil S106 cash contributions and a fixed land value of £460,000, this produces a nominal surplus (to a viable position) of £1,013. This scenario is therefore deemed to be viable.

3.2. For the purposes of this section, we have focused on MG's 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	39	£2,741	£10,507,000
Affordable housing (Affordable rent)	9	£1,554	£907,794
Affordable housing (SO)	1	£1,931	£140,945
First Homes	3	£1,875	£472,500
Total	52		£12,028,239

Gross Development Cost (Outgoings)

Type	Detail	Total
Plot construction	£1,354 per sq m (4,742 sqm GIA)	£6,420,668
Garages	3x sgle@£12k/6 x pair@£22k/4x dbl@£20k	£284,000
External works costs	18.05% of build costs	£1,210,452
Contingency	2.89% of build costs	£228,736
Abnormals	Various	£564,056
Professional fees	5.11% of build costs	£404,100
S106 contributions	Education / Parish Council contribution	£834,320
Sales & marketing	3% of GDV	£329,385
Sales legal fees (MV)	£750 per market dwelling	£31,500
Sales to RP legal fees	£300 per dwelling	£3,000
Finance costs	Debit interest	£173,354
Arrangement fees etc	Inc. broker & valuation fees	£7,000
Benchmark land value		£460,000
Acquisition costs	Legals, SDLT	£15,950
Developer's profit	17.50% on MV dwellings/6% on AH	£1,976,867
Total		£12,943,388

3.2 Based on the above appraisal assumptions, MG's appraisal returns a deficit of – (minus) £802,510.

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 (for 30 dwellings)	Harrington Drive (based on 52 dwellings)
Density	30 dwellings per net Ha	34 dwellings per net Ha (based on assumed gross to net ratio of 90%)
Average Value	£1,900 per sq m	£2,741 per sqm
Average Size	100 sq m	91.19 sq m
Build Cost	£911 per sq m	£1,354 per sq m
Externals	10% on build cost	18.05% on build cost
Contingency	3% on build cost	2.89% on build cost
Professional Fees	7% on build cost	5.11% on build cost
S106	Up to £5,000 per dwelling	£16,045 per dwelling
Sales/Marketing	3% on revenue	3% on revenue
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BLV (inc abnormals)	£535,000 per net Ha	£677,286 per net Ha

3.6 As shown above, there are a number of differences between the local plan study viability and the submission by the applicant in relation to the subject property. We would highlight some key factors:

- At the time of the 2017 viability study, market values were 2.09 times higher than build costs. According to MG's appraisal of the subject site, this 'gap' has narrowed slightly to 2.02 times the build costs (in other words build cost inflation has grown at a faster rate than sales values since 2017).
- There is a significant difference in the allowance used for external costs.
- The S106 requirement for the subject scheme (at £16,045 per dwelling) is significantly higher than what was deemed viable in the 2017 study (up to £5,000 per dwelling).

- MG's allowance for land value (when the abnormals are also taken into account) is higher than the 2017 study.

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 sales values can be summarised as follows:

- 2 bed terrace	68 sq m	£187,000 (£2,750 psm)
- 2 bed semi / end terr	68 sq m	£197,000 (£2,897 psm)
- 3 bed semi	73 sq m	£206,000-£216,000 (£2,822-£2,959 psm)
- 3 bed semi	84 sq m	£225,000 (£2,679 psm)
- 3 bed semi	100 sq m	£263,000 (£2,630 psm)
- 3 bed detached	95 sq m	£340,000 (£3,579 psm)
- 3 bed detached	100-102 sq m	£282,000 (£2,765-£2,820 psm)
- 4 bed detached	125 sq m	£330,000 (£2,640 psm)
- 4 bed detached	145-147 sq m	£360,000 (£2,449-£2,483 psm)
- 4 bed detached	164 sq m	£400,000 (£2,439 psm)
- 4 bed detached	169 sq m	£410,000 (£2,426 psm)
- 5 bed detached	213 sq m	£450,000 (£2,113 psm)

4.3. To arrive at the above values MG use "...recent comparable evidence from other Ashwood Homes sites in Crowland and other comparables obtained from Rightmove".

- 4.4. We concur that the most recent sales evidence from the nearby schemes (and also corresponding house types, where possible) is the strongest evidence available in the market place. We have subsequently analysed the sales values put forward and would comment as follows:

Dee (2 bed 68 sq m terrace / semi) – at the subject site, for the terrace version, MG adopt a value of £187,000. This increases to £197,000 for the end-terrace and semi-detached versions. At Abbey Farm (see above para 1.3), being only a few hundred metres from the subject scheme and having a similar frontage onto James Road, there are 2 sales for the semi-detached shown at £196,350 and £196,850, which were originally reserved in Oct / Nov 2021, exchanging in Feb 22 and completing in May 2022. There is also a terraced example at £184,350, which also completed in May 22. At Kingsgate Mews there are 2 end terrace examples at £193,850 and a terrace at £185,850, all reserved early 2022 and exchanged in June / July 2022. We consider Abbey Farm to provide a better indication of value, as this is situated in a location more aligned to the subject scheme. However, and in particular given the announcement on 23rd Sept 22 to remove stamp duty payments for all properties with a value less than £250,000, we would expect some inflation to the prices reserved in late 2021 / exchanged in early 2022. According to the UK House Price Index the average house price in South Holland as at Jan 2022 was £219,251, whilst as at July 2022 (the latest point in the data) this had increased to £245,855. This is an uplift of over 12% during this period. Furthermore, according to the Nationwide House Price Index, for a property at James Road, Crowland with a value of £197,000 as at Q1 2022 by Q2 2022 (the latest point in the data) the house price had increased to £203,547, an increase of 3.32%. Adopting a cautious approach, we have applied an average circa 3.5% uplift in value since the sales at Abbey Farm were secured. For the semi-detached and end-terrace this equates to £203,000 per unit. For the terrace this equates to £190,500.

Clyde (3 bed 73 sq m semi) – as above with the Dee type, sales are identified by MG at both Abbey Farm and Kingsgate Meadows. Again, we have attached more weight to the Abbey Farm evidence owing to the similarities (and close proximity) in location. The net values across 4 sales were £212,750 to £216,000. Reservations took place in late 2021 / early 2022. We note that the lower values were reserved in late 2021, whilst the higher values were achieved in early 2022 (at a gross price of £216,000). In their appraisal MG adopt £216,000, however this effectively ignores any sales price inflation since these sales were progressed. As per our approach above for the Dee, we consider it reasonable to apply a circa 3.5% uplift in value to the £216,000 price achieved to reflect current market conditions. This equates to £223,500, which we have applied to our appraisal.

Aire (3 bed 84 sq m semi) –sales are identified by MG at Abbey Farm, which we agree is a strong comparable. The net values across 3 sales were £220,000 to £222,000 (average £221,333). Reservations took place in late 2021. In their appraisal MG adopt £225,000, which reflects a 1.66% increase compared to the average value. As per our approach above, we consider it reasonable to apply a circa 3.5% uplift in value, therefore MG's uplift is deemed to be too low. We have subsequently increased the value to £229,000 (an increase of circa 3.5% compared to the average net values achieved at Abbey Farm in late 2021 / early 2022).

Mere (3 bed 100 sq m semi) – as above with the Dee type, sales are identified by MG at both Abbey Farm and Kingsgate Meadows. Again, we have attached more weight to the Abbey Farm evidence owing to the similarities (and close proximity) in location. There are 2 sales shown, both at £263,000, reserved in early 2022 and exchanged in mid 2022 (then completing in July 22). In their appraisal MG adopt £263,000, however this effectively ignores any sales price inflation since these sales were progressed. As this sales were slightly more recent than the Dee / Clyde (as discussed above) we have adjusted the sales price inflation to 2.5%. This equates to £269,500.

Lock (3 bed 100 sq m detached) – as above with the Mere semi type, sales are identified by MG at both Abbey Farm and Kingsgate Meadows. Again, we have attached more weight to the Abbey Farm evidence owing to the similarities (and close proximity) in location. There are 4 sales shown, ranging from £275,000 to £280,000 (average £278,550), reserved in late 2021 / early 22. In their appraisal MG adopt £282,000, which reflects a 1.24% increase compared to the average value. As per our approach above, we consider it reasonable to apply a circa 3.5% uplift in value, therefore MG's uplift is deemed to be too low. We have subsequently increased the value to £288,000 (an increase of circa 3.5% compared to the average net values achieved at Abbey Farm in late 2021 / early 2022).

Mere (3 bed 100 sq m detached) & Rutland (3 bed 102 sq m detached) – in line with MG's approach, we have adopted the same value as the Lock detached type, which as shown above, is £288,000 in our appraisal.

Severn (4 bed 125 sq m detached) – sales are identified by MG at Abbey Farm, which we agree is a strong comparable. The net values across 3 sales were £319,500 to £325,000. Reservations took place in late 2021 and early 2022. We note that the highest value of £325,000 was reserved in Feb 22. In their appraisal MG adopt £330,000, which reflects a 1.54% increase compared to the average value. As per our approach above, and working from the most recent reservation in Feb 22, we consider it reasonable to apply a circa 2.5% uplift in value, therefore MG's uplift is deemed to be too low. We have subsequently increased the value to £333,000 (an increase of circa 2.5% compared to the average net values achieved at Abbey Farm in late 2021 / early 2022).

Tay (4 bed 164 sq m detached) – as above with the Mere semi type, sales are identified by MG at both Abbey Farm and Kingsgate Meadows. Again, we have attached more weight to the Abbey Farm evidence owing to the similarities (and close proximity) in location. There are 2 sales shown, at £380,000 and £384,850 (average £382,425), reserved in late 2021. In their appraisal MG adopt £400,000, which reflects a 4.60% increase compared to the average value. This is slightly above expectations. For consistency, we have reduced this to a 3.5% increase of £382,425, which equates to (rounded) £395,000.

Ouse (4 bed 169 sq m detached) – in the absence of any clear evidence from Abbey Farm and Kingsgate Meadows, we have followed MG's approach of applying a £10,000 uplift to the Tay type, which equates to £405,000 (a reduction compared to MG's allowance of £410,000).

- 4.5. For the Leicester, Stamford, Humber and Chester types there is no evidence to suggest that MG's allowance are inappropriate and subsequently we have adopted the same in our appraisal for these dwellings.

- 4.6. For comparison purposes only, in a policy compliant scheme of 25% affordable housing, adopting our adjusted values as described above would generate a total market value revenue of £10,707,500. This compares to £10,507,000 as shown in MG's policy compliant scenario. Our appraisal, at least in the policy compliant scenario, therefore shows an uplift of £200,500 compared to MG's appraisal.
- 4.7. The affordable housing revenues adopted by MG (across a tenure mix of affordable rented, shared ownership and First Homes) are considered to be reasonable and have been accepted in our appraisal.

Build costs

- 4.8. For their standard plot construction costs, MG refer to the findings of a cost consultant (Two Two Five Ltd) on an Ashwood Homes scheme in Holbeach. Based on this advice, MG consider that the BCIS "generally" median figure (rather than the lower quartile) should be applied to the subject scheme. We note that this is contrary to a number of other viability appraisals submitted in recent years by MG for similar scale developments, where the lower quartile rate was routinely used in viability testing. The rate used equates to £1,354 per sq m. Additionally allowances are also put forward for garages (totalling £284,000), as these are not included in the BCIS figures. For what we consider to be 'standard' external costs this totals £1,210,452, which is equivalent to 18.05% of the BCIS rate and the cost of the garages. A further contingency is allowed at 2.89% of the above costs. Finally, for what we deem to be abnormal or site specific infrastructure costs, these total £564,056 (discussed further below).

- 4.9. In terms of the use of the BCIS, we consider it reasonable to utilise a BCIS rate for the purposes of the modelling, on the basis that this was the approach used in the Council's Local Plan viability testing and has also been used regularly on other sites across the district.
- 4.10. As for which rate to apply, MG adopt the median estate house "generally" figure. To support this approach, which is contrary to the use of the lower quartile rates previously applied (discussed further below), MG refer to the advice provided by the cost consultant Two Two Five Ltd in relation to the scheme Holbeach Meadows in Holbeach, which we would summarize as follows:
- Using the lower quartile weighted average approach (i.e. applying the lower quartile detached BCIS rate, the lower quartile semi-detached BCIS rate and the lower quartile terrace BCIS rate) is below Two Two Five Ltd's cost estimate.
 - Two Two Five consider that it will cost more to construct a detached dwelling than a semi-detached or terrace, but state that detached dwellings tend to be larger and there is an economy of scale for these units compared with smaller dwellings (with the implication being that this has a downward pressure on the rate per sq m for detached units).
 - An extract from the Two Two Five Ltd advice is appended to MG's report. We note that this gives a breakdown of the projected build costs for a variety of house types within the Holbeach scheme, a number of which are types being proposed at the subject site. We would summarise the figures provided by Two Two Five Ltd as follows (all-inclusive of preliminaries, which is how the BCIS data is presented and therefore enables a 'like for like' comparison):

○ A732	£1,225.19 per sq m (terrace / semi)
○ A902	£1,130.46 per sq m (terrace / semi)
○ Dee	£1,301.72 per sq m (terrace / semi)
○ Clyde	£1,286.33 per sq m (terrace / semi)
○ Aire	£1,254.04 per sq m (terrace / semi)
○ Mere	£1,236.38 per sq m (semi / detached)
○ Lock	£1,251.45 per sq m (semi / detached)
○ Rutland	£1,254.04 per sq m (semi / detached)
○ Severn	£1,254.04 per sq m (detached)
○ Humber	£1,188.91 per sq m (detached)
○ Tay	£1,110.23 per sq m (detached)
○ Ouse	£1,178.69 per sq m (detached)

4.11. The above demonstrates that the highest rates per sq m are actually reflected through the smallest semi-detached and terraced dwellings. This suggests that detached dwellings are not more expensive to build (at least in terms of a rate per sq m) when compared to terraced and semi-detached dwellings. This is contrary to MG's suggestion (in previous schemes we have been involved with involving MG) that detached dwellings have a higher rate per sq m compared to terraced and semi-detached units.

4.12. Furthermore, if the above rates are applied to the subject site (plus an assumed rate of £1,500 per sq m for the Leicester type, the Stamford having the same rate as the Humber, the Chester having the same rate as the Ouse and the A575 having the same rate as the A732) this equates to a total construction cost of £5,901,761, which is equivalent to £1,244.57 per sq m. This is therefore significantly below MG's BCIS median rate of £1,354 per sq m across all dwelling types (which equates to £6,420,668).

- 4.13. For other schemes of this scale across the District (including schemes involving Ashwood Homes / MG at Sunnysdale Close, Surfleet, James Rd, Crowland, Chaffinch Way, Holbeach and Fen Lane, Holbeach) we have applied the BCIS lower quartile “generally” rate. This is consistent with the approach adopted in the 2017 Local Plan viability study.
- 4.14. Having reviewed the latest figures, we note that the BCIS rate this currently equates to £1,235 per sq m. This is therefore reasonably close to the Two Two Five figures analysed above at £1,244.57 per sq m (albeit we have had to make some assumptions in our analysis as not all the house types proposed at the subject scheme are being provided at the Holbeach Meadows development).
- 4.15. Having considered the above, we do not agree with MG’s use of the median BCIS rate in the modelling. Taking into account the Two Two Five evidence, but also the approach used in the 2017 viability study as well as the approach adopted in numerous other schemes across the District, we consider that the lower quartile “generally” figure of £1,235 per sq m should be applied to the modelling.
- 4.16. The allowances adopted for garages (£12,000, £20,000 and £22,000 per unit) are considered to be in keeping with other appraisals we have assessed in the region and also recent sharp build cost inflation. As the BCIS rate excludes garages, we therefore agree that it is appropriate to allow for these costs separately and have adopted the same in our appraisals.

- 4.17. With respect to the external works, based on our adjusted plot construction rate these equate to 19.71% of the plot construction / garage costs (totalling £1,210,452). This includes the roads and sewers, site works, landscaping, sustainable urban drainage systems, acoustic measures and plot specific externals. Typically, we would expect the standard external costs to be closer to 15% of the BCIS rates. However, in this particular case we note that there is a section of the site where development only takes place on one side of the main estate road (owing to the positioning of the open space). This therefore makes the scheme less efficient (in terms of how the overall plot costs correlate to the external works). On this basis, the external costs submitted are deemed to be within an acceptable tolerance and have been agreed in our report.
- 4.18. With regard to contingency, MG's allowance is deemed to be reasonable and has been accepted in our appraisal.
- 4.19. With regard to what are considered to be site specific infrastructure / abnormal works costs, we note the following (which totals £564,056):

Piling	213,390
Gas membrane	39,000
E/O wide strip foundations for garages	23,000
E/O road fill to make up levels	39,350
Site clearance / demolition & asbestos removal	33,700
E/O fill around plots to raise site levels	166,720
Retaining walls	48,896

- 4.20. 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.
- 4.21. 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.
- 4.22. 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

- 4.23. MG have included professional fees totalling £404,100 (equivalent to 5.50% of our adjusted build costs).
- 4.24. This allowance is deemed to be reasonable and has been accepted in our appraisal.

S106 / Other Council Policy Requirements

- 4.25. The Council's policy requires a 25% on-site affordable housing requirement (12 units).
The Council has confirmed the following tenure mix:

	Affordable Rent	Shared Ownership	First Homes
1 bed	4	-	-
2 bed	3	-	-
3 bed	2	1	3
Total	9	1	3

- 4.26. In addition, the Council has confirmed that there is a requirement for an NHS contribution of £34,320 and also a Parish Council of £800,000.

Marketing / legal costs

- 4.27. 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 £3,000 (in total) for the legal costs associated with the affordable dwellings.
- 4.28. Based on other schemes we have been involved with, the 3% allowance could be argued to be on the cautious side. However, as this is consistent with the Local Plan viability testing we have accepted 3% at the subject scheme, together with the legal cost allowances.

Finance

- 4.29. MG have allowed for these costs at a debit rate of 6.5%, with an additional £11,000 for arrangement fees and other costs. This is considered to be reasonable. We have subsequently adopted the same in our appraisal.
- 4.30. 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

- 4.31. MG adopt a profit equivalent to 17.5% on revenue for the market value units and circa 5.5% for the affordable.
- 4.32. 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.
- 4.33. 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).
- 4.34. 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.

- 4.35. MG's allowance is considered to be consistent with other schemes we have appraised across the District and also the Local Plan testing assumptions. On this basis, we have accepted their allowance in our appraisal.

Benchmark land value

- 4.36. 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.
- 4.37. 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.
- 4.38. 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:

- 4.38.1. 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.
- 4.38.2. The EUV should disregard any hope value.
- 4.38.3. Benchmark land value should reflect the implications of abnormal costs, site specific infrastructure costs and professional site fees.
- 4.38.4. Benchmark land value should be informed by market evidence including current uses, costs and values wherever possible.
- 4.38.5. 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.
- 4.38.6. Under no circumstances will the price paid for land be a relevant justification for failing to accord with the relevant policies in the plan.

- 4.38.7. 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.
- 4.39. 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.
- 4.40. 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 consistent with what has been applied to other schemes across the District.
- 4.41. In terms of a premium uplift, MG's suggest an additional £250,000 per gross Ha as being an acceptable incentive to a landowner. This equates to circa 11 times the existing use value (when expressed on a 'per gross acre' basis).
- 4.42. As part of our analysis, we have looked to compare this to the rate used in the Local Plan testing, which is £535,000 per net Ha (when the abnormal costs are included). However, the applicant has only provided a gross area for the site therefore a direct 'like for like' comparison cannot be made, without adjustment to the site area.
- 4.43. For the purposes of our analysis, we have assumed a circa 90% gross to net ratio, giving a net area of 1.51 Ha.

- 4.44. Assuming a net area of 1.51 Ha, MG's allowance for the benchmark land value equates to £304,233 per net Ha. The abnormals put forward equate to £373,053 per net Ha. Combined this equates to £677,286 per net Ha, compared to £535,000 per net Ha as used in the Local Plan testing. On this basis, MG's allowance appears to be above expectations, when taken within the context of the net site area and abnormal costs.
- 4.45. The guidance is clear that as abnormal costs increase, this should have a downward pressure on the corresponding benchmark land value. In other words, the abnormal costs can and should be deducted from the land value for the purposes of the viability testing. However, these deductions can only be up to a point. There comes a 'tipping point' where a landowner would simply not be incentivised to sell. For example, if a site is currently worth £50,000 as an agricultural field but for a residential development to come forward the level of abnormal costs (if deducted from the land value) means that a landowner would only receive £50,000 then clearly there would be no incentive for the landowner to sell. Equally, if the landowner only received a relatively small uplift in value (say a sale of £75,000 or £100,000) then again there would be no incentive for the landowner to release the property for development.
- 4.46. It is not therefore simply a case of deducting all of the abnormals from the land value when testing viability, as the guidance makes it clear that a landowner has to be incentivised to sell. What is subjective, and open to debate, is where that tipping point is precisely for each site. It is entirely reasonable, and within the requirements of the guidance, to expect a landowner to adjust their expectations of land price to reflect high abnormal costs. Equally, though, it is reasonable to assume that the landowner has to receive an attractive enough price to release the site, regardless of how high the abnormals are.

4.47. In this particular case, given the level of abnormals, we consider that a minimum land price of £425,000 would act as a sufficient incentive for a landowner to release this site for development. Below this level would risk the site not coming forward. At this level this is equivalent to around £280,000 per net Ha (£100,000 per gross acre). When combined with the abnormals it equates to around £650,000 per net Ha, which is above that used in the Local Plan testing, but in our view a realistic reflection on the minimum price a landowner would be willing to accept to release the site.

5. Appraisal results and conclusions

5.1. We have run an initial appraisal for the scheme as proposed incorporating the various appraisal inputs detailed above and applying the full planning policy requirements, including a 25% onsite affordable housing provision plus £834,320 in S106 contributions. This generates a residual land value below £425,000 and is therefore unviable.

5.2. We have subsequently amended the policy provision to try and reach a viable outcome. See attached our adjusted appraisal. With the S106 costs reduced from £834,320 to £660,320 (achieved by reducing the Parish Council contribution from £800,000 to £626,000) the scheme is able to support the full 25% onsite affordable housing provision, providing the following mix:

	Affordable Rent	Shared Ownership	First Homes
1 bed	4	-	-
2 bed	3	-	-
3 bed	2	1	3
Total	9	1	3

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

Sales: Rate /m ²					
Construction: Rate /m ²	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
-5.000%	-£291,998	-£488,858	-£685,719	-£882,576	-£1,079,440
1,173.25 /m ²	16.450%	16.450%	16.450%	16.450%	16.450%
-2.500%	-£159,143	-£358,601	-£555,462	-£752,323	-£949,183
1,204.13 /m ²	16.450%	16.450%	16.450%	16.450%	16.450%
0.000%	-£22,558	-£227,707	-£425,205	-£622,066	-£818,926
1,235.00 /m ²	16.450%	16.450%	16.450%	16.450%	16.450%
+2.500%	£114,729	-£92,492	-£294,948	-£491,809	-£688,669
1,265.88 /m ²	16.450%	16.450%	16.450%	16.450%	16.450%
+5.000%	£253,680	£44,278	-£162,181	-£361,552	-£558,412
1,296.75 /m ²	16.450%	16.450%	16.450%	16.450%	16.450%

- 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) sales values were to decrease by 2.5% and construction costs remained the same, the residual land value would reduce to £227,707. This would be below the benchmark land value of £425,000 and therefore unviable. Equally, if sales values increased by 2.5% (and construction costs remained the same) the residual land value would be £622,066, therefore above the benchmark land value.
- 5.5. 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	£2,741 psm	£2,786 psm
Plot Construction	£1,354 psm	£1,235 psm
Benchmark land value	£460,000	£425,000

- 5.6. In summary, we disagree with the applicant's position and instead conclude that the scheme is viable with the full onsite 25% affordable housing provision, albeit with a reduced S106 'pot' totalling £660,320.
- 5.7. Please note, in the event that the Council prefers for the full Parish Council contribution to be made this would reduce the affordable housing provision by around 2/3 units (dependent on the tenure mix), which is equivalent to a circa 19% to 21% affordable housing provision.
- 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

Harrington Drive, Crowland
H02-1006-21/H02-0166.22/H02-0167-22
Viability appraisal
DN-0731

Development Appraisal
Prepared by David Newham MRICS Director
CP Viability Ltd
26 September 2022

APPRAISAL SUMMARY**CP VIABILITY LTD**

Harrington Drive, Crowland
H02-1006-21/H02-0166.22/H02-0167-22
Viability appraisal

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m²	Sales Rate m²	Unit Price	Gross Sales
Market Value	39	3,853.00	2,779.00	274,551	10,707,500
Affordable Rent	9	584.00	1,554.44	100,866	907,794
Shared ownership	1	73.00	1,930.75	140,945	140,945
First Homes	<u>3</u>	<u>252.00</u>	1,875.00	157,500	<u>472,500</u>
Totals	52	4,762.00			12,228,739

NET REALISATION**12,228,739****OUTLAY****ACQUISITION COSTS**

Residualised Price (1.68 Ha @ 253,098.24 /Hect)	425,205	
		425,205
Stamp Duty	10,760	
Effective Stamp Duty Rate	2.53%	
Legal Fee	3,450	
		14,210

CONSTRUCTION COSTS

Construction	m²	Build Rate m²	Cost	
Market Value	3,853.00	1,235.00	4,758,455	
Affordable Rent	584.00	1,235.00	721,240	
Shared ownership	73.00	1,235.00	90,155	
First Homes	<u>252.00</u>	1,235.00	<u>311,220</u>	
Totals	4,762.00 m²		5,881,070	5,881,070

Contingency	228,736	
Garages	284,000	
Piling	213,390	
Gas membrane	39,000	
0/O wide strip foundations garages	23,000	
0/O road fill to make levels	39,350	
Site clearance	33,700	
0/O fill plots to raise levels	166,720	
Retaining walls	48,896	
Education	34,320	
Parish Council contribution	626,000	
		1,737,112

Other Construction Costs

Externals	1,210,452	
		1,210,452

PROFESSIONAL FEES

Professional fees	404,100	
		404,100

DISPOSAL FEES

Marketing & sales		3.00%	335,400	
Legals - Market Value	42.00 un	750.00 /un	31,500	
Legals - Affordable			3,000	
				369,900

Total Additional Costs				7,000
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TOTAL COSTS BEFORE FINANCE**10,049,049****FINANCE**

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land			57,366	
Construction			110,696	
Total Finance Cost				168,062

TOTAL COSTS**10,217,111**

Harrington Drive, Crowland**H02-1006-21/H02-0166.22/H02-0167-22****Viability appraisal****PROFIT****2,011,628****Performance Measures**

Profit on Cost%	19.69%
Profit on GDV%	16.45%
IRR% (without Interest)	51.48%