Independent Viability Experts

FAO Mr David Gedney
Principal Planning Officer
South Holland District Council

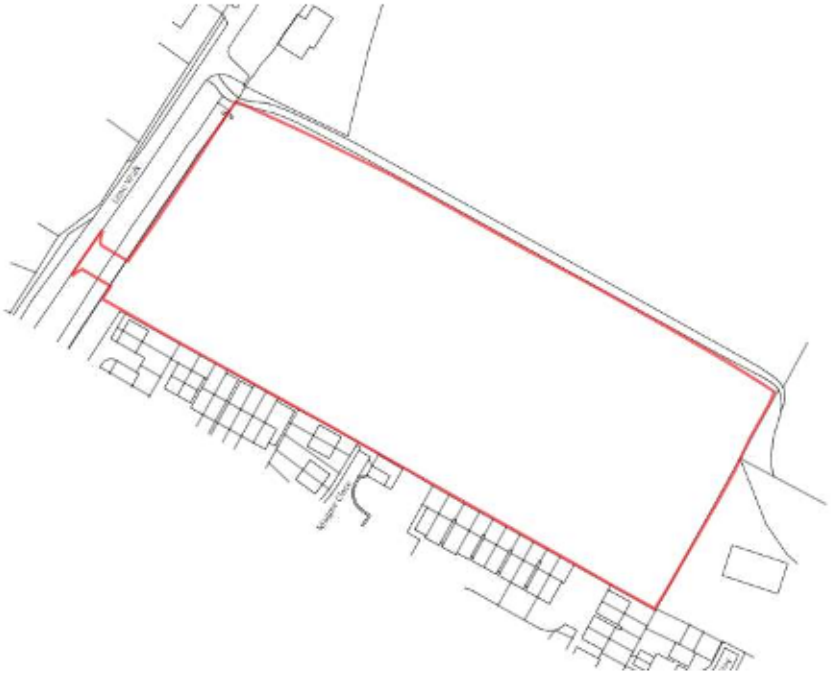
David Newham MRICS
Director
CP Viability Ltd

Sent by email only

Our ref: DN-1034
Your ref: H11-0544-24
Date: 15th December 2024

Dear Mr Gedney

PROPERTY ADDRESS: 36 Lime Walk Long Sutton Spalding PE12 9HG
INSTRUCTING BODY: South Holland District Council
APPLICANT: Stinders Homes SPV2 Ltd



Further to your instruction dated 9th July 2024, our initial draft report on 29th July 2024 and receipt of the independent quantity surveyor advice received on 10th December 2024 we are pleased to report as follows.

1. Property Overview

1.1. The property is located on the northern edge of Long Sutton, a market town approximately 13 miles east of Spalding, and around 10 miles north of Wisbech. Main road access to the town is via the B1359 (Gedney Road). The A17, which provides a direct route to Kings Lynn, can be accessed just over a mile to the north west of the town or just over a mile to the south west of the town.

1.2. More specifically, the site is situated to the east of Lime Walk. A row of mature trees and an IDB drain separate the site from the road. Existing recent residential dwellings abut the southern boundary on Magpie Close and Anfield Road. The eastern boundary is formed of a row of Leyland Cypress trees and beyond that a recreation area. To the north of the site is a public footpath and beyond that agricultural fields. A light industrial site is located to the north west of the site on the opposite side of Lime Walk and includes business such as a garden supplies centre, a timber merchants, health food shop and a school of dance. The site is located around 800m from the natural centre of the town, where there is a pharmacy, library, takeaway restaurants, a public house and small supermarkets.

1.3. The site is broadly rectangular in shape and generally flat. It is formed of a single field currently in agricultural use. According to the Maxey Grounds ("MG") "Viability Assessment" dated 4th June 2024, the site area extends to 2.24 Ha (5.54 acres) on a gross basis.

1.4. In November 2019 the property was granted an outline planning consent (ref **H11-1264-18**) for up to 70 dwellings. As part of the permission a S106 Agreement was signed, which required the following planning contributions:

- 25% onsite affordable housing.
- Education contribution (to be calculated as per a formula set in the agreement).
- Healthcare £660 per dwelling (subject to increases as per a formula in the agreement).

1.5. Reserved matters were approved in December 2022 (ref **H11-0552-22**).

1.6. In July 2023 (ref **H11-0563-23**) was submitted for modification of the S106 agreement. As part of the application process and on behalf of the applicant, S106 Management ("S106M") submitted a viability review dated 10th May 2023. S106M based their assessment of viability on the site plan prepared by HA Architectural Services dated 20th May 2022 drawing number 4149/101 Revision P12 (which is the latest plan as shown in the reserved matters application). S106M's viability review concluded that the scheme was unviable with the planning policy requirements as set out in the S106 agreement. We were subsequently instructed by the Council to undertake an independent viability review. We submitted our findings in July 2023 and concluded that the scheme was viable with the full planning policies applied.

1.7. The Council subsequently refused the application in December 2023.

1.8. The current application (ref: **H11-0544-24**) is for the following:

> *"Modification of 106 Agreement relating to viability of the affordable housing element (planning approval H11-1264-18)".*

1.9. As indicated above, in the previous viability testing (undertaken by S106M in July 2023), the latest reserved matters plan was used to form the dwellings types and mix in the modelling. In MG's updated appraisal (June 24) they have also referred to the reserved matters site plan (and append this to their report).

1.10. However, and despite both S106M and MG using the same site plan for their review (and the same mix of dwelling types), we note that MG's schedule of accommodation is different:

MG schedule of accommodation

Type	Beds	No.	Sq m (each)	Sq m (total)
Type 1 – Semi	3	16	96	1,436
Type 2 – End Terr/ Terr	2	6	96	576
Type 3 – Semi (2.5s)	3	28	107	2,996
Type 4 – Detached	3	3	114	342
Type 5 – Semi (2.5s)	4	1	131	131
Type 5 – Detached (2.5s)	4	2	131	262
Type 6 – Semi	3	5	97	485
Type 6 – Link Det	3	2	97	194
Type 7 – Detached	5	1	203	203
Type 8 – Terr / End Terr	1	4	63	252
Type 8 – Terr / End Terr	2	2	63	126
Totals	**70**			**7,103**

1.11. In comparison, S106M's review (which we followed in our assessment), showed a total of 6,545 sq m.

1.12. We have subsequently reviewed the reserved matters planning file, which lists the individual dwelling gross internal areas for each type, to assess whether MG's adopted areas are accurate or not. We note the following:

Reserved Matters Planning File Individual Dwelling sizes

Type	Beds	No.	Sq m (each)	Sq m (total)
Type 1 – Semi	3	16	91	1,456
Type 2 – End Terr/ Terr	2	6	91	546
Type 3 – Semi (2.5s)	3	28	95	2,660
Type 4 – Detached	3	3	104	312
Type 5 – Semi (2.5s)	4	1	118	118
Type 5 – Detached (2.5s)	4	2	118	236
Type 6 – Semi	3	5	90	450
Type 6 – Link Det	3	2	90	180
Type 7 – Detached	5	1	233	233
Type 8 – Terr / End Terr	1	4	59	236
Type 8 – Terr / End Terr	2	2	59	118
Totals	**70**			**6,545**

1.13. The above is in keeping with S106M's original appraisal and also our own assessment in July 2023. It therefore appears that MG have overstated the sizes of the individual dwellings (as these are contrary to what is shown on the reserved matters planning file). For the purposes of this review, we have subsequently reverted to the above schedule of accommodation (i.e. totalling 6,545 sq m), which is consistent with the previous testing undertaken.

2. Scope of Assessment and General Assumptions

2.1. MG submitted their "Viability Assessment" dated 4th June 2024. MG conclude that "…the site clearly cannot support contributions."

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

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

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

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

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

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

2.8 We have assessed the viability of the scheme as at 15th December 2024.

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 Council or the applicant.

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

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

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

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

3. MG's appraisal – summary

3.1. As stated above, MG have submitted their "Viability Assessment" dated 4th June 2024. This considers 2 scenarios:

Scenario 1 -70 units with 25% affordable housing plus S106 contributions of £394,003. This returns a residual land value of (minus)-£5,685,004. This is below the (separately assessed) benchmark land value of £616,000.

Scenario 2 – 100% market value scheme with nil S106 contributions. This returns a residual land value of (minus) -£3,425,714.

3.2. Taking a step back, MG's appraisal is a significant concern as it suggests that the developer would *lose* over £1million by constructing this scheme. This cannot be the case as the applicant is still looking to bring this forward. This suggests that (i) either the development is completely undeliverable (regardless of the planning policy asks or (ii) some of the assumptions in MG's are inaccurate / inappropriate.

3.3. Notwithstanding this, to summarise this appraisal (scenario 1), we have categorised the costs provided under what we consider to be the most common sections of a viability appraisal.

Gross Development Value (Revenue)

Type	No.	Average £ per sq m	Total
Market Value	52	£2,446*	£13,470,000
Affordable Rent	13	£1,348*	£1,548,424
Shared Ownership	5	£1,600*	£715,240
Total	**70**		**£15,733,664**

*Based on the inaccurate gross internal areas, as discussed above in Section 1.

Gross Development Cost (Outgoings)

Type	Detail	Total
Plot Construction	£1,336 per sq m (7,103 sqm GIA)	£9,489,608
Part L Building Regs	70@ £8,676.83 each	£607,378
Garages	Single 51x £12,000, Double 1x£20,000	£632,000
External works costs	34.32% of build costs	£3,682,525
Contingency	1.65% of build costs	£237,240
Professional fees	5.27% of build costs	£759,169
Abnormals	various	£906,356
Planning Policy	Education / health	£394,003
Marketing	3% of GDV	£404,100
Legals	MV 52 @ £750 each / AH 18 @ £555.56	£49,000
Finance costs	9% Debit / 4% credit	£1,099,643
Benchmark Land Value		£616,000
Arrangement fee	Inc. Misc	£30,000
Developer's profit	17.50% on MV / 5.65% on AH	£2,485,185
Total		**£21,392,207**

3.2 Based on the above appraisal assumptions, MG's appraisal generates a loss of (minus) -£5,685,003.

4. CP Viability's appraisal

Gross Development Value (Revenue)

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

4.2. MG's latest market values can be compared to the values agreed by S106M / ourselves in 2023 as follows:

Dwelling	Type	S106M / CPV 2023	MG June 2024
Type 1	3 bed semi	£265,000	£235,000-£245,000
Type 2	3 bed terrace	£275,000	£235,000
Type 3	3 bed semi	£275,000	£245,000-£260,000
Type 4	3 bed detached	£300,000	£280,000
Type 5	4 bed detached	£317,500	£310,000-£330,000
Type 6	4 bed semi	£265,000	£245,000-£255,000
Type 7	5 bed detached	£525,000	£400,000
Type 8	2 bed terrace	£195,000	£155,000-£165,000

4.3. As demonstrated, and for all but 1 of the house types (Type 5), MG adopt values lower (significantly lower in some cases) values than previously agreed between ourselves and S106M in 2023.

4.4. To support their adopted values MG, refer to the following new build:

- Ashwood Homes, Holbeach: asking prices
- Gleeson Homes, Tulip Fields, Holbeach: asking prices
- Brunswick Fields, Long Sutton: sold subject to contract
- Scenic Homes, Walnut Close, Sutton St James: asking prices
- Lime Walk, Long Sutton (subject site): asking prices

4.5. MG also refer to the Rightmove Best Price Guide limited to PE12 9JQ + 5 miles between 1st September 2023 and 29th May 2024.

4.6. In terms of the hierarchy of evidence, we consider that the strongest available evidence is from the subject site. At the time of our initial draft report in July 2024 we noted various units being marketed for sale, including:

The Arnold (Type 5): 2.5 storey 4 bed detached. Asking price £320,000. This was therefore broadly in keeping with MG's adopted value range of £310,000 to £330,000 (as at June 2024).

The Frampton (Type 4): 2 storey 3 bed detached. Asking price £280,000. For context, S106M adopted £300,000 in 2023 (which we accepted). However, this was evidence of a lower value being applied as at July 24.

The Thornham (Type 3): 2.5 storey 3 bed townhouse. Asking price £255,000. We note from the applicant's website that prices start from £255,000 suggesting that the lowest value is £255,000 and therefore this should be applied to the terraced type which does not have a garage. For context, S106M adopted £275,000 in 2023 (which we accepted). However, this was evidence of a lower value being applied as at July 24.

The Rutland (Type 6): 2 storey 3 bed corner semi. Asking price £245,000. For context, S106M adopted £265,000 in 2023 (which we accepted). However, this was evidence of a lower value being applied as at July 24.

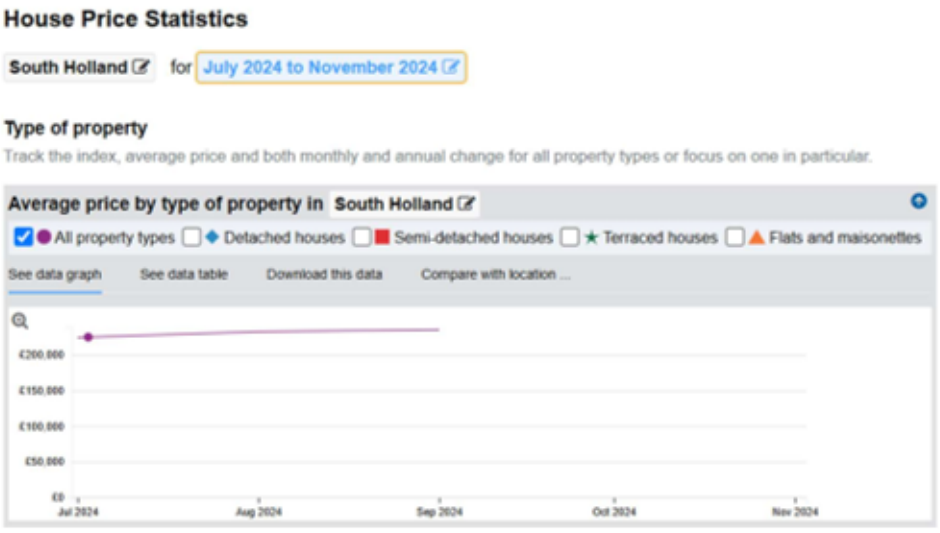
The Moulton (Type 1): 2 storey 3 bed semi. Asking price £235,000 and £245,000. For context, S106M adopted £265,000 in 2023 (which we accepted). However, this was evidence of a lower value being applied as at July 24.

4.7. At the time of our July 24 appraisal, the only house type that was not being marketed for sale at the subject site was Type 7, the 5 bed detached of 233 sq m. In light of this, we looked at other schemes to gauge the appropriate value for this type. We noted Loosegate Homes' Brunswick Fields scheme in Long Sutton, which is less than 1 mile from the subject site. There was a 5 bed detached dwelling of 247 sq m being marketed for sale at £600,000 (£2,429 per sq m). This remains the case. For a 5 bed detached of 233 sq m MG's adopted value of £400,000 (£1,717 per sq m), which was therefore considered to be significantly below expectations. Allowing for sale incentives to drive a sale, and adopting a cautious approach, we considered a value of £540,000 (£2,318 per sq m) to be justified for this property type.

4.8. As at July 2024 we subsequently adopted the following net sales values in our appraisal:

GROSS DEVELOPMENT VALUE (GDV) Description	Type	Beds	NSA sq m (each)	£ per sq m	£ each
MARKET VALUE					
Type 8	End terrace	3	59.00	4,068	240,000
Type 8 (w/garage)	Terrace	3	59.00	3,983	235,000
Type 8 (w/garage)	End terrace	3	59.00	4,153	245,000
Type 1	Semi	3	91.00	2,582	235,000
Type 1 (w/garage)	Semi	3	91.00	2,692	245,000
Type 2	End terrace	2	91.00	2,582	235,000
Type 2	Terrace	2	91.00	2,582	235,000
Type 3 2.5s (w/garage)	Semi	3	95.00	2,842	270,000
Type 3 - 2.5s	Semi	3	95.00	2,789	265,000
Type 3 - 2.5s	End terrace	3	95.00	2,737	260,000
Type 3 - 2.5s	Terrace	3	95.00	2,684	255,000
Type 4	Detached	3	104.00	2,692	280,000
Type 5 - 2.5s	Detached	4	118.00	2,797	330,000
Type 5 - 2.5s	Semi	4	118.00	2,627	310,000
Type 6	Semi	3	90.00	2,722	245,000
Type 6	Link detached	3	90.00	2,833	255,000
Type 7	Detached	5	233.00	2,318	540,000

4.9. However, since July 2024 we note that there has been general house price inflation across South Holland, as follows:



4.10. As at July 24 the average house price in South Holland was £224,336, whereas at Sep 24 (the latest point currently shown in the data) the average was £235,281, an increase of 4.88%.

4.11. In light of this, but taken into account some dwellings sold in interim period (not yet shown on the Land Registry) we have adopted the same values as at July 24, shown above para 4.8, plus 2.5% to account for inflation since this time and allowing some sales to have taken place in the interim period. The adjusted values are therefore:

GROSS DEVELOPMENT VALUE (GDV)			NSA		
Description	Type	Beds	sq m (each)	£ per sq m	£ each
MARKET VALUE					
Type 8	End terrace	3	59.00	4,169	246,000
Type 8 (w/garage)	Terrace	3	59.00	4,083	240,875
Type 8 (w/garage)	End terrace	3	59.00	4,256	251,125
Type 1	Semi	3	91.00	2,647	240,875
Type 1 (w/garage)	Semi	3	91.00	2,760	251,125
Type 2	End terrace	2	91.00	2,647	240,875
Type 2	Terrace	2	91.00	2,647	240,875
Type 3 2.5s (w/garage)	Semi	3	95.00	2,913	276,750
Type 3 - 2.5s	Semi	3	95.00	2,859	271,625
Type 3 - 2.5s	End terrace	3	95.00	2,805	266,500
Type 3 - 2.5s	Terrace	3	95.00	2,751	261,375
Type 4	Detached	3	104.00	2,760	287,000
Type 5 - 2.5s	Detached	4	118.00	2,867	338,250
Type 5 - 2.5s	Semi	4	118.00	2,693	317,750
Type 6	Semi	3	90.00	2,790	251,125
Type 6	Link detached	3	90.00	2,904	261,375
Type 7	Detached	5	233.00	2,376	553,500

4.12. In terms of the affordable dwellings, for the Affordable Rented units MG's average allowance is equivalent to circa £1,451 per sq m. For the shared ownership, this increases to circa £1,775 per sq m. Both allowances are deemed to be broadly reasonable and have been accepted in our appraisal.

Build costs

4.13. In their July 2024 appraisal, S106M include the following cost allowances:

- Plot construction £9,489,608
- Part L Building Regulations £607,378 (£8,677 per unit)
- Garages – single £12,000 per unit
- Garages – double £20,000 per unit
- Externals £3,682,525 (34.32% of above)
- Contingency 1.65% of above
- Abnormals £906,356

4.14. For their standard plot construction costs, MG refer to the Build Cost Information Service ("BCIS") database, which is regularly used in the industry for establishing construction costs in viability appraisals. MG choose to adopt the midpoint between the lower quartile and median figures for the area, backdated to October 2023, when the build began.

4.15. We agree that it is appropriate to sense check the figures provided by referring to the BCIS. Please note, the BCIS data excludes externals, contingency, abnormals and professional fees and therefore these costs need to be allowed for in addition within the appraisal.

4.16. To give the BCIS data some context, between January 2015 and Aug 2023 there were 141 separate housing (only) schemes across the UK which were used for 'elemental' analysis in determining the various BCIS rates. Of this sample, the size of schemes ranged from 1 house to 239 houses, with an average of 25.28 houses per scheme submitted into the data. 59.57% of the sample comprised schemes consisting of 20 houses or less and only 10.64% of the sample (15 schemes) comprised 50 or more dwellings. In other words, the vast majority of the data used for analysis when determining the various BCIS rates was derived from small schemes implemented by either local or relatively small contractors. The efficiency savings that a volume housebuilder (national or regional) is able to make with respect to both labour and material are not therefore reflected in the figures. On this basis, the BCIS rates can be regarded as being high compared to the costs incurred by volume house builders. For this reason, the BCIS median rate is not generally used when considering a scheme that would be implemented by a volume house builder.

4.17. For schemes like the subject development, the median rate is therefore generally deemed to be inappropriate (as this is reflective of the rate per sq ft experienced by smaller housebuilders building smaller schemes, who cannot therefore access the efficiency savings of a national volume house builder). Instead, we find that the BCIS lower quartile is routinely used when assessing the viability of scheme that would be delivered by a national / regional volume housebuilder (as is the case here).

4.18. We have reviewed the BCIS rates, rebased for South Holland and backdated to Oct 2023 (as per MG's approach):

BCIS®

The results contained on the page are as published on 01-Oct-2023

£/M2 STUDY

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

Last updated: 23-Sep-2023 07:35

Rebased to South Holland (98; sample 6)

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								
810.1 Estate housing								
Generally (15)	1,476	717	1,253	1,418	1,612	5,082	1427	

4.19. The lower quartile 'generally' figure, which is consistent with the figure were referred to in our July 2023 review, as at Oct 23 is £1,253 per sq m.

4.20. In terms of the garages, we have reviewed the site plan and note the following:

- We count 7 detached single garages
- There are 19 'double' garages (in terms of structure), albeit accepting that these will be shared units. From a construction perspective, though, these can be taken as akin to single garages because there would need to be an internal division in the units, unlike a double unit.
- There is also 1 'triple' garage, but again this can be treated as being 3 single units because the internal wall division required.
- We also note 1 double garage.

4.21. We count 48 units that can be regarded as single (at least for the purposes of costing the units), to which we have applied the rate of £12,000 per unit suggested by MG. For the double we agree to £20,000.

4.22. MG make an allowance equivalent to circa £8,677 per dwelling to cover Part L & F Building Regulations changes. The Part L & F Building Regulations changes requires a 31% reduction in CO2 emissions. This came into full effect from June 2023 and therefore these changes will impact on the subject site. It is therefore necessary to make an allowance in the appraisal to cover these costs.

4.23. The Department of Levelling Up, Housing and Communities impact assessment suggested that the most cost effective route to meeting the interim standards was through the use of Air Source Heat Pumps. This estimates an additional average cost per dwelling of £4,070. In other schemes we are appraising typically developers are allowing for the installation of heat pumps and some improvement to general insulation.

4.24. Furthermore, where the BCIS rates are applied, it is stressed that these figures already allow for existing heating systems inherently within the costings. These costs therefore have to be deducted before the new heat pump costs are applied (otherwise there would be a double-counting of heating systems within each dwelling). Adding the heat pump costs on top would therefore, in our view, reflect double-counting, therefore some allowance for this needs to be factored into the rate used for the Part L & F changes. Furthermore, some of these costs will now already be factored into the latest BCIS rates received. In light of these factors, and taking into account what we have agreed elsewhere, we deem an average £4,000 per unit additional cost allowance to be sufficient to cover any additional costs associated with these changes.

4.25. In terms of the 'standard' external costs, MG's allowance of £3,682,525 includes the following:

Roads, drainage, SUDS & Storm Attenuation	3,372,525
Plot externals	210,000
General landscaping	100,000
	3,682,525

4.26. This is equivalent to 34.32% of our adjusted plot costs and garages, Part L & F and EV charging or £665,311 per gross acre.

4.27. In our July 2023 assessment we deemed external costs equivalent to 18% of the aforementioned construction costs to be appropriate.

4.28. By way of evidence, we have reviewed other viability appraisals we have been involved with for similar scale sites. We have focused on mixed housing schemes (from 50 to 100 dwellings), appraised since July 2021. We have identified the standard external costs put forward by the applicants in their own viability appraisals (therefore not our opinion). We note the following:

Site Address	Local Authority	Date	Units	Externals (% of build cost)
land to the east of Chaffinch Way, Holbeach	South Holland DC	Jul-21	81	19.32%
Keston Nurseries, Mill Green Rd, Pinchbeck	South Holland DC	Oct-21	100	15.35%
Yews Farm, Spalding (near Pinchbeck)	South Holland DC	Jan-22	100	22.37%
Land at Harrington Drive, Crowland	South Holland DC	Sep-22	52	18.05%
Crossroads Nursery, Quadring PE11 4PJ	South Holland DC	Nov-23	68	16.48%
Ivanda Nursery, Monks House Lane, Spalding	South Holland DC	Feb-24	70	25.72%
				19.55%

4.29. All of the above case were assessed on behalf of the applicant by MG. We are also conscious that the Crossroads Nursery case involved Stinders Homes.

4.30. Please also note that in some cases, for example Ivanda Nursery and Yews Farm, we did not accept the figures put forward by the applicant and adopted a reduced allowance in the modelling.

4.31. In the context of the above, MG's total allowance appeared to be significantly above expectations.

4.32. In addition, in terms of site specific infrastructure / abnormals, MG include the following (which totals £906,356):

Foundations & raised levels	420,856
Foot scaffolding during construction due to raised levels	96,000
IDB Crossing	250,000
Retaining walls to boundaries	139,500

4.33. At the time of our July 2023 assessment the abnormal costs identified at the scheme were relatively modest at £200,000. The latest figures of £906,356 therefore reflects a significant uplift in the abnormal costs associated with the scheme.

4.34. In light of the seemingly high external works and the additional infrastructure / abnormal works we considered it necessary to seek advice from a third party, independent expert to undertook a robust review of the figures presented (and this was recommended without our initial July 24 draft). Hainstone were subsequently appointed on 6th August 2024. Since this time, Hainstone liaised directly with the applicant / their own cost advisor in order to gather the relevant information to complete their assessment.

4.35. Please note, Hainstone's review was limited to assessing the following costs associated with the scheme:

- IDB Crossing — applicant cost £410,000
- Foundations and raised levels — applicant cost £420,856
- Retaining walls to boundaries — applicant cost £139,500
- Additional road costs — applicant cost £3,372,662

Applicant gross total £4,343,018

4.36. Please see attached Appendix 1 for a summary of Hainstone's findings and Appendix 2 for the detailed costings. In summary, Hainstone arrive at the following costs:

- IDB Crossing — Hainstone cost £285,890
- Foundations and raised levels — Hainstone cost £416,843
- Retaining walls to boundaries — Hainstone cost £123,746
- Additional road costs — Hainstone cost £1,757,417

Hainstone total £2,583,896

4.37. We have subsequently applied Hainstone's costs into our model, which are shown as follows:

- Externals £2,067,417 (which comprises the road figure of £1,757,417, plus the separately agreed plot externals of £210,000 and general landscaping works of £100,000).
- Abnormals £826,479 (which includes the IDB crossing £285,890, foundations and raised level of £416,843 and retaining walls £416,843).

4.38. In terms of contingency, we would stress that this is ultimately a figure which may never be realised by a developer (and there is a line of argument to say that a contingency should not be allowed in viability testing for this reason, as essentially 'risk' is reflected already in developer profit).

4.39. In other words, this is a cost which may never be drawn upon by the developer in which case this simply becomes an additional profit, potentially at the expense of planning policy requirements. However, and notwithstanding this, it is common practice to apply contingencies to viability modelling (as well as this approach being approved through the viability guidance) therefore we are of the view that it is appropriate to make some allowance for contingency in the appraisal, albeit not overstating this given the pressures on Councils to deliver planning policies. We are of the view that a figure of 3% reflects a reasonable balance between the need to include some level of contingency but also the Council's need to deliver planning policies. We have applied this to our appraisal.

Professional fees

4.40. The figure adopted by MG is £906,356 (equivalent to 7.09% of our adjusted construction costs or 5.27% of their own figures).

4.41. By way of evidence, we have again referred to the 6 similar scale developments discussed above in para 4.28:

Site Address	Local Authority	Date	Units	Prof fees
land to the east of Chaffinch Way, Holbeach	South Holland DC	Jul-21	81	4.83%
Keston Nurseries, Mill Green Rd, Pinchbeck	South Holland DC	Oct-21	100	5.13%
Yews Farm, Spalding (near Pinchbeck)	South Holland DC	Jan-22	100	4.73%
Land at Harrington Drive, Crowland	South Holland DC	Sep-22	52	5.11%
Crossroads Nursery, Quadring PE11 4PJ	South Holland DC	Nov-23	68	6.63%
Ivanda Nursery, Monks House Lane, Spalding	South Holland DC	Feb-24	70	6.04%
				5.41%

4.42. In our July 2023 assessment we adopted 6%. Having considered the above, and again for consistency, we have adopted the same as our July 23 appraisal, which in this case is 6%.

S106 / Other Council Policy Requirements

4.43. As per the S106 agreement, there is a 25% onsite affordable housing requirement for this scheme. The S106 agreement only refers to Affordable Rented and Intermediate dwellings, therefore we have assumed the affordable housing provision would comprise these tenures only. We have also assumed a circa 70/30 split in favour of Affordable Rented.

4.44. In terms of the education contribution, using the formula as set out in the S106 agreement, we calculate the following contributions:

Education primary	£135,994
Education secondary	£200,839
Education 6th Form	£43,563
Total	**£380,396**

4.45. As for the health contribution, the S106 agreement refers to a figure of £660 per dwelling which equates to £46,200.

4.46. Overall, the S106 contributions as set out above equate to £426,596.

Marketing / legal costs

4.47. The figure adopted by MG is equivalent to 3% of their market value revenue, plus £750 per unit for market value legals and circa £556 per unit for the affordable.

4.48. In order to identify an appropriate allowance, we have again reviewed the 6 sites discussed above in para 4.28 and note the following:

Site Address	Local Authority	Date	Units	Marketing
land to the east of Chaffinch Way, Holbeach	South Holland DC	Jul-21	81	3.00%
Keston Nurseries, Mill Green Rd, Pinchbeck	South Holland DC	Oct-21	100	3.00%
Yews Farm, Spalding (near Pinchbeck)	South Holland DC	Jan-22	100	3.00%
Land at Harrington Drive, Crowland	South Holland DC	Sep-22	52	3.00%
Crossroads Nursery, Quadring PE11 4PJ	South Holland DC	Nov-23	68	3.00%
Ivanda Nursery, Monks House Lane, Spalding	South Holland DC	Feb-24	70	3.07%
				3.01%

4.49. In July 2023 we adopted 3%.

4.50. In light of the above, we have accepted MG's allowances.

Finance

4.51. MG have applied a debit interest rate of 9%. Despite recent interest rates rises, we consider this to be above expectations and have instead adopted a rate of 8.5%.

4.52. To calculate the finance, we have inputted our appraisal data into ARGUS Developer, which is an industry approved discounted cash flow model. This calculates the finance charge.

Developer's profit

4.53. MG adopt a profit equivalent to 17.5% on revenue for the market value, plus just under 6% for the affordable.

4.54. 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.

4.55. 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).

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

4.57. MG's allowance is considered to be consistent with other schemes we have appraised across the district. It is also consistent with our July 23 review of the subject site. On this basis, we have accepted their allowances.

Benchmark land value

4.58. 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.

4.59. 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.

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

4.60.1. 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.

4.60.2. The EUV should disregard any hope value.

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

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

4.60.5. 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.

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

4.60.7. 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.

4.61. 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.

4.62. In May 2023 S106M adopted a benchmark land value of £672,00, which was established in the context of (at the time) abnormal costs which only totalled £204,000. This was based on an existing use value of circa £20,000 per Ha plus a 15 times uplift.

4.63. In our July 2023 assessment, in the context of relatively modest abnormal costs, we agreed with S106M's approach.

4.64. In their review, MG adopt an existing use value of £25,000 per Ha and apply a premium of circa 11 times this amount. This gives a benchmark land value of £616,000.

4.65. For the purposes of our review, we consider it appropriate to again apply the existing use value of £20,000 per Ha, which was previously agreed with S106M. In terms of the premium uplift, taking into account the uplifted abnormal costs it is necessary to reduce the benchmark land value (in keeping with the requirements of the guidance). As the existing use value is a fixed figure, the only way to do this is by reducing the premium uplift.

4.66. In July 2023 we deemed an uplift of 15 times the existing use value to be reasonable (at the time the abnormals were equivalent to only £200,000). As discussed above, MG adopt abnormal costs totalling £906,356 (amended to £826,479 by Hainstone), so this reflects a potentially significant uplift in these costs (subject to verification by an expert, as recommended). If this level of abnormals were to be proven, then we consider that a reduced premium uplift of 10 times the existing use value would be appropriate. This would give a benchmark land value of £448,000.

5. Appraisal results and conclusions

5.1. We have initially run an appraisal with 25% onsite affordable housing, plus the S106 asks totalling £426,596. However, this generates a residual land value below the benchmark land value and is therefore deemed to be unviable.

5.2. On a 'trial and error' basis we have subsequently reduced the affordable housing provision to assess at what point (if any) this returns a viable outcome. Please see attached our appraisal (Appendix 3). Based on 7 affordable houses (10.00%), provided as 4 x affordable rent (2 x 1 bed and 2 x 2 bed) and 3 x shared ownership (1 x 2 bed and 2 x 3 bed), plus the full S106 asks of £440,437. On this basis the scheme generates a residual land value of £448,019, which is just above our benchmark land value of £448,000 and therefore deemed to be viable.

5.3. Alternatively, with nil S106 payments, the scheme could support 12 onsite affordable units (17.14%), provided as 7 x affordable rent (3 x 1 bed and 3 x 2 bed and 1 x 3 bed) and 5 x shared ownership (2 x 2 bed and 3 x 3 bed),

5.4. For illustrative purposes, we have compared our appraisal to MG's submission:

Input	MG appraisal	CPV appraisal
Market value average	£2,446 psm	£2,831 psm
Plot cost	£9,489,608	£9,076,885
Externals	£3,682,525	£2,067,417
Contingency	1.65% of costs	3% of costs
Abnormals	£906,356	£826,479
Professional fees	£759,169	£668,658
Benchmark land value	£616,000	£448,000

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

	Sales: Rate /m²				
Construction: Rate /m²	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
	2,689.34 /m²	2,760.12 /m²	2,830.89 /m²	2,901.66 /m²	2,972.43 /m²
-5.000% 1,190.35 /m²	16.93% (£250,380)	16.93% (£550,918)	16.93% (£851,456)	16.93% (£1,151,994)	16.93% (£1,452,532)
-2.500% 1,221.68 /m²	16.93% (£48,662)	16.93% (£349,201)	16.93% (£649,739)	16.93% (£950,277)	16.93% (£1,250,815)
0.000% 1,253.00 /m²	16.93% £155,810	16.93% (£147,483)	16.93% (£448,021)	16.93% (£748,559)	16.93% (£1,049,098)
+2.500% 1,284.33 /m²	16.93% £361,158	16.93% £55,210	16.93% (£246,304)	16.93% (£546,842)	16.93% (£847,380)
+5.000% 1,315.65 /m²	16.93% £566,506	16.93% £260,559	16.93% (£44,587)	16.93% (£345,125)	16.93% (£645,663)

5.6. This shows the impact on the residual land value if sales values were to increase / decrease at 2.5% intervals and likewise if construction costs were to increase / decrease at 2.5% intervals. By way of explanation, if the overall construction costs decreased by 2.5% and the sales values remained the same, the residual land value would be £147,483, which is below the benchmark land value of £448,000 and therefore unviable.

5.7. In summary, we agree that the scheme cannot now support the full planning policy asks. This is a change since 2023 and is principally driven by the increase in abnormal costs (which have been confirmed by an independent QS at £826,479, which compares to £200,000 as at our 2023 assessment). However, contrary to the applicant's position we find that the scheme can viably support either 10% onsite affordable housing and a total S106 payment of £440,437 or an onsite affordable housing provision of 17.14% (but with nil S106 payments).

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