Independent Viability Experts

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

Sent by email only

Our ref: DN-0320
Your ref: H04-0508-19
Date: 29 April 2020

Dear Ms Harris-Gorf

PROPERTY ADDRESS: Land off Town Dam Lane, Donington (Phase 2)
INSTRUCTING BODY: South Holland District Council
APPLICANT: Ashwood Homes

Further to our viability report dated 18th March 2020, whereby we concluded that the scheme could viably provide a total S106 sum of £318,000 only (with nil on-site affordable housing).

In response to our report the applicant has submitted a response via email, dated 28 April 2020. The applicant has raised a number of queries (which builds on their own viability appraisal dated February 2020) in relation to the assumptions we have adopted in our appraisal, concluding the scheme is unable to support any S106 contribution. These relate to:

- Professional fees
- Marketing costs
- Finance / interest rates
- Garages
- Externals
- Benchmark land value

1. Professional fees

1.1 The applicant's original appraisal from February 2020 included professional fees equivalent to 7.53% of the plot construction and externals.

1.2 In our March 2020 report (paragraphs 4.26 to 4.27) we refer to 6 comparable sites, which were taken from similar sized schemes in Boston, South Holland and East Lindsey, all since March 2019. The sample was based on viability appraisals submitted to Local Authorities by developers. The average professional fee allowance in the sample was just over 6% of plot construction and external costs. In light of this evidence we concluded that a 6% allowance was reasonable and adjusted our professional fee allowance accordingly.

1.3 In their latest comments the applicant refers to a 7% allowance in the 2017 Local Plan Viability study and seek to reduce their own allowance to this level.

1.4 However, we do not accept the 7% allowance. This is because the latest evidence points to a figure of 6%. Furthermore, a Local Plan Viability Study is a high level assessment taken at a point in time, which does not take into account the specific circumstances of individual sites or prevalent market conditions. It is therefore possible to apply variances to the Local Plan study assumptions when dealing with individual developments at decision making stage, providing there is sufficient evidence to justify this departure. In this case we consider that there is sufficient evidence so stand by the allowance of 6% as being consistent with other recent, similar scale schemes.

2. Marketing costs

2.1 The applicant's original appraisal from February 2020 included marketing / disposal fees equivalent to 3% of revenue.

2.2 In our March 2020 report (paragraphs 4.31 to 4.33) we refer to the same 6 comparable site sample discussed above. The average marketing / fee allowance in the sample was just over 2.25% of revenue. In light of this evidence we concluded that a 2.5% allowance was reasonable and adjusted our marketing / disposal fee allowance accordingly.

2.3 In their latest comments the applicant refers to a 3% allowance in the 2017 Local Plan Viability study.

2.4 However, we do not accept the 3% allowance. This is because the latest evidence points to a lower figure. As discussed above, it is deemed appropriate to make adjustments to viability assumptions at decision making stage, if there is evidence to support the adjustment. In this case, the evidence suggests our allowance of 2.5% is reasonable and therefore we stand by this assumption.

3. Finance / interest rates

3.1 The applicant originally applied a 6.5% debit interest charge, however they now agreed to reduce this to 6.25% as per our assessment.

4. Garages

4.1 The applicant originally applied £998,150 for garages construction, however they now agreed to reduce this to £850,000 as per our assessment.

5. Externals

5.1 The applicant's original appraisal from February 2020 included what we perceived to be 'standard' external fees totalling £1,806,000. This included the following:

- Site set up fees	£25,000
- Roads & sewers	£1,459,000
- Plot specific externals	£272,000
- Site landscaping	£50,000
Total	**£1,806,000**

5.2 All other costs relating to externals / infrastructure were included (and accepted) in our appraisal as abnormals. We therefore agree to all externals / infrastructure / abnormal costs in our appraisal.

5.3 In their latest comments the applicant suggests we have not allowed for open space and driveways.

5.4 To confirm, we have accepted the cost of the driveways in our appraisal, as we accepted all of the external costs put forward by the applicant.

5.5 With respect to public open space this would need to form part of the £318,000 S106 provision that we consider the scheme can viably support (and be weighed against other policies).

6. Benchmark land value

6.1 The applicant's original appraisal from February 2020 included a benchmark land value of £1.5million. This is based on an existing use value of £10,000 per acre, and premium uplift of 11 times this figure.

6.2 In our March 2020 report (paragraphs 4.44 to 4.52) we discuss the methodology to establishing a benchmark land value and also our approach. We conclude that a benchmark land value of £1.2million is appropriate for the subject site. This is based on a reduced existing use value of £8,000 per acre, plus a multiplier of 11 times this figure.

6.3 In their latest comments the applicant questions the approach we have adopted, which involves identifying the existing use value and then applying an appropriate premium uplift (to reflect an incentive for a hypothetical landowner to release the site for development). More specifically, the applicant argues that a multiplier of 11 times the existing use value is not appropriate if a lower existing use value is applied.

6.4 We stand by the approach, which is detailed in our original report. For clarity, our main point of disagreement with the applicant is with respect to the existing use value, which we consider should be reduced to £8,000 per acre to reflect the poor state of the existing greenhouse structure on site. We accept the premium uplift of 11 times the existing use value, as shown in the applicant's appraisal.

7. Conclusion

7.1 Based on the applicant's latest comments we are not persuaded to amend our appraisal. We therefore stand by our previous conclusion that the scheme can viably support a S106 contribution of £318,000 (but with nil affordable housing).

Yours sincerely

[redacted]

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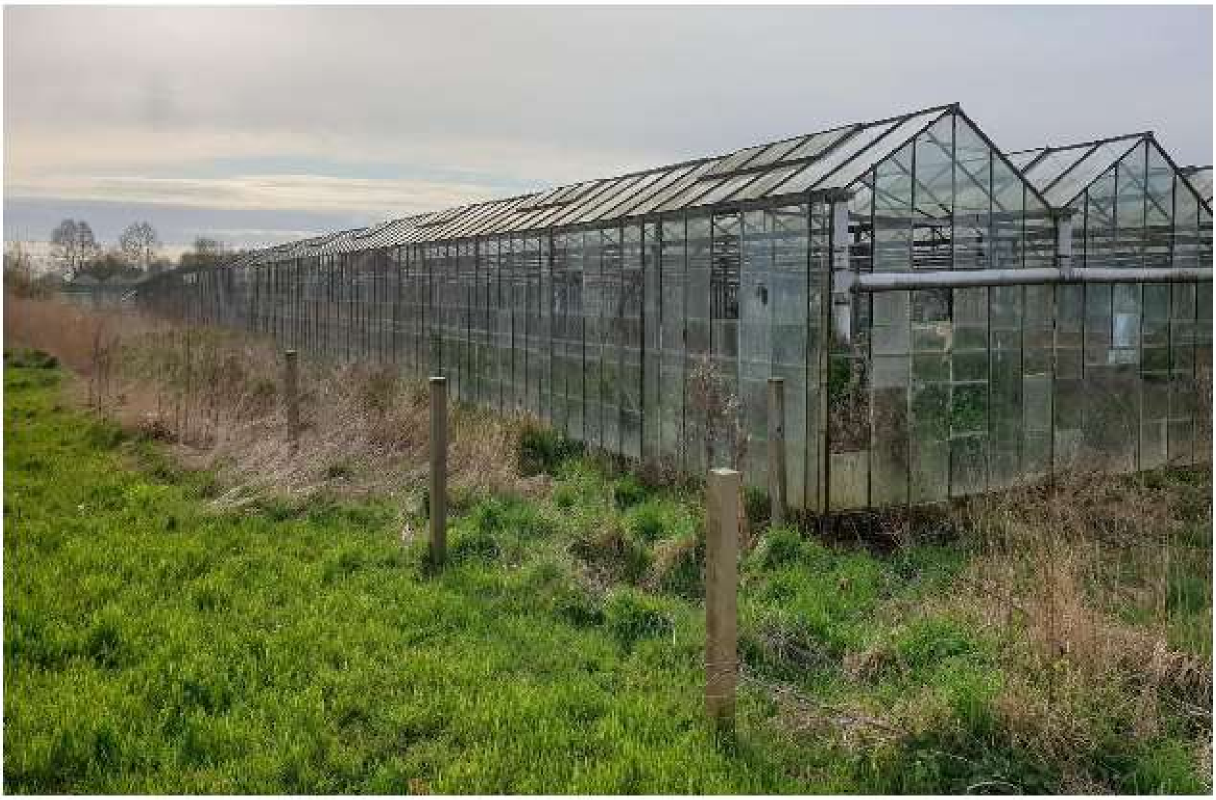
Our ref: DN-0320
Your ref: H04-0508-19
Date: 18 March 2020

Dear Ms Harris-Gorf

PROPERTY ADDRESS: **Land off Town Dam Lane, Donington (Phase 2)**
INSTRUCTING BODY: **South Holland District Council**
APPLICANT: **Ashwood Homes**



Further to your instruction dated 2 March 2020, we are pleased to report as follows.

1. Property Overview

1.1 The site is located on the southern edge of the large village of Donington, which is situated around 9 miles to the south west of Boston and 8 miles north of Spalding. The main road access to the village is via the A52 trunk road, which provides a direct link to Boston and Skegness to the east, and to Grantham and Nottingham in the west. The A1 major north-south strategic route lies just under 19 miles to the west. More specifically, the site is situated immediately to the east of Town Dam Lane, which runs mainly east to west through the village, linking to Ing Drove and the A152 Quadring Road providing north-south links.

1.2 The site is situated within a semi-rural location, with open fields immediately to the south and the built-up environment of Donington to the north and (partly) the west. Immediately to the north is Cowley Park, which the applicant has recently brought forward (being phase 1 of the wider development, with the subject property being phase 2).

1.3 The property is an irregular shape and comprises a former horticultural nursery, which is broadly flat throughout. Over half of the site is covered in glasshouses, associated with the former business. In addition, to the south and fronting onto Town Dam Lane, is a large brick and asbestos cement sheet double pitched roof warehouse, served by a concrete service yard with direct access to Town Dam Lane. The remainder of the site is undeveloped bare land.

1.4 We understand that the gross area of the site extends to 5.47 Ha (13.52 acres).

1.5 The current proposal is a full planning application (under ref. H04/0508/19) for the "Erection of 136 dwellings with associated garaging, roads and sewers". As stated above this is Phase 2 of the Cowley Park development.

1.6 The application as originally submitted was for 150 dwellings, but this was subsequently amended, and we understand from the MG report that the following schedule of accommodation is now proposed (and will be Phase 2 of the neighbouring Cowley Park scheme):

Type	Beds	No.	Sq ft (each)	Sq ft (total)
Dee – terrace/semi	2	19	732	13,907
Clyde – semi	3	4	786	3,143
Aire – semi	3	2	904	1,808
Avon – semi	3	12	915	10,980
Mere – semi/detached	3	9	1,076	9,688
Lock – detached	3	8	1,076	8,611
Nene – detached	3	11	1,076	11,841
Ribble – detached	4	13	1,281	16,652
Bain – detached	4	10	1,313	13,132
Stamford – detached	4	7	1,561	10,926
Humber – detached	4	7	1,582	11,076
A516 – terrace/semi	1	7	517	3,617
A732 – semi	2	16	732	11,712
A902 – semi	3	10	904	9,042
A1120 – detached	4	1	1,119	1,119
Totals		**136**		**137,255**

1.7 Please note, we undertook a viability assessment of Phase 1 Cowley Park in July 2017. Following a viability review process (including challenges raised by the applicant to our initial findings) we concluded that the scheme was unable to viably support the full planning policy requirements. However, it could provide a £200,000 capital contribution (equivalent to 3 affordable dwellings).

2. Scope of Assessment and General Assumptions

2.1 Acting on behalf of the applicant, Maxey Grounds ("MG") have submitted their "Viability Assessment" dated 25 February 2020 in support of the applicant's proposal for a change to policy. MG conclude that, modelling a scheme with the target policy level of contributions would render the scheme unviable (producing a loss of c. £2.52 m) even before any planning policy requirements are factored in. If these are excluded, the loss is reduced to £764,000.

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 We have assessed the viability of the scheme as at 17 March 2020.

2.8 We inspected the site on 18 March 2020.

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 Guidance on Viability (Guidance Note 1, 2012), 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 in May 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. 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 appraisals – summary

3.1 MG have submitted an appraisal (25 Feb 2020) in which they consider 2 scenarios.

Scenario 1 – Fully target policy compliant with 25% on-site affordable housing and S106 contributions of £839,935. Produces a deficit of circa £2.52milion.

Scenario 2 – 100% market value for sale with no policy contributions. Produces a deficit of £764,000.

3.2 We have concentrated on Scenario 1 for this review. To summarise this 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 "Estate housing". 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 ft	Total
Market Value Houses	102	£198	£22,111,000
Affordable housing (Affordable rent)	24	£120	£2,893,586
Affordable housing (Intermediate/SO)	10	£138	£1,213,485
Total	**136**		**£25,322,843**

Gross Development Cost (Outgoings)

Type	Detail	Total
Estate housing	£100.56 per sq ft	£13,801,939
External works costs	13.09% of build costs	£1,806,000
Garages	73 single/double/triple @£13,673 each	£998,150
Contingency	3.61% of build costs above	£598,735
Professional fees	7.53% of build /external works costs	£1,175,947
Abnormal works costs	£155,069 per acre	£2,095,976
Planning policy	LAP/NHS/Education/Indexation	£839,935
Marketing & disposal	3% of revenue	£663,330
Sales legal fees	£750 per market dwelling	£76,500
Sales to RP legal fees	£441 per dwelling	£15,000
Debit interest	6.5% debit	£1,080,236
Arrangement fees etc		£35,000
Benchmark land value	£110,977 per acre	£1,500,000
Acquisition costs	Legals, agent, SDLT	£72,000
Developer's profit	17.5% on MV dwellings/5% on AH	£4,031,396
Total		**£28,790,144**

3.3 MG's appraisal produces a deficit of £3,467,302. This is then adjusted to the 'present value', equating to a deficit of £2,517,471 as at today. Expressed in a different way, based on MG's assumptions their appraisal shows a residual developer profit of £564,095 (2.23% of revenue) which would be well below the expected market level of return for such a scheme (which is typically in excess of 15% on revenue).

3.4 MG, in the conclusion to their report state that: "If the requirement for affordable housing and S106 cash contributions were removed, the site still appears non-viable unless the developer is prepared to accept a profit level below 17.5%". This therefore suggests the scheme is unviable regardless of the level of planning policies (which raises the question of deliverability).

4. CP Viability's appraisal

Gross Development Value (Revenue)

4.1 In their assessment, MG's average sales values can be summarised as follows:

- 2 bed semi/mid/end terr	732 sq ft	£202 to £216 per sq ft
- 3 bed semi	786 to 1,076 sq ft	£190 to £223 per sq ft
- 3 bed detached	1,076 sq ft	£206 - £211 per sq ft
- 4 bed detached	1,281 to 1,582 sq ft	£179 to £191 per sq ft

4.2 In support of these values, MG review the transactional evidence from Phase 1 of Cowley Park (adjoining scheme, brought forward by the applicant). The values they identify can be summarised as follows (please note we have looked to limit the house types to those similar to that proposed at the subject property):

- Welland 2 bed semi 710 sq ft (6 deals) average achieved £222 per sq ft
- Clyde 2 bed semi 786 sq ft (10 deals) average achieved £220 per sq ft
- Avon 3 bed semi 915 sq ft (3 deals) average achieved £203 per sq ft
- Coronation 3 bed semi 936 sq ft (6 deals) average achieved £197 per sq ft
- Mere 3 bed semi 1,076 sq ft (3 deals) average achieved £191 per sq ft
- Lock 3 bed detached 1,076 sq ft (9 deals) average achieved £207 per sq ft
- Mere 3 bed detached 1,076 sq ft (1 deal) achieved £206 per sq ft
- Ribble 4 bed detached 1,281 sq ft (3 deals) average achieved £191 per sq ft
- Bain 4 bed detached 1,313 sq ft (1 deal) achieved £187 per sq ft
- Humber 4 bed detached 1,582 sq ft (5 deals) average achieved £181 per sq ft

4.3 It is stressed that the above averages are pre-incentives. It is stressed that not all of the deals referred to have included incentives, however many have to include the following:

- Legal fees paid £500 to £1,500
- Turf to rear garden
- Personal garage door
- Stamp duty paid
- Wardrobes
- Carpet upgrade
- Washer drier
- External lights

4.4 Notwithstanding the above, we have 'sense checked' the values given by MG in their appraisal and those shown on the Land Registry. We can confirm the deals referred to by MG are in keeping with the transactional evidence on the Land Registry.

4.5 Again, before incentives are taken into consideration, we have compared the values achieved on Phase 1 with those proposed by MG at the subject scheme:

Dwelling type	Phase 1 average value	Value given by MG at subject property
Clyde – semi	£220 psf	£223 psf
Avon – semi	£203 psf	£202 psf
Mere – semi	£191 psf	£190 psf
Lock – detached	£207 psf	£211 psf
Mere – detached	£206 psf	£206 psf
Ribble – detached	£191 psf	£191 psf
Bain – detached	£187 psf	£187 psf
Humber – detached	£181 psf	£180 psf

4.6 Taking into consideration the requirements for incentives (which have been needed on Phase 1 to drive numerous sales) the values adopted by MG at the subject scheme are therefore considered to be reasonable and in keeping with that achieved at Phase 1. Furthermore, the other house types proposed at the subject site (to include the Dee, Aire, Nene and Stamford) are also in keeping with the above values and considered to be at appropriate levels. In light of this we have accepted the applicant's values within our viability model

4.7 For the affordable rented dwellings MG's allowance equates (broadly) to around 50% of the equivalent market value. This is considered to be reasonable and in keeping with expectations.

4.8 Likewise, for the shared ownership / intermediate dwellings MG's allowance equates (broadly) to around 65% of the equivalent market value. This is also considered to be reasonable and in keeping with expectations.

Build costs

4.9 For their standard plot construction costs MG refer to the Build Cost Information Service ("BCIS") database. This is a database regularly used in the construction industry, providing build rates for different types of accommodation in different locations. MG apply the lower quartile rate. However, the BCIS rate excludes externals, contingency and abnormals and as such these need to be included elsewhere in the appraisal. MG's make additional allowances for externals, which equates to 13.09% of the basic plot construction costs. Further allowances are made for garages (rates ranging from around £11,500 to £21,000 per garage). The contingency is equivalent to 3.61% of the plot construction, externals and garages. Finally, the abnormals are inputted separately into the appraisal (and discussed in more detail below).

4.10 As stated above in paragraph 1.7 we undertook a viability assessment of Phase 1 Cowley Park in July 2017. In this assessment we also had regard to the BCIS lower quartile rate, together with other schemes we had appraised across the wider region around the time of the assessment.

4.11 For the subject site we therefore consider it appropriate to again consider the BCIS lower quartile rate. The current rate, rebased to South Holland, is £100.05 per sq ft. MG's allowance of £100.56 per sq ft is therefore broadly in line with the BCIS lower quartile figure.

4.12 As a further 'sense check' we have also considered other schemes we have recently considered within the last 12 months across the wider Lincolnshire region. We have identified 6 greenfield schemes providing between 50 and 256 dwellings. The plot construction costs put forward by the applicant's in these respective appraisals ranges from £85 to £107 per sq ft. The sample average is £92 per sq ft. MG's adopted rate of £100.56 per sq ft is therefore slightly above the sample average. However, this is before inflation is taken into consideration (with 4 out of the 6 schemes being assessed in March and April 2019).

4.13 For the externals, we have again reviewed the 3 cases referenced above in paragraph 4.12. The average external allowance put forward by applicant's within these appraisals equates to 14.94% (with a wide range of 10% to 29.24%). Within this context MG's allowance is therefore lower than the average.

4.14 As an additional 'sense check' it is also appropriate to consider the overall build costs and externals when combined (as it may be that some applicant's have different views on what constitutes a plot construction and an external, for example garden fencing may be viewed as a plot construction costs by some and an external by others). Reviewing the same sample of 6 schemes identified above in paragraph 4.12 the range of combined plot construction and external costs equates to £91 to £121 per sq ft, with an average across the sample of £109 per sq ft. At the subject site MG's combined plot construction and externals equates to £113.71 per sq ft, which is a circa 4% increase on the sample average. Whilst MG's allowance is slightly above the sample average, we anticipate that this differential is likely explained by inflation since the other cases were appraised.

4.15 Having considered all of the above we conclude that MG's allowances for the standard plot construction costs and externals are reasonable for the purposes of a viability assessment.

4.16 With respect to the garages, the allowances adopted by MG are as follows:

- Single garage £11,558 per unit
- Pair of garages £15,713 per unit
- Double garage £14,543 per unit
- Triple garage £21,119 per unit

4.17 Based on other schemes we have recently appraised the allowance for single garages is deemed to be above expectations. An average cost of £9,000 per unit is considered to be more in line with other schemes. Likewise, for the pair of garages we consider an adjustment to £13,500 per unit to be reasonable. For the Double garage we have allowed £13,000 and for the triple £17,500.

4.18 With regards to contingency, MG have allowed 3.61% of the plot construction, externals and garages. We have again reviewed the sample of 6 sites referred to above in paragraph 4.14. Across this sample the average contingency allowance (based on the same measures) equates to just over 3%. In this respect, MG's allowance is considered to be slightly above expectations and as such we consider an adjustment to 3% to be appropriate in the viability modelling.

4.19 As for abnormal costs, MG include the following in their assessment:

Piling to houses	136	680,000
Piling to garages	73	54,750
Demolition of greenhouses and site clearance		149,145
SUDS and storm attenuation		418,766
Foul pumping station		180,780
Rising Main		21,613
Off site foul sewer		109,170
Well point dewatering		95,200
Additional filling to site		290,880
Electric sub station		57,440
Cycle storage sheds		38,232

4.20 The above totals £2,095,976 (equivalent to £155,069 per acre).

4.21 One of the most significant cost items identified is in relation to the requirement for deep piled foundations (with a total cost of £734,750). For the housing this has been applied at a rate of £5,000 per dwelling (applied to all 136 dwellings). For the garages this has been applied to all 73 at £750 per garage. We have reviewed the Phase 1 and Phase 2 "Exploratory investigation" report undertaken by Geodyne dated 22nd February 2020. With respect to required foundations the report states the following:

> *Foundations for the proposed development are likely to comprise Engineer designed strip or raft foundations to suit the loading characteristics of the proposed structures. (*Section 8.4)

> *The use of deeper founding solution (i.e. piles, for example) may need to be considered if there is a need to raise site levels and/or where excessive loads from buildings are present and shallow foundations are not deemed appropriate. (*Section 8.4)

4.22 In other words, piled foundations would only apply to the subject site if there is a requirement to raise the site levels. We note from the conditions there is a requirement to raise the levels at the site and therefore, as set out in the Phase 2 study, is a legitimate solution.

4.23 That said, with regards to all of the abnormal costs, we would stress that the impact of these 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 clearly 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 'site value' section.

4.24 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.

4.25 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 (which equates to around £155,000 per gross acre).

Professional fees

4.26 MG have included the equivalent of 7.53% of build and externals costs.

4.27 We have again reviewed the sample of 6 sites referred to above in paragraph 4.14. Across this sample the average professional fees allowance (measured against build costs and externals) equates to just over 6%. In this respect, MG's allowance is considered to be above expectations and as such we consider an adjustment to 6% to be appropriate in the viability modelling.

S106 / Other Council Policy Requirements

4.28 MG have adopted the following allowances in their appraisal:

- Play area - £50,000
- NHS contribution - £89,760
- Education - £621,893
- S106 indexation - £78,282

4.29 We note there is no play area shown on the proposed site plan and as such we would question whether this cost is necessary in the viability testing.

4.30 There is also a 25% on-site affordable housing requirement (split 70/30 between affordable rent and shared ownership / intermediate dwellings).

Marketing / legal costs

4.31 For disposal and marketing costs MG have allowed 3% on the market value revenue. An additional allowance of £750 per unit has been applied to the market value units, plus £15,000 for the affordable dwellings.

4.32 We have again reviewed the sample of 6 sites referred to above in paragraph 4.14. Across this sample the average marketing / disposal allowance (measured against the market value revenue) equates to just over 2.25%. In this respect, MG's allowance is considered to be above expectations and as such we consider an adjustment to say 2.5% to be appropriate in the viability modelling.

4.33 The allowances for the legal costs are considered to be reasonable.

Finance

4.34 MG have allowed for a debit rate of 6.5%.

4.35 We have again reviewed the sample of 6 sites referred to above in paragraph 4.14. Across this sample the range of debit interest is from 6% to 6.5%, with an average of 6.2%. In this respect, MG's allowance is considered to be at the top of expectations and as such we consider an adjustment to say 6.25% to be reasonable.

4.36 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

4.37 MG adopt a profit equivalent to 17.5% on revenue for the market value units and circa 5% for the affordable.

4.38 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 dwelling typically tend 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 6% on revenue for affordable dwellings.

4.41 We have again reviewed the sample of 6 sites referred to above in paragraph 4.14. Across this sample the range of required profit is from 17.5% to 20% for the market value units (reduced for the affordable). MG's allowance therefore ties in with this evidence.

4.42 Likewise, we would stress that a 17.5% return was accepted for the Phase 1 viability testing.

4.43 Having considered the above, we conclude that an allowance of 17.5% is acceptable for the market value dwellings, together with a reduction to 5% for the affordable (as per MG's approach).

Site 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. 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, MG calculate the existing use value as being based on Grade 1 horticultural land values (which they suggest is around £10,000 per acre). A premium uplift of just over 11 times the existing use value is applied, to arrive at a benchmark land value of £1,500,000.

4.49 The methodology adopted by MG is considered to be reasonable and in keeping with the guidance. Furthermore, we agree that an existing use value of circa £10,000 per acre is reasonable for the subject property.

4.50 However, the property is currently occupied by a large greenhouse structure, which appears to be generally in a poor state of repair. Whilst it is possible that a purchaser would be willing to retain the greenhouse we anticipate that some level of deduction would be negotiated to cover the repair works. To account for this we have applied a 20% deduction to the rate of £10,000 per acre. This gives an adjusted value of £8,000 per acre, which we consider to be reflective of the existing use value (and the current state of repair of the greenhouses).

4.51 In terms of the overall premium, an uplift of circa 11 times the existing use value is considered to be reasonable taking into account the nature of the site and the level of abnormal costs.

4.52 Applied to our adjusted existing use value of £8,000 per acre (which equates to £108,131), we arrive at a rounded benchmark land value of £1,200,000.

5. Appraisal results and conclusions

5.1 For our 'base' appraisal testing, we have initially run a full policy compliant scheme. However, this generates a negative land value. As this is below our benchmark land value of £1,200,000 the scheme can therefore be regarded as being unviable.

5.2 On an iterative basis we have initially adjusted the level of contributions to establish at what point (if any) the scheme becomes viable. Our attached appraisal returns a residual land value broadly in line with the benchmark land value and can therefore be regarded as being viable. This appraisal includes the following contributions:

- 0% affordable housing
- S106 contributions totalling £318,000

5.3 In other words, the scheme is unable to viably support any affordable housing provision. Furthermore, the scheme is unable to support the full education and NHS contributions, but is able to support a total contribution of £318,000 (the Council will need to decide how this contribution is best allocated).

5.4 We note that in the viability testing which was used to help formulate the South East Lincolnshire Local Plan similar scale typologies returned a positive viability outcome with the planning policies applied, rather than the negative outcome shown above. As per the Planning Practice Guidance it is necessary to explore such differences in further detail (the Planning Practice Guidance indicates that the onus is on applicant's to explain / justify why there are such differences). We have subsequently reviewed the closest typology used in the 2017 Local Plan viability testing, which in this case is a scheme of 150 dwellings in a 'rural' setting. We've run a comparison between the assumptions in the Local Plan viability testing and the subject scheme and note:

Appraisal input	2017 Viability Study (150 dwellings)	Phase 2 Town Dam Lane (136 dwellings)
Density	30 dwellings per Ha	24.86 dwellings per Ha
Average value	£1,900 per sq m	£2,159 per sq m
Average dwelling size	100 sq m	93.76 sq m
Build cost	£911 per sq m	£1,149 per sq m
Externals	10% on build cost	13.09% on build cost
Contingency	3% on build cost	3% on build cost
Professional fees	7% on build cost	6% on build cost
S106	Up to £5k per dwelling	£5,600 per dwelling
Sales / marketing	3% on revenue	2.5% on revenue
Developer profit	17.5% MV, 6% AH	17.5% MV, 6% AH
BLV	£300k per Ha	£219,378 per Ha
Abnormals	£350k per net Ha	£425,752 per Ha

5.5 The key factors in why the viability pressure is higher in the subject scheme than for similar scale development in the 2017 Local Plan viability study are as follows:

- The density of the scheme is lower than assumed in the whole plan study. The original proposal for Town Dam Lane was for 150 dwellings, but this has reduced to 136 (which has a negative impact on viability). It is understood that this has been reduced for legitimate planning reasons. Please note, the viability modelling has to test what the planning application states, which is 136 dwellings.

- The average size of dwellings are also smaller, which reduces the amount of revenue which can be extracted from the scheme.

- The build costs applied have increased by around 20% compared to the viability study (which was undertaken over 3 years ago now so a significant uplift is expected). This is based on the BCIS lower quartile which is considered to be a reasonable metric to rely on here.

- The sales values are around 12% higher than the figures used in the whole plan viability study. Again, this is to be expected due to inflation since this time. The values adopted at Town Dam Lane are based on what has been achieved in Phase 1, so there is clear and strong evidence to justify the levels applied. However, the result of the build costs increasing by 20% and the sales values only being 12% above the whole plan viability assumption is that the difference between build costs and sales values has narrowed when compared to the assumption made in the whole plan testing. This increases the viability pressure.

- The externals at 13.09% on build costs are higher than the 10% assumed in the Local Plan testing. However, the 13.09% is considered to be reasonable based on the evidence extracted from other similar scale schemes recently assessed in Lincolnshire. Again, it would be difficult to argue against the 13.09% figure in an appeal setting in light of this evidence.

5.6 The combination of the above factors results in a different viability outcome compared to the whole plan viability study.

5.7 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

[redacted]

David Newham MRICS
Director
CP Viability Ltd

Viability Assessment – Summary Report

Property: Land off Town Dam Lane, Donington (Phase 2)
Planning ref: H04-0508-19
Applicant: Ashwood Homes

Overview

The site is located on the southern edge of the large village of Donington, immediately to the east of Town Dam Lane, which runs mainly east to west through the village. The site is situated within a semi-rural location, with open fields immediately to the south and the built-up environment of Donington to the north and (partly) the west. The property is an irregular shape and comprises a former horticultural nursery, which is broadly flat throughout. The gross site area extends to 5.47Ha (13.52 acres).

Immediately to the north is Cowley Park, which the applicant has recently brought forward (being phase 1 of the wider development, with the subject property being phase 2). We undertook a viability review of Phase 1 in July 2017, concluding that the full planning policies could not be provided. However, the scheme could provide a £200,000 capital contribution (equivalent to 3 affordable dwellings).

The application as originally submitted for the subject site (Phase 2) was for 150 dwellings, but this was subsequently amended. The current proposal is a full planning application (under ref. H04/0508/19) for the "Erection of 136 dwellings with associated garaging, roads and sewers".

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 February 2020. This concluded that the scheme was unable to provide any affordable housing (against a policy of 25%) or S106 contributions (totalling £839,935, including indexation).

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 set out the differences in assumptions between Maxey Grounds assessment and that used in the typology testing for the 2017 Local Plan study, summarised as follows:

(i) The density of the proposed scheme (24.86 dwellings per Ha) is lower than assumed in the Local Plan (30 dwellings per Ha).

(ii) The average size of dwellings at the subject scheme (93.76 sq m) is lower than assumed in the Local Plan (100 sq m).

(iii) In the 2017 study plot construction costs were 47.95% of the sales values. However, at the current time these are 53.22%. In other words, build cost inflation has grown at a faster rate than sales prices since Jan 2017 when the Local Plan study was undertaken. This increases the viability pressure.

(iv) External / infrastructure costs are higher now at 13.09% of plot construction costs, than the 10% assumption used in the 2017 study.

(v) The S106 contributions requested at the subject site are equivalent to £6,176 per dwelling, compared to a maximum of £5,000 per dwelling in the 2017 Local Plan study.

Having reviewed Maxey Ground's appraisal we considered that a number of the assumptions adopted were reasonable for the purposes of a viability assessment.

However, we concluded that adjustments could be justified with respect to:

- Sales values
- Contingency
- Professional fees
- Marketing / disposal
- Debit interest

The applicant raised a number of challenges to our findings following the submission of our report. However, having reviewed these challenges we were not persuaded to adjust our conclusions and standby the assumptions made as being reasonable for the purposes of a viability assessment.

Conclusions

Our modelling demonstrates that, even with significant changes to the viability assumptions as referenced above, the full planning policy requirements cannot be viably provided here. We therefore agree with the applicant at some level of policy reduction is required.

However, our appraisal shows that some level of planning policy contributions can be provided. On the basis of nil onsite affordable housing our model shows that the scheme is able to viably provide a Section 106 contribution totalling £318,000.

This is a departure from the findings of the Local Plan viability testing. As stated above, this outcome is a consequence of the proposed scheme providing a reduced density of housing (at least compared to the Local Plan modelling), build costs being a higher proportion of sales values than they were as at January 2017 (when the Local Plan study was undertaken), external costs being higher and also S106 contribution requirements being above £5,000 per dwelling (which was the limit as stated in the Local Plan study).