



Financial Viability Appraisal

Address: Land off Spalding Road, Gosberton, Spalding, PE11 4NP

LPA: South Holland District Council

Planning ref: N/A

Client: D & R Homes (Gosberton) Ltd

Date: 16th June 2023



Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at the Land off Spalding Road, Gosberton, Spalding, PE11 4NP. The process involves utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019), Assessing Viability in Planning under the NPPF Framework (2021), and National Planning Policy Guidance on Viability (NPGV 2019), and complies with RICS professional standards and guidance Financial Viability in Planning: Conduct & Reporting.

Following NPGV para 008, wherever possible this FVA utilises assumptions used in the underlying local plan evidence base. Where changes have been made, these are fully supported by market evidence demonstrating current local circumstances.

The key outputs of this FVA are summarised in the below table:

GDV	£7,074,999.99
Costs excl. land and profit	£6,111,062.95
Finance	£259,918.61
Return	£1,238,125.00
BLV	£500,000.00
RLV	(£534,106.57)
RLV-BLV	(£1,034,106.57)
Target profit	17.50%
Actual profit	2.88%

Target developer return includes a risk-adjusted rate for market residential (17.5%). Sensitivity analysis demonstrates this is the minimum return necessary to offset the current risk environment.

Benchmark Land Value (BLV) is assessed via the EUV+ and AUV method where relevant in line with national policy. A 15x premium (greenfield) has been added in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the benchmark land value exceeds the residual land value of the scheme. Therefore, the development cannot viably provide the targeted contributions.

Full appraisal inputs and evidence are found in the Schedules, referred to throughout.

Introduction

S106 Management is instructed by D & R Homes (Gosberton) Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at the Land off Spalding Road, Gosberton, Spalding, PE11 4NP.

South Holland District Council seek an Affordable Housing contribution in accordance with Policy 18 of the South East Lincolnshire Local Plan (adopted March 2019).

The existing site comprises the Land off Spalding Road, a greenfield site with an area of 1.684ha.

The site benefits from outline planning consent under reference H08-1216-17 for the erection 38 dwellings.

This FVA is to be viewed in conjunction with an S73 Application which seeks to make some amendments to the scheme, including the use of PV panels. The development as proposed will provide a mix of semi-detached and detached units (total 28), with a combined GIA of 2,324m².

Location Plan



S106 Management

S106 Management is a viability consultancy established in 2011. Formed initially to capitalise on 35 years of specialist experience in planning law, viability assessment and development, the company has expanded over the last 10 years and now benefits from the expertise of chartered surveyors, town planners, solicitors, architects and an extensive network of planning professionals.

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating with local authorities, **S106 Management** has often been at the forefront of planning viability matters. The company is now one of the most effective and experienced specialist viability consultancies in the UK, combining expertise from all corners of the industry and benefiting from a considerable evidence base of several thousand development appraisals countrywide.

Planning Policy

By virtue of section 38 (6) of the Planning and Compulsory Purchase Act 2004, planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, the policy starting point is Policy 18 of the South East Lincolnshire Local Plan (adopted March 2019):

Policy 18: Affordable Housing

In South East Lincolnshire the following need for affordable housing has been identified:

- A. In Boston Borough about 263 new affordable dwellings per annum, equating to over 80% of the overall annual housing need; and
- B. In South Holland about 282 new affordable dwellings per annum, equating to about 60% of the overall annual housing need.

The affordable housing need will be sought on:

- 1. market housing sites of 11 or more dwellings (or residential developments with an internal floor area of 1,000sqm or more with a

requirement of:

- i. about 20% being affordable housing on sites in Boston Borough; and
- ii. about 25% being affordable housing on sites in South Holland;
- 2. sites proposed by developers specifically for affordable housing; and
- 3. Rural Exceptions Sites.

The proportion of affordable housing that can be provided on market housing sites may vary according to the site specific considerations such as viability, other infrastructure requirements and the type of affordable housing need to be met. The following provision will be sought in each Local Planning Area:

- 4. on sites in Boston Borough a mix of about 75% affordable for rent and about 25% intermediate housing for sale; and
- 5. on sites in South Holland District a mix of about 70% affordable for rent and about 30% intermediate housing for sale.

Affordable for rent may include social rented, affordable rented or intermediate rented and intermediate housing for sale may include shared ownership, shared equity and starter homes depending on the identified need.

On site provision will be required. Where circumstances relating to the delivery of affordable housing make it impractical to deliver the affordable housing on site, developers will provide sound evidence to the Local Authority why on site provision cannot be achieved. Where such evidence is accepted by the Local Authority the developer will be expected to make equivalent off-site provision or a financial contribution to enable the need to be met elsewhere. In Boston Borough this will be elsewhere in the sub area in which the site is located (either: Boston, North/East Parishes or South/West Parishes). In South Holland elsewhere is anywhere within the District.

As part of the mix of affordable housing, developments should also consider needs for specialist accommodation and how a site could contribute towards delivering them. This may include provision for affordable Gypsy, Traveller and Travelling Showpersons pitches and plots in line with any needs identified in the latest Gypsy and Traveller Accommodation Assessment or Strategic Housing Market Assessment. This would include the needs of those communities who are identified either within or outside the Government's definition set out in Planning Policy for Traveller Sites.

Policy 18 suggests that developments of 11+ dwellings should provide 25% of the proposed number of units as affordable. This equates to 7 dwellings.

The purpose of this FVA is to determine whether the development is capable of supporting the targeted contribution.

This policy has been informed by the 'South East Lincolnshire Whole Plan Viability Study' (hereafter referred to as the FVS), completed on behalf of the council in January 2017.

PPG Viability para 008 states:

'How should a viability assessment be treated in decision making?

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.'

This creates a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties, with the burden of proof relating to what changes have occurred since adoption of the local plan applicable to all parties.

As such, where appropriate the conclusions of the underlying local plan evidence base are used to inform our report and corroborate assumptions. Where we believe changes must be made these are fully evidenced.

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) (2021), and the 'National Planning Guidance for Viability' (NPGV) (May 2019).

National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF.

Paragraphs 57, 58 and 64 of the NPPF are of particular relevance:

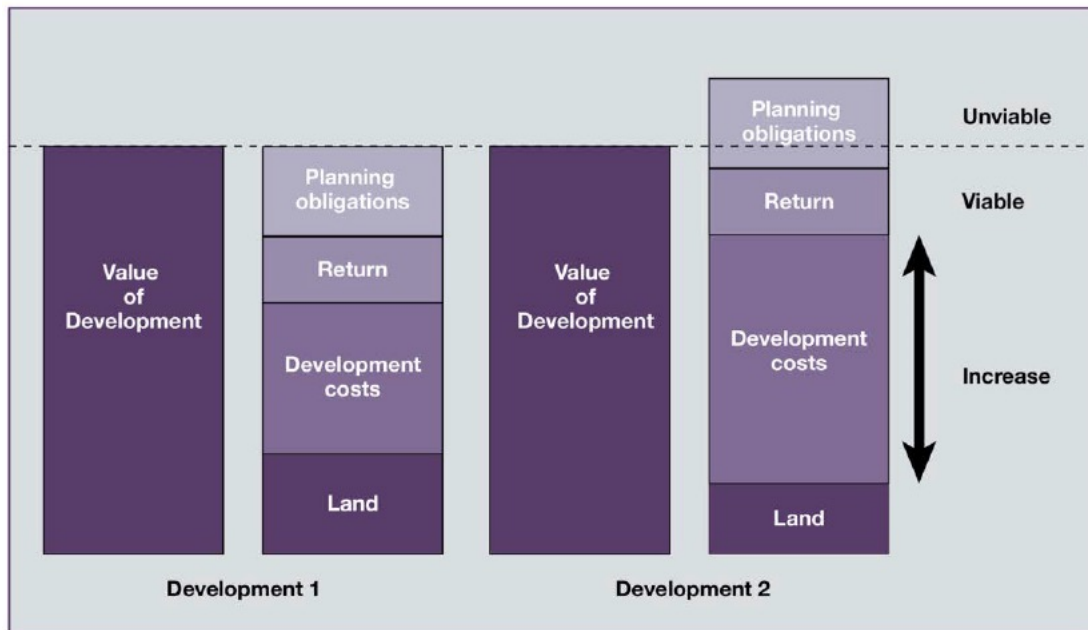
57. Planning obligations must only be sought where they meet all of the following tests²⁸:
- a) necessary to make the development acceptable in planning terms;
 - b) directly related to the development; and
 - c) fairly and reasonably related in scale and kind to the development.
58. Where up-to-date policies have set out the contributions expected from development, planning applications that 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. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.
64. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount³⁰.

The recommended approach referred to above is set out in the NPGV (<https://www.gov.uk/guidance/viability>).

The standard approach to viability is explained at para. 10 of the NPGV:

‘Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it.’

This is summarised well in the below figure from RICS guidance:



Paragraphs 11-18 lay out the required approach to calculating gross development value (GDV), development costs, benchmark land value, landowner and developer return.

The concept of viability is well expressed by the NPGV, in particular para 012 which sets out the costs that should be included in any viability statement, and paras 013-017 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.

Particular Circumstances

Both RICS guidance and PPG Viability note that particular circumstances must justify the need for a site-specific viability assessment. These circumstances are broad, with a non-exhaustive list provided by the PPG.

‘Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.’

PPG Viability para 007

The particular justification for this site-specific viability assessment is that significant economic changes have occurred since the plan was brought into force.

Following the RICS guidance:

3.10.3 The main differences in FVAs for decision taking, compared to for plan making, are that:

- the level of planning requirements has been determined in the plan
- the site will be identified
- the scheme will be specified in more detail
- any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and any costs incurred in readying the site for development, and
- the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

In many cases due to the lifecycle of the local plan it has often been many years since the last area-wide study was completed, meaning that the data underlying the adopted policy may require updating to accurately model changes to local markets.

Viability

The relevance of viability is accepted in Policy 18 which states:

The proportion of affordable housing that can be provided on market housing sites may vary according to the site specific considerations such as viability, other infrastructure requirements and the type of affordable housing need to be met. The following provision will be sought in each Local Planning Area:

This policy statement should be seen in the context of the NPPF, and indeed subsequent Government guidance.

There are several proprietary toolkits in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT) and Argus Developer.

Our report and its conclusions are based on the application of this tool.

The next section sets out the assumptions that have been made in the preparation of the viability toolkit examining the viability of this site; the toolkit is shown in **Schedule 1** of this report. The comments below address the inputs to the toolkit sequentially and an electronic copy can be provided to the LPA on request.

Toolkit Inputs

Proposed Development

The development is summarised by the table below (plans are shown at **Schedule 2** to this report):

House Type	Area m2	Quantity	Total House Type Area m2
1-Bedroom Semi-Detached	51.40	2	102.80
1-Bedroom Semi-Detached	52.00	2	104.00
2-Bedroom Semi-Detached	75.30	6	451.80
2-Bedroom Semi-Detached	74.90	6	449.40
2-Bedroom Detached	99.20	5	496.00
3-Bedroom Detached	102.80	3	308.40
3-Bedroom Detached	102.90	4	411.60
		28	2324.00

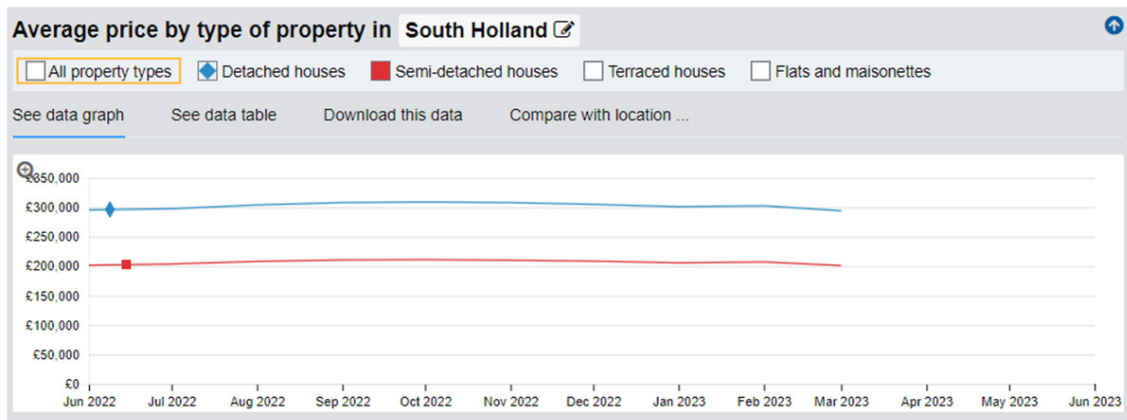
The unit mix comprises 4 x 1-bedroom semi-detached houses, 12 x 2-bedroom semi-detached houses, 5 x 2-bedroom detached houses and 7 x 3-bedroom detached houses. All properties will benefit from off-road parking and private landscaped gardens.

Affordable Housing Values

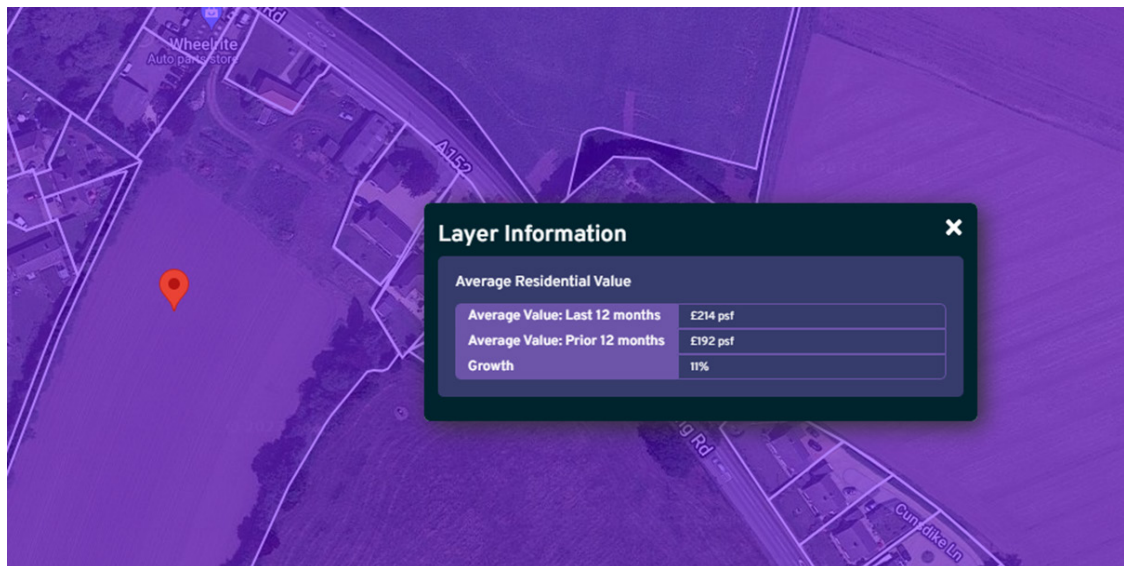
We approach this issue by firstly modelling a scheme with no Affordable Housing; if the Residual Value of this model exceeds the Benchmark Value of the site (as described below) then we produce further modelling to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.

Open Market Housing Values

Land Registry data for South Holland suggests the following average values for detached and semi-detached houses:



Nimbus suggests the following data:



This suggests an average open market value for properties in the immediate area of £2,302.64/m².

We have further consulted the local plan viability study which notes the following assumptions for value:

- '£1,900/m² for houses and flats in Spalding and Rural South Holland'

However, we note this information is from 2017 and therefore will require updating for current market conditions.

Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). Values are extremely sensitive to small changes in search area; therefore, we have limited our transactional search to within 2 years and 1 mile of the scheme.

Sold Detached Houses within 1 Year 1/2 Mile					
Address	Type	Sale Date	Area m2	£/m2	Price
67, High Street, Gosberton, Spalding, Lincolnshire PE11 4NJ	Modern 3-bedroom detached house, driveway and garage, landscaped rear garden	09.12.2022	116.1	£2,799.31	£325,000
2, Salem Street, Gosberton, Spalding, Lincolnshire PE11 4NQ	5-bedroom detached house, driveway and two separate garages, enclosed rear garden, outdoor office and workshop	16.11.2022	157	£3,025.48	£475,000
27, Belchmire Lane, Gosberton, Spalding, Lincolnshire PE11 4HG	2-bedroom detached bungalow in need of modernisation, single garage, off road parking, low maintenance front and rear gardens	14.11.2022	61	£2,786.89	£170,000
28, Belchmire Lane, Gosberton, Spalding, Lincolnshire PE11 4HG	Spacious 3-bedroom detached house, double garage and off road parking, front and rear gardens	11.11.2022	145	£2,586.21	£375,000
2, Brambleberry Close, Gosberton, Spalding, Lincolnshire PE11 4GZ	Detached house	02.11.2022	181	£2,458.56	£445,000
10, Field Close, Gosberton, Spalding, Lincolnshire PE11 4NY	3-bedroom detached bungalow, off road parkin and single garage, front and rear gardens	21.10.2022	107.8	£2,411.87	£260,000
17, Field Close, Gosberton, Spalding, Lincolnshire PE11 4NY	2-bedroom detached bungalow, driveway and single garage, front and rear gardens	30.09.2022	70	£2,889.29	£202,250
39, Lowgate, Gosberton, Spalding, Lincolnshire PE11 4NL	2-bedroom detached bungalow, driveway and single garage, front and rear gardens	15.07.2022	91	£2,912.09	£265,000
50, Belchmire Lane, Gosberton, Spalding, Lincolnshire PE11 4HG	3-bedroom detached house, driveway parking, spacious front and rear gardens	01.07.2022	110	£2,363.18	£259,950
			Avg. £/m2	£2,673.21	

Sold Semi-Detached Houses within 2 Years 1 Mile					
Address	Type	Sale Date	Area m2	£/m2	Price
8, Salem Street, Gosberton, Spalding, Lincolnshire PE11 4NQ	3-bedroom semi-detached character property, off road parking, enclosed rear garden	24.02.2023	107	£1,897.20	£203,000
29, Salem Street, Gosberton, Spalding, Lincolnshire PE11 4NQ	2-bedroom semi-detached house, rear courtyard, separate garage	02.09.2022	47	£2,659.57	£125,000
71, Bowgate, Gosberton, Spalding, Lincolnshire PE11 4LL	3-bedroom semi-detached house, large plot, field views, off road parking, enclosed rear garden	18.02.2022	76.9	£2,665.80	£205,000
9, Whitehall, Gosberton, Spalding, Lincolnshire PE11 4HQ	3-bedroom semi-detached house, off road parking, enclosed rear garden	15.11.2021	99	£1,585.86	£157,000
1, Quadring Road, Gosberton, Spalding, Lincolnshire PE11 4NB	2-bedroom semi-detached house, off road parking, front and rear gardens	15.10.2021	79.2	£2,045.45	£162,000
22, Cambridge Gardens, Gosberton, Spalding, Lincolnshire PE11 4HP	3-bedroom semi-detached house, enclosed rear garden, off road parking	20.09.2021	99	£1,858.59	£184,000
207, Westhorpe Road, Gosberton, Spalding, Lincolnshire PE11 4EN	3-bedroom semi-detached cottage, spacious gardens	18.08.2021	102.4	£2,607.42	£267,000
			Avg. £/m2	£2,134.32	

The average achieved prices are higher for detached and lower for semi-detached than the average data noted above. This is due to the fact that this data is compiled from across the postcode and typologies. More granular data presents a more accurate picture.

We have also studied properties which are currently on the market:

Detached Houses For Sale within 1/2 Mile					
Address	Type	SSTC/For	Area m2	£/m2	Price
Rutland Gardens, Gosberton, PE11	4-bedroom detached house, generous gardens, double garage and off road parking	For Sale	140	£2,821.43	£395,000
Belchmire Lane, Gosberton	3-bedroom detached house, driveway parking, spacious front and rear gardens	Sold STC	110	£2,181.82	£240,000
Bakers Yard, Gosberton, PE11	Spacious 4-bedroom detached house, private driveway, double garage and car port, enclosed gardens to front and rear	Sold STC	205.6	£2,893.97	£595,000

Medway Close, GOSBERTON, Spalding, PE11	4-bedroom detached house, front and rear gardens, garage and driveway	Sold STC	99	£2,474.75	£245,000
High Street, Gosberton	Modern 4-bedroom detached house, enclosed front and rear gardens, off road parking	Sold STC	245.1	£2,039.98	£500,000
			Avg. £/m2	£2,469.68	

Semi-Detached Houses For Sale within 3 Miles					
Address	Type	SSTC/For	Area m2	£/m2	Price
5 Newlands Road, Surfleet Seas End, Spalding	3-bedroom semi-detached house, detached triple garage, far reaching views, large rear garden	For Sale	78	£2,563.46	£199,950
Welby Drive, Gosberton	3-bedroom semi-detached house, driveway parking, enclosed rear garden	For Sale	78	£2,371.79	£185,000
St. Margarets, Quadring, Spalding	3-bedroom semi-detached house, off road parking and single garage, enclosed rear garden	Sold STC	87	£2,011.49	£175,000
Burtoft Lane South, Wigtoft, PE20	2-bedroom semi-detached cottage, off road parking, field views, enclosed rear garden	Sold STC	80.1	£2,184.14	£174,950
Station Road, Gosberton, PE11	2-bedroom semi-detached period property, off road parking, enclosed rear garden, approx area	For Sale	65	£2,768.46	£179,950
Watergate, Quadring, Spalding, Lincolnshire	3-bedroom semi-detached cottage, off road parking, large rear garden	For Sale	95.2	£2,520.96	£239,995
			Avg. £/m2	£2,389.50	

Furthermore, we have reviewed new-build data.

New Build Detached Houses within 1 Mile					
Address	Type	SSTC/For	Area m2	£/m2	Price
Birds Drove, Surfleet	New build 4-bedroom detached house, single garage, spacious rear garden, off road parking, approx area	Sold STC	135	£3,518.52	£475,000
High Street, Gosberton, PE11	New build 3-bedroom detached house, off road parking, enclosed rear garden, approx area	For Sale	90	£3,943.89	£354,950

Plot 18, 2 Queen Elizabeth Road, Gosberton, PE11	New build 3-bedroom link detached house, single garage, driveway parking, enclosed rear garden	Sold STC	104.8	£2,662.21	£279,000
Plot 15, 6 Platinum Close, Boston Road, Gosberton PE11 4NR	New build 3-bedroom link detached house, single garage, driveway parking, enclosed rear garden	Sold STC	109.3	£2,470.27	£270,000
Plot, 1 Amborella House, Boston Road, Gosberton PE11 4NR	New build 4-bedroom detached house, double garage and off road parking, enclosed rear garden	Sold STC	163.8	£2,289.38	£375,000
			Avg. £/m2	£2,909.19	

New Build Semi-Detached Houses within 1/2 Mile					
Address	Type	SSTC/For	Area m2	£/m2	Price
Plot 21, 5 Platinum Close (with garage), Boston Road, Gosberton PE11 4NR	New build 3-bedroom semi-detached house, garage and off road parking, enclosed rear garden	For Sale	94.3	£2,545.07	£240,000
Plot 21 (including detached garage), 5 Platinum Close, Gosberton, PE11	New build 3-bedroom semi-detached house, garage and off road parking, enclosed rear garden	For Sale	94.4	£2,542.37	£240,000
Plot 10, 18 Platinum Close, Boston Road, Gosberton PE11 4NR	New build 3-bedroom semi-detached house, garage and off road parking, enclosed rear garden	Sold STC	94.3	£2,417.82	£228,000
Plot 17, 18 Platinum Close, Gosberton, PE11	New build 3-bedroom semi-detached house, garage and off road parking, enclosed rear garden	For Sale	94.4	£2,415.25	£228,000
			Avg. £/m2	£2,480.13	

The average £/m2 values and GIAs from the data sets above are summarised below:

	Nimbus	Sold	For Sale	New Build For Sale
<i>Avg. £/m2 Values - Detached Houses</i>	£2,302.64	£2,673.21	£2,469.68	£2,909.19
<i>Avg. £/m2 Values - Semi-Detached Houses</i>	£2,302.64	£2,134.32	£2,389.50	£2,480.13
	Sold	For Sale	New Build For Sale	As Proposed
<i>Avg. GIA m2 - Detached Houses</i>	115.43	159.94	120.58	101.33
<i>Avg. GIA m2 - Semi-Detached Houses</i>	87.21	80.55	94.35	69.25

Average asking prices are inflated when compared to wider achieved values and the dataset supplied by Nimbus, suggesting asking prices are unlikely to be achieved. Consultation with local agents suggests prices are often being discounted 5-10% in the current market. Halifax and Nationwide are both reporting several

subsequent months of falling house prices in Q4 2022. Savills predicts an average 10% contraction in house prices UK wide, while JLL suggest a more modest 6% fall.

Medway Close, Gosberton (Sold STC) - This 4-bedroom detached house is located within 1/2 mile of the subject and of similar size to some of the proposed units at 99m². It offers front and rear gardens as well as off road parking. Currently it is on the market for £245,000 (£2,474.75/m²) and makes a useful benchmark to base the new build units on.

71 Bowgate, Gosberton (Sold) - This 3-bedroom semi-detached house is located within 1 mile of the subject site and is of similar size to some of the proposed units at 76.9m². It offers off road parking, field views and an enclosed rear garden. It sold for £205,000 (£2,665.80/m²) and makes a good benchmark to base the new build units on.

We have had particular regard to these transactions when valuing the proposed units.

We have valued the scheme as per the below:

House Type	Area m ²	Quantity	Total House Type Area m ²	£/m ²	Price	Total Price Per House Type
1-Bedroom Semi-Detached	51.40	2	102.80	£3,599	£185,000	£370,000
1-Bedroom Semi-Detached	52.00	2	104.00	£3,558	£185,000	£370,000
2-Bedroom Semi-Detached	75.30	6	451.80	£3,054	£230,000	£1,380,000
2-Bedroom Semi-Detached	74.90	6	449.40	£3,071	£230,000	£1,380,000
2-Bedroom Detached	99.20	5	496.00	£2,974	£295,000	£1,475,000
3-Bedroom Detached	102.80	3	308.40	£2,918	£300,000	£900,000
3-Bedroom Detached	102.90	4	411.60	£2,915	£300,000	£1,200,000
		28	2324.00	£3,044.320138		£7,075,000

The proposed valuation above has been reached following extensive market research, consideration of comparable characteristics in recent transactions, new build and external amenity premiums and advice from local agents and therefore should be considered robust. The figures represent the very top end of what can be achieved in today's market and considering current trends should be considered optimistic.

Timing

This FVA is to be read in conjunction with a detailed planning application which we expect to be granted within 3 months. There will be a 3-month period following this to produce building regs. drawings and obtain all fixed price quotations. We therefore allow a 6-month pre-commencement period.

Construction is projected over an 18-month period with sales expected between months 14 and 22.

Construction Costs

The below commentary is drawn from the most recent BCIS update.

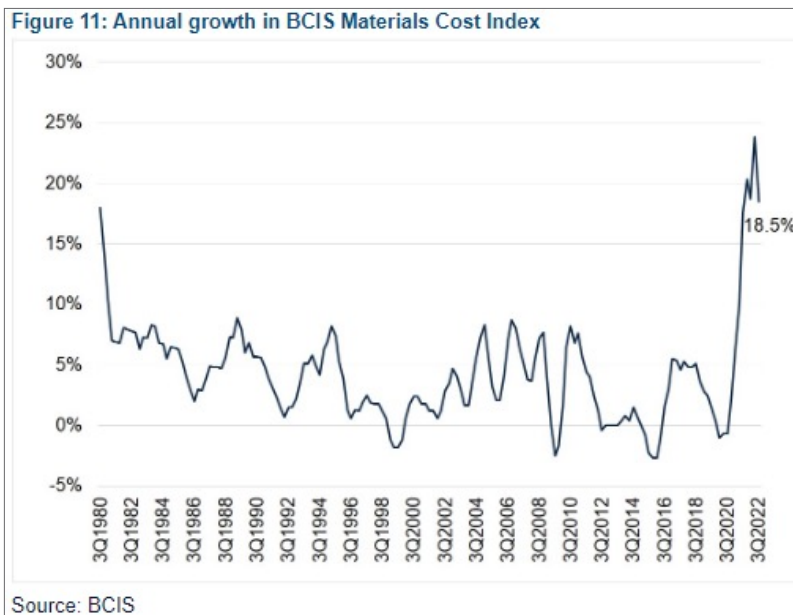
Wide predictions of a forthcoming recession combined with persistent high inflation provides a bleak outlook for construction over the next two years. Construction demand is expected to shrink, and with fewer opportunities there will be greater keenness to secure work. Although materials prices will fall long term, in the short term, current inflationary pressures are expected to keep labour costs rising resulting in increases in both costs and tenders. Tender prices will be rising more slowly than input costs over the next two years as contractors seek to fill order books and it is not until the last two years of the BCIS forecast period that margins and output are expected to recover.

Building costs as measured by the BCIS General Building Cost Index rose 12.7 in the year to Q3 2022 but are forecast to slow to approximately 2.5% per annum over the rest of the forecasted period. Although, in 2022 the increase in building costs was mainly driven by escalating costs of materials, going forward, labour is expected to be the main driver.

RICS released further advice in December 2022:

- *Tender prices in 4Q2022 rose by 1.1% compared with the previous quarter, and by 7.6% on an annual basis. Economic uncertainty will make contractors keen to tender, however, it also increases their risk of delivery. Although labour site rates are rising faster than wage awards, supply issues with materials have largely been resolved. Tender prices are likely to be suppressed in the first two years of the forecast due to reduced demand. It is not until the last two years of the forecast period that tender prices are likely to rise faster than basic costs, with tender prices forecast to rise by 13% in the five years to 4Q2027.*

- Materials prices rose by 2.3% in 3Q2022 compared with the previous quarter, and by 18.5% compared with a year earlier. Some materials prices are easing (timber, steel, metals); however, soaring energy costs will result in escalating prices for energy-intensive construction materials.
- Wage awards over the next year will come under pressure from high inflation. Some of the 2% and 3% increases already agreed for 2023 may be renegotiated. Wage awards will peak in 2023 and the average annual wage awards over the forecast period will be around 3.5% per annum. Site rates have already risen in line with inflation and may steady in 2023. This will be reflected in the market conditions element of the TPI.
- The BCIS General Building Cost Index rose by 2.3% in 3Q2022 compared with 2Q2022, and by 12.7% compared with 3Q2021. Costs will rise by 13% over the forecast period (4Q2022 to 4Q2027).
- Total new work output increased by 2.4% in 3Q2022 compared with the previous quarter and by 5.7% compared with a year earlier. New construction output is expected to contract in 2023-2024, before returning to growth thereafter, and rising 5% over the forecast period (2022-2027).



Therefore, while there are initial positive signs, and some predictions of a more competitive environment driving pricing into 2023, overall build costs continue to increase at the current time.

Results

Released to 2Q 2023 (382; forecast) and South Holland (98; sample 6) [Edit](#)

£/M2 STUDY

?

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 03-Jun-2023 07:37

MAXIMUM AGE OF RESULTS:

Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample	
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest		
New build								
810.11 Estate housing detached (15)	1,905	1,062	1,482	1,643	2,041	5,054	21	
810.12 Estate housing semi detached								
Generally (15)	1,470	855	1,256	1,433	1,608	3,307	354	
Single storey (15)	1,643	1,051	1,403	1,610	1,796	3,307	81	
2-storey (15)	1,418	855	1,244	1,378	1,554	2,513	261	
3-storey (15)	1,447	1,070	1,160	1,411	1,710	2,061	12	

Taking the above into consideration, we have adopted the upper quartile costs of £2,041/m2 for new build estate housing detached and the upper quartile costs of £1,608/m2 for estate housing semi-detached (generally).

Non-BCIS Costs

As mentioned previously, the BCIS data makes no allowance for all external works and associated infrastructure costs, and as it is reported in retrospect will not account for newer policy and legislation such as biodiversity and enhanced building regulations.

We have therefore referred to the South East Lincolnshire Whole Plan Viability Study, which suggests an appropriate allowance for external works and infrastructure to be 10%.

Also, a further allowance of 6% of base build costs are noted for the costs of meeting enhanced energy requirements, which are now embedded into part L of the Building Regulations, an uplift which will not yet have been fully incorporated into the BCIS reporting.

In addition, the requirements of the Environment Bill will soon come into force regarding a minimum 10% biodiversity net gain on all development sites. Councils may adopt a higher target in their development plans.

The 2019 DEFRA Consultation considers the potential cost of delivery as a proportion of build costs on both greenfield and brownfield sites.

Broadly we consider an allowance of 0.75% for brownfield delivery and 2.5% for greenfield to be an appropriate assumption.

The toolkit has been run with the corresponding figures.

Fees

Professional fees are often quoted on a range of 8-12%, with separate allowances for planning fees.

The local plan viability study adopts 7% as a broad category for professional fees – this is not differentiated by site type.

This will vary according to the size and complexity of the scheme. We normally adopt 6-8% for large sites (with repetitive designs and no complicating factors), 10-12% for more differentiated sites (with a variety of different house types or areas) and 10-15% for small sites, where the scale of the fees is often larger due to the lower overall cost of build and lack of potential efficiencies.

We have adopted a figure of 10% for this scheme on the basis of 28-unit scheme.

In addition, we have included the initial planning fee of £13,000, and the subsequent council viability assessment fee £4,000.

Contingency

PPG Viability para 012 notes:

Explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.

Inflation is currently at 10.1%, which given the early stage of this assessment (pre-planning consent) is a material long-term risk. All prudent developers are currently adopting a standard contingency allowance of 10-20% to account for this risk. While general risk is accounted for in the project's target return, the lower the return assumption the higher the contingency adoption should be, ensuring an operating profit is retained in all instances.

In this case we adopt 8% on the basis of a 17.5% target return. If the target return is reduced, then the contingency allowance must likewise be adjusted to compensate.

Planning Obligations (S106 contributions & CIL)

South Holland District Council are yet to adopt a CIL Charging Schedule; therefore, we have not made any allowances for costs at this time.

This is subject to confirmation by the charging authority.

We are aware that an IDB Developer Contribution of £1,063.56 has been requested. It is clear from the conclusion of this analysis that such a contribution is unaffordable and would render the scheme further unviable. It therefore does not pass point c) of CIL Reg 122 and has not been included in our modelling.

Site Acquisition Costs

The EUV is £500,000 as explained below. We have included acquisition costs comprised of SDLT at 5%, legal fees at 0.75% and agency fees of 1%.

Finance Costs

Given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. The Bank of England raised the base rate to 4.5% in May 2023, with further rate rises currently suggested throughout 2023. The local plan viability study in 2027 adopted 6%. The base rate at that date was 0.25%. The base rate has increase 4.24% since this date.

Therefore, a minimum interest figure of 8% is appropriate, and has been used in the toolkit. In reality finance deals are now significantly exceeding this level, but as an all-in rate 8% accommodates all fees and is applied to all costs.

Sales/Marketing Costs

The local plan viability study adopts 3% for sales and marketing costs.

We have used 3% for sales and marketing costs, as well as legal fees of £1,000 per unit.

Developer Profit

The NPGV contains the following advice at paragraph 18:

How should a return to developers be defined for the purpose of viability assessment?

'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'

The RICS guidance similarly notes the test laid out in the PPG as a starting point.

Return to the developer

4.2.27 In paragraph 018, under the heading of 'Standardised inputs to viability assessment', the PPG provides some guidance on how a return to developers is defined for the purposes of the FVA. The paragraph's focus is on a suitable return for plan making, rather than individual returns for scheme-specific decision taking. It identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making, but is silent on a decision-taking developer return. However, PPG paragraph 008 states that where a site-specific FVA accompanies a specific planning application, it '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'. This implies, in addition to other inputs, a similar test regarding developer's profit to that used at the plan-making stage.

The guidance further notes that timescale, uncertainty and any particular characteristics that increase risk are factors which particularly influence profit assumptions.

As previously noted, Paragraph 008 of the NPGV provides a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties.

The South East Lincolnshire Whole Plan Viability Study, produced by Peter Brett Associates (PBA) in January 2017, at Para. 4.4.45 identifies 17.5% gross development value as an appropriate assumption. This aligns with national policy and precedent.

Our experience is that for the previously assumed finance terms to be offered by commercial lenders, a minimum of 17.5% is generally required, up to a maximum of 25% on riskier proposals. Development finance will generally therefore set the expectations for return on investment.

Taking into account the risk profile of the development we consider the assumption adopted in the Local Plan Viability Assessment to be appropriate (17.5%). This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The appraisal has been run accordingly.

Benchmark Land Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV).

Paragraph 15 requires that the EUV of the site should be identified:

'Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).'

Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'

RICS guidance Assessing Viability in Planning under the NPPF Appendix B lays out the appropriate approach to assessing existing use value, including relevant data sources:

B.1.3 The PPG paragraph 015 identifies the type of evidence base that can be used to support the determination of the EUV and the sources of that evidence. At the plan-making stage, this should be accomplished with collaboration between the plan-makers, developers and landowners, and can use published sources of information on rental and capital values of land and property, such as:

- land registry records of transactions
- real estate licensed software packages
- real estate market reports
- real estate research
- estate agent websites
- property auction results
- Valuation Office Agency data and
- public sector estate/property teams' locally held evidence.

The existing site comprises the Land off Spalding Road, a greenfield site extending to 1.684Ha.

To determine an appropriate EUV / BLV, we first turn to the South East Lincolnshire Whole Plan Viability Study (January 2017). At para B.12.4, the viability study suggests that the EUV for Greenfield sites is generally c. £20,000/ha. This is in line with data taken from the VOA Land Value Estimates for Policy Appraisal (2019), which suggests agricultural land values in the Greater Lincolnshire area of £20,000.

Based on the above, we adopt an EUV of £33,680.

B.1.12 Where a landowner has not renewed leases, it would be inappropriate to determine a lower BLV and penalise the landowner for making the site ready for development. That would occur if a lower EUV is coupled with a premium evidenced from similar sites that had not been made ready for development in this way. A balance is required, reflecting the circumstances at the valuation date, but also the costs actually incurred in delivering the site and bringing it forward for development purposes. Such costs would generally sit in the scheme assessment, as necessary to incur in order to bring the scheme forward. They should not include payments to tenants and other parties who have an interest in the land based on hope value, but should reflect the current use value of these interests and the statutory costs of determining tenancies. Any double counting (value and cost) must be avoided in the EUV, premium and scheme assessment.

Paragraph 16 requires that a premium should be added to the EUV (EUV +) to *incentivise* the landowner to bring the site forward for development:

'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

*Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. **Market evidence can include benchmark land values from other viability assessments.** Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels*

set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).'

D.2.4 The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors, third-party rights and covenants
- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.

D.2.5 Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

D.2.6 Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites.

D.2.7 In the case of greenfield, cleared brownfield or some *sui generis* (unique) sites outside of the normal planning use classes, where the EUV is a small proportion of the BLV, the premium is more likely to be stated as a multiplier or could be stated as an actual amount.

It is common industry practice to apply a premium to the EUV to incentivise the landowner; BLV's for agricultural land tend to be between 10- and 20-times the agricultural value. This level is agreed by Aspinal Verdi in several recent Local Plan Viability Studies and is further supported by Appeal ref, APP/A2335/W/21/3285794 in which the Inspector notes, 'the use of a premium based on 15 times multiplier of the EUV does not appear unreasonable'

In this instance we have applied a 15-x multiplier to the EUV to produce a BLV of £505,200, rounded to £500,000.

We adopt this as our BLV.

Paragraph 17 allows the BLV to be determined by an alternative Use Value (AUV):

'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.'

'Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. 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.'

The professional guidance sets out the requirements for an AUV approach to determining land value. Largely this will be most appropriate where an existing extant or implementable consent is in place and there are accurate drawings on which to base the AUV:

C.1.5 Extant consents also need to meet the tests set out in C.1.1. above. But, as the extant consent is capable of being implemented, assessment of the residual value of the consent as permitted should be provided.

C.1.2 The AUV approach should be based on accurate floor plans and elevations for the alternative scheme. This is essential so that accurate gross to net assumptions can be made and for a detailed cost plan to be prepared.

Further where an existing use will be refurbished or redeveloped this will constitute an AUV. However, the guidance makes a distinction between refurbishment and repair as below:

B.1.7 PPG paragraph 017 states that 'where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV'. Where any assumption regarding the use of the property involves any alterations, including refurbishment or redevelopment, BLV will be based on AUV with no premium.

B.1.8 What constitutes a repair versus an alteration will be determined by professional judgement as to whether the works bring the building up to standard within the existing use, or whether they go beyond that and fall into the category of refurbishment. In many circumstances, the expenditure in proportion to the building value may be a material consideration in informing this professional judgement. Each case needs to be considered on its merits but a building or site in need of substantial repair would be expected to have a lower EUV than a building or site in good repair, subject to any dilapidations claims. Furthermore, a landowner should not profit from their failure to maintain the building or site.

B.1.9 Works undertaken to comply with building regulations or statutory requirements, such as the *Disability Discrimination Act* 1995 or the need to provide Energy Performance Certificates (EPCs), would generally constitute repairs, as these are required for the continued use of the building. Such works could of course represent a significant cost. If the property cannot be legally used for its current use at the date of valuation, that should be reported, even if the EUV is based on the assumption that remedial works will be carried out.

B.1.10 All relevant repair and maintenance costs should be reflected in the valuation, and all assumptions made underpinning the assessment of the EUV should be reported.

B.1.12 Where a landowner has not renewed leases, it would be inappropriate to determine a lower BLV and penalise the landowner for making the site ready for development. That would occur if a lower EUV is coupled with a premium evidenced from similar sites that had not been made ready for development in this way. A balance is required, reflecting the circumstances at the valuation date, but also the costs actually incurred in delivering the site and bringing it forward for development purposes. Such costs would generally sit in the scheme assessment, as necessary to incur in order to bring the scheme forward. They should not include payments to tenants and other parties who have an interest in the land based on hope value, but should reflect the current use value of these interests and the statutory costs of determining tenancies. Any double counting (value and cost) must be avoided in the EUV, premium and scheme assessment.

We have not assessed an AUV in detail as this is not required.

The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the viability toolkit. It is only if the Residual Value of the development exceeds the Market Value (Benchmark), that it will be viable for a contribution to be made towards Affordable Housing.

Conclusions

The full toolkit appears at **Schedule 1**, and the key conclusions are set out in the summary section. They are also repeated for convenience below:

Sales	£7,074,999.99
Less Costs	
Construction Costs (Resi)	£4,263,519.99
Other Site Costs	£1,607,292.96
Marketing	£240,250.00
Finance Costs	£259,918.61
Developer Return	£1,238,125.00
Residual Site Value	(£534,106.57)
Benchmark Land Value	£500,000.00
Result	(£1,034,106.57)

To determine the viability of targeted affordable housing provision, the Benchmark Value of the site as stated above, is deducted from the Residual Value calculated by the viability model. If the result is negative, as it is in this case, the development does not achieve the target return on a 100% open market basis and therefore is unlikely to be able to viably deliver the targeted contributions.

The following table summarises the above conclusions.

Spreadsheet Residual Value	(£534,106.57)
Plus Target Developer Return	£1,238,125.00
Less Benchmark Value	£500,000.00
Actual Profit	£204,018.43
Percentage actual profit	2.88%

This presents a return which is significantly lower than the 17.5% target identified previously.

Any planning obligations would further reduce this level.

Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important to inform assessment of risk.

Sensitivity testing conclusions are included below.

Testing the variance associated with changes in sales and build costs of +/- 5-10% results in the below matrix:

Developer profit %		Sales values				
		-10%	-5%	0%	5%	10%
Build Costs	-10%	-1.09%	3.91%	8.91%	13.91%	18.91%
	-5%	-4.10%	0.90%	5.90%	10.90%	15.90%
	0%	-7.12%	-2.12%	2.88%	7.88%	12.88%
	5%	-10.13%	-5.13%	-0.13%	4.87%	9.87%
	10%	-13.14%	-8.14%	-3.14%	1.86%	6.86%

This demonstrates that in 24 out of 25 scenarios the achieved return is below the targeted 17.5%, suggesting a high-risk development.

T&Cs and Compliance

- 1.1 S106M has been instructed by the applicant to review the viability of the proposed development and engage with the local authority and their representatives on this matter.
- 1.2 Scope of instruction extends to provision of 1 report document and schedules for submission as part of a planning application.
- 1.3 S106M has not inspected the property.
- 1.4 This report is prepared as an assessment of the Planning Financial Viability of a proposed development for the purposes of agreeing appropriate Section 106 planning obligations and affordable housing contributions. It is not a valuation of the subject site or scheme. It is exempted from the RICS Red Book on the basis of the parties negotiating and agreeing the planning obligations and the authoritative requirement of the NPPF and PPG. It does not constitute a Red Book valuation report, and should under no circumstances be relied upon as such, although it may refer to the conclusions of third parties in this regard for which no liability is accepted. The date of the report can be viewed on the front page and will require updating for market uncertainty after a reasonable time period has elapsed.
- 1.5 The report is assumed to be made publicly available for transparency purposes unless otherwise stated. The Executive Summary can be considered a Non-Technical Summary for the purposes of the guidance.
- 1.6 S106M accepts responsibility only to the commissioning party named at the start of this report alone that this report has been prepared with the skill, care and diligence reasonably to be expected of a competent consultant but accept no responsibility whatsoever to any other person or entity.
- 1.7 S106M confirm that any RICS members involved in this reporting have complied with the mandatory requirements of RICS Professional Statement Financial Viability in Planning: Conduct and Reporting May 2019, including the following:
 - We have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information (para 2.1).
 - We have identified no conflicts of interest or risk of conflicts in preparing this report (para 2.2).
 - We are not working under a contingent or performance related fee agreement basis (para 2.3).
 - We support positive, proactive, transparent and appropriate engagement between all parties in the planning process. This report is prepared on the basis that it will be made publicly available, except in specifically agreed exceptional circumstances (para 2.4).
 - We have not been involved in the preparation of the Council's Local Plan Area Wide Viability Assessment (para 2.5); however we have regard to this in line with PPG Viability para 002 and the statutory development plan.
 - All inputs are reasonably justified by market and supporting evidence including but not limited to the local plan viability study which justifies the adopted planning policy in line with para 008 PPG Viability (para 2.6-2.7).
 - The status of this report is Final as of the dated front page subject to any further reasonable, proactive and constructive negotiations to resolve reasonable professional differences of opinion in line with para 2.6, 2.8 and 2.10 of the Professional Statement.
 - Our report includes sensitivity testing in line with the para 2.9.
 - Where there are professional differences of opinion over inputs we seek to resolve these during negotiations following submission of the original report in line with para 2.8-2.10. Where differences of opinion cannot be resolved this is stated clearly.
 - The Executive Summary complies with the Non-Technical Summary requirement of para 2.11.

- Any sub-consultants contributing to this report have been made aware of the Professional Statement and its requirements, and confirm compliance with it (para 2.13).
- We have been allowed sufficient time since instruction to carry out this FVA bearing in mind the scale of the development and the status of the information as at the date of this report (para 2.14).
- Appropriate regard has also been had to RICS Guidance Note: Assessing Viability in Planning under the NPPF 2019 (2021).

Material Uncertainty

In respect of the planning and development sector as at the report date where unprecedented sets of circumstances are highlighted, including for example COVID-19, the Ukraine War and Energy Crisis, creating an absence of relevant/sufficient market evidence on which to base our judgements, our report will be reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of the report less certainty – and a higher degree of caution – should be attached to that report than would normally be the case.

For the avoidance of doubt this explanatory note, including the 'material valuation uncertainty' declaration, does not mean that the report cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which said report may have been prepared. In recognition of the potential for market conditions to move rapidly in response to changes in market conditions we highlight the importance of the valuation date and any reporting material uncertainty.

Quality Control

This report is provided for the stated purpose and for the sole use of the named clients. In line with para 2.12 the following quality control pathway has been taken, with all parties involved in the compilation of this report and history of previous viability discussions noted:

Ellie Gavin BA Hons

Robin Furby BA Hons Law, Director