



Independent Viability Experts

FAO Ms Lucy Buttery
Principal Planning Officer
South Holland District Council

Sent by email only

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Our ref: DN-0360

Your ref: H13-0479-20

Date: 2nd February 2021

Dear Ms Buttery

PROPERTY ADDRESS: Land South Roman Road, Moulton Chapel

INSTRUCTING BODY: South Holland District Council

APPLICANT: Postland Developments Limited



Further to your original email instruction of 17th June 2020 and the viability review process undertaken in the interim period (including receipt of additional information from the applicant), we are pleased to report as follows.



1. Property Overview

- 1.1. Moulton Chapel is a small village located circa 4 miles to the south east of Spalding. The main road access is via the B1357, linking just over 1.5 miles to the west to the A16, which provides north-south access to Boston and Peterborough. It is classed as a Minor Service Centre in the Local Plan.
- 1.2. The subject property itself is located on the south side of Roman Road to the east, and within walking distance of the village centre. It is situated immediately adjacent to the rear gardens of established dwellings to the north (in a mixture of styles, maturity and quality), the exception being the site of Moulton Chapel Motors, which will give access onto Roman Road under the scheme proposals. On both sides of Roman Road are more individual dwellings of differing types, quality and maturity, characteristic of ribbon development. To the south and west is agricultural land, part of an area known as Moulton Fen. To the east is a small estate of social/ex-social housing (Cekhira Avenue).
- 1.3. There has been no substantive new build activity in the village in recent years, although some small schemes have taken place.
- 1.4. The subject land currently comprises undeveloped agricultural land, designated Grade 1 and part of a larger field. Generally speaking, the site is level. Drainage ditches are present on the northern and eastern boundaries. The part of the site allocated to form the access is currently occupied by Moulton Chapel Motors, a filling station, servicing and repair garage (with some vehicle sales) business. The buildings on site comprise a single storey shop/office/workshop on the western part of the site and a further single storey workshop on the eastern part. There is a concrete forecourt with fuel pumps between the buildings and Roman Road itself.

- 1.5. We understand that the site extends to circa 2.93 Ha (7.24 acres), on a gross basis. The net developable area is stated to be in the region of 2.34 Ha (5.78 acres).
- 1.6. In terms of material planning history, this all related in some way to the current application, comprising the following:
- H13-1280-16 – “Demolition of garage buildings and residential development of up to 78 dwellings including vehicular access”. This was subsequently withdrawn in September 2017.
 - H13-0844-17 - “Proposed development of up to 58 houses with vehicular access (garages to be removed) (resubmission of H13-1280-16). This was an outline application, with some matters reserved, for an amended scheme on a smaller area of land (the current red line boundary). Conditional permission was granted and certain obligations secured by that and a S.106 agreement dated 24 September 2018, namely 25% on- site affordable housing (10 affordable rented and 5 shared ownership), the provision of public open space on site and a contribution to healthcare facilities of £444 per dwelling (£25,752).
 - H13-1096-19 - “Residential development - comprising 58 dwellings and associated works - outline approval H13-0844-17”. This was a reserved matters application seeking approval for all remaining reserved matters. Permission was granted on 13 February 2020.
 - H13-0496-20 - “Details of Conditions 3 (iii & v), 15, 17, 18, 19, 20 and 22 of H13-0844-17). An application for discharge of conditions which is, as yet, undetermined.

1.7. The current application comprises:

H13-0479-20 - “Modification of Section 106 Agreement to remove affordable housing provision - planning approval H13-0844-17”

1.8. The scheme will be known as “Chapel Walk” and will comprise a mixture of house types and styles of 1-3 storeys including detached, semi-detached, townhouses and bungalows, together with a number of garages. Based on the schedule of accommodation provided to us, the dwellings can be summarised as follows:

Name	Type	Beds	No.	Sq ft(each)	Sq ft (total)
Stanton	2s Semi	1.5	4	605	2,420
Fulton	Semi bung	2	2	735	1,470
Willoughby	2s Semi	2	4	826	3,304
Ashton	2s Detached/semi	3	6	897	5,382
Blakey	3s Semi	3	4	1,022	4,088
Eaton	Detached bung	3	4	1,033	4,132
Darby	2s Detached	3	6	1,048	6,288
Chester	1.5s Detached	2	2	1,318	2,636
Elton	3s Townhouse	4	10	1,430	14,300
Kinsley	2.5s Townhouse	3	6	1,438	8,628
Tyndall	3s Townhouse	4	3	1,576	4,728
Old Chapel	2s Detached	4	1	1,976	1,976
Hornsby	2s Detached	4	4	2,069	8,276
Churchill	2.5s Detached	5	2	2,921	5,842
	Totals		58		73,470

2. Scope of Assessment and General Assumptions

- 2.1. The applicant original submitted a viability assessment dated 29th May 2020. The applicant concluded that “If the [affordable housing] requirements were removed, it is anticipated a profit level of around 16.5% can be achieved (excluding any overheads) ...”. However, updated appraisals were submitted on 4th November 2020 and again on 20th January 2021 (the latter concluding that 2 affordable dwellings could be provided).
- 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 (if any).
- 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 2nd February 2021.
- 2.9. This assessment does not provide a critique of the proposed development design (i.e. we have not commented on the efficiency of design, density etc). Our role is limited to testing the viability of the proposals as detailed in the relevant planning application.
- 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.

- 2.11. We have not met either of the Instructing Body or the applicant and subsequently have not partaken in any negotiations regarding the scheme.
- 2.12. In accordance with the RICS Guidance on Viability (Guidance Note 1, 2012), our appraisal assumes a hypothetical landowner and 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 reflect the specific circumstances of individual parties.
- 2.13. Furthermore, we can confirm that our review also adheres to the guidance as set out in the Planning Practice Guidance for viability, published in July 2018 (and updated in May/September 2019).
- 2.14. In undertaking our appraisals, we have utilised ARGUS Developer. This is an industry approved cash-flow model, designed specifically residual appraisals. This report reflects the independent views of CP Viability, based on the research undertaken, the evidence identified and the experience of the analysing surveyor.
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3. The applicant's appraisal – summary

- 3.1. The applicant's most recent appraisal was submitted to us on 20th January 2021. This assumed 2 onsite affordable dwellings and a S106 contribution totalling £25,752.
- 3.2. Please note, in seeking to summarise the applicant's appraisal we have categorised the costs provided under what we consider to be the most common sections of a viability appraisal. For example, all costs which we believe relate to the basic construction of a dwelling (including a contractor's margin or developer's overhead) have been allocated under "Estate housing". Likewise, those costs which are considered to relate to typical external works, such as highways, drainage, general services etc are allocated under "Externals / infrastructure". Any unusual costs are referred to as "Abnormals", and so on. This categorisation approach allows us to undertake a comparison between the subject scheme and other developments we have assessed.

Gross Development Value (Revenue)

Type	No.	Av £ per sq ft	Total
Market Value	56	£205.06	£14,727,000
Affordable	2	£128.03	£211,500
Total	58		£14,938,500

Gross Development Cost (Outgoings)

Type	Notes	Total
Estate housing	£105.50 per sq ft	£7,751,085
External works costs	15% of build costs	£1,244,563
Garages	54 at £10,706 per unit average	£546,000
Contingency	2.03% of above combined costs	£207,306
Professional fees	6.55% of combined build costs	£625,167
Abnormal works costs	Various	£670,495
S106	Healthcare contribution	£25,752
Marketing & sales	2.5% of MV revenue	£368,175
Sales legal fees	47 x £750 per market value dwelling	£43,500
Debit interest	6% debit	£74,709
Other finance	Surveyors fee	£10,000
Acquisition costs	Legal, agents & SDLT	£34,160
Profit	17.34% on revenue	£2,590,282
Total		£13,589,245

- 3.3. Based on the above inputs, the applicant's appraisal shows a residual land value of £747,307. Separately, the applicant referred to a benchmark land value of £750,000. As the residual land value and benchmark and value are broadly in line the applicant concludes this position is viable.

4. CP Viability's appraisal

Gross Development Value (Revenue)

- 4.1. The applicant's suggested sales values range from £188 to £286 per sq ft, with an average across the sample of circa £202 per sq ft.
- 4.2. In terms of forming their opinion of sales values from comparable evidence, the applicant relies on an undated "Best Price Guide" report by local agent City & County (UK) Ltd which examines all residential properties marketed between 2 March and 2 June 2020 within 5 miles of the PE12 0XG postcode. The identified evidence shows a wide range of achieved values, dependent on factors such as location, age of property, type of property, plot size, condition etc.
- 4.3. For our assessment we have primarily focused on new build schemes. We have researched new build dwellings across postcode area 'PE12' (which Moulton Chapel forms part of).
- 4.4. The most relevant scheme is considered to be Ashwood Homes' Mill View scheme at Cowbit, which is situated around 2 miles to the west of the subject site. According to the Zoopla Zed Index, the current average value in Cowbit is £226,308. In comparison, the average in Moulton Chapel is £226,119. This suggests that Cowbit attracts similar values to Moulton Chapel.
- 4.5. We note the following new build sales achieved at Mill View in Cowbit:

	Address		Pcode	Sq ft	£ psf	Price	Date	Type
99	WILLOW COURT	COWBIT	PE12 6GF	721	£ 222	£160,000	16/09/2019	Detached
				721	£ 222			
43	WILLOW COURT	COWBIT	PE12 6GF	926	£ 238	£220,000	13/09/2019	Detached
91	WILLOW COURT	COWBIT	PE12 6GF	926	£ 239	£221,000	06/12/2019	Detached
				926	£ 238			
83	WILLOW COURT	COWBIT	PE12 6GF	721	£ 236	£170,000	24/01/2020	Semi
87	WILLOW COURT	COWBIT	PE12 6GF	721	£ 236	£170,000	13/12/2019	Semi
89	WILLOW COURT	COWBIT	PE12 6GF	721	£ 236	£170,000	13/12/2019	Semi
				721	£ 236			
125	WILLOW COURT	COWBIT	PE12 6GF	861	£ 226	£195,000	26/07/2019	Semi
127	WILLOW COURT	COWBIT	PE12 6GF	861	£ 226	£195,000	16/08/2019	Semi
				861	£ 226			
60	WILLOW COURT	COWBIT	PE12 6BU	915	£ 219	£200,000	01/08/2019	Semi
93	WILLOW COURT	COWBIT	PE12 6GF	915	£ 221	£202,000	13/12/2019	Semi
117	WILLOW COURT	COWBIT	PE12 6GF	915	£ 221	£202,000	21/06/2019	Semi
119	WILLOW COURT	COWBIT	PE12 6GF	915	£ 221	£202,000	21/06/2019	Semi
				915	£ 220			
64	WILLOW COURT	COWBIT	PE12 6BU	926	£ 216	£200,000	14/06/2019	Semi
45	WILLOW COURT	COWBIT	PE12 6GF	926	£ 213	£197,000	15/11/2019	Semi
121	WILLOW COURT	COWBIT	PE12 6GF	926	£ 211	£195,000	05/07/2019	Semi
123	WILLOW COURT	COWBIT	PE12 6GF	926	£ 205	£190,000	21/06/2019	Semi
129	WILLOW COURT	COWBIT	PE12 6GF	926	£ 208	£193,000	16/08/2019	Semi
131	WILLOW COURT	COWBIT	PE12 6GF	926	£ 205	£190,000	16/08/2019	Semi
				926	£ 210			
70	WILLOW COURT	COWBIT	PE12 6BU	1,066	£ 204	£217,000	04/07/2019	Semi
				1,066	£ 204			

4.6. We have subsequently compared the above values to that applied by the applicant in their viability appraisal, as follows:

Type	Achieved at Mill View, Cowbit	Adopted by the applicant at the subject site
Detached circa 900 sq ft	£238 psf	£223 psf
Semi circa 900 sq ft	£220 psf	£223 psf

4.7. As shown above, the Mill View scheme at Cowbit provides different types of dwellings compared to what is proposed at the subject property, therefore it is difficult to draw a 'like for like' comparison.

4.8. In light of this, we have also considered sales achieved from new build housing in Whaplode, around 5 miles to the north of Moulton Chapel. As a location, Whaplode currently has a Zoopla average value of £204,446, which is below the current Moulton Chapel figure of £226,119. This suggests that Moulton Chapel would carry a slight premium over Whaplode. We have identified the following:

Address		Pcode	Sq ft	£ psf	Price	Date	Type
2 BIGGADIKE COURT	WHAPLODE	PE12 6FU	484	£ 260	£126,000	12/12/2019	Semi
8 WELCH CLOSE	WHAPLODE	PE12 6FZ	678	£ 221	£150,000	20/01/2020	Semi
1 WELCH CLOSE	WHAPLODE	PE12 6FZ	1,012	£ 217	£220,000	29/11/2019	Detached
349 HIGH ROAD	WHAPLODE	PE12 6TG	1,399	£ 225	£315,000	02/12/2019	Detached
7 TURNPIKE ROAD	WHAPLODE	PE12 6GE	2,045	£ 176	£360,000	20/12/2019	Detached

4.9. Evidence is therefore limited and again the dwelling types are different to that proposed at the subject site, which makes a 'like for like' comparison more difficult.

- 4.10. Finally, in June 2019 we previously appraised a development proposed for the north side of Roman Rd Moulton Chapel, for 85 dwellings in total. The values used in the viability modelling at that time can be summarised as follows (limited to dwelling types similar to that proposed at the subject site):

Type	North of Roman Road 85 dwellings (June 2019)	Adopted by the applicant at the subject site
Semi circa 900 sq ft	£214 psf	£223 psf
Detached circa 1,000 sq ft	£214 psf	£224 psf
Detached circa 1,300 sq ft	£184 psf	£220 psf (1.5 storey)
Det bung circa 1,000 sq ft	£209 psf	£286 psf
Semi bung circa 600 sq ft	£256 psf	£267 psf (735 sq ft)

- 4.11. Again, not all of the dwellings identified provide a precise 'like for like' comparison to the subject scheme. However, and notwithstanding this, the allowances adopted by the applicant do compare favourably to the figures used in the viability testing at the scheme to the north of Roman Rd.
- 4.12. Having considered all of the above we conclude that there is no compelling evidence to justify a departure from the applicant's adopted sales values. As such, we have adopted the same in our appraisal.
- 4.13. Furthermore, the applicant's adopted transfer values for the affordable housing is also considered to be at a reasonable level and the same has been applied to our appraisal.

Build costs

- 4.14. The applicant's average build cost equates to circa £105.50 per sq ft. In addition, further allowances have been made for detached garages, external works costs (equating to 15% of the build costs) plus a contingency (2.03% of the combined build /garage/ external works costs). A separate allowance has been made for abnormal costs. The applicant states that the costs adopted are based on "...published prices information from BCIS (although these are lower than the Company averages due to higher quality of build), 10 years of historic company data for site costs, active tenders and accepted quotes".
- 4.15. In seeking to determine whether the adopted build costs are reasonable or not we have had regard to various sources of evidence, including the Build Cost Information Service (BCIS) and other viability appraisals we are aware of across the region.
- 4.16. Please note, the BCIS rates include basic construction costs and preliminaries, but excludes externals, contingency and abnormals / infrastructure. To give the BCIS data some context we note that between January 2015 and Jan 2020 there were 138 separate housing schemes across the UK which were used for 'elemental' analysis in determining the various BCIS rates. Of this sample, the size of schemes ranged from 1 house to 109 houses, with an average of 18.96 houses per scheme submitted into the data. 68.84% of the sample comprised schemes consisting of 20 houses or less and only 6.52% of the sample (9 schemes) comprised 50 or more dwellings. In other words, the vast majority of the data used for analysis when determining the various BCIS rates was derived from small schemes implemented by either local or relatively small contractors. Furthermore, we understand that no volume house builder contributes to the database, therefore the efficiency savings that this type of builder is able to make with respect to both labour and material are not reflected in the figures.

4.17. On this basis, the BCIS rates can be regarded as being high compared to the costs incurred by regional and national 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. Instead, the lower quartile is considered to be appropriate here.

4.18. The relevant BCIS rates are as follows (adjusted depending on the number of storeys being provided):

	Lower quartile	Median
Single storey	£1,240 psm (£115.20 psf)	£1,412 psm (£131.17 psf)
2 storey	£1,098 psm (£102.00 psf)	£1,229 psm (£114.17 psf)
3 storey	£1,098 psm (£102.00 psf)	£1,289 psm (£119.75 psf)

- Single storey – Lower quartile £1,240 per sq m (£110.74 per sq ft)
- 2 storey – Lower quartile £1,098 per sq m (£98.01 per sq ft)
- 3 storey – Lower quartile £1,098 per sq m (£98.01 per sq ft)

4.19. If the above lower quartile rates are applied to the subject scheme the overall 'blended' construction cost equates to £103.00 per sq ft. This is therefore slightly below the average of £105.50 per sq ft used in the applicant's appraisal. However, if the median rate is applied this increases to £118.32 per sq ft, which is above the applicant's allowance.

- 4.20. Typically for a scheme of this scale and nature we would consider the lower quartile rates to be appropriate. However, the applicant has pointed to some enhanced specifications at the subject site (including chimney stacks and bay windows) as shown on the scheme plans. We accept that these elements would not normally be covered by the lower quartile BCIS costs, therefore some additional allowance is appropriate. We also accept that the values applied to the subject scheme are higher than agreed on a nearby site (to reflect these additional building features).
- 4.21. In light of this we conclude that the overall average rate of £105.50 per sq ft as put forward is reasonable given the nature of the scheme.
- 4.22. For externals, a standard cost allowance of 15% has been put forward, which we consider to be acceptable.
- 4.23. With respect to garage costs, the applicant figure of £546,000 (an average of just over £10,000 per garage, albeit dependent on the size and nature of each unit) is considered to be in line with expectations.
- 4.24. For a contingency, the applicant's allowance equates to just over 2% of the combined build costs. This is deemed to be reasonable.
- 4.25. As for abnormal costs, the applicant has allowed for the following:

Demolition / site clear up	- £80,000
Decontamination	- £25,000
Electric supply/sub-station	- £125,000
Foul main relocation	- £100,000
Rising main relocation	- £20,000
Offsite work	- £20,000
E/O externals	- £130,795
Piling foundations	- £269,700
Total	- £639,700

- 4.26. It is stressed that to some degree the impact of abnormal costs can be offset in the land price (at least when determining viability). The recent publication of the Planning Practice Guidance ('PPG') on viability makes it clear that abnormal costs must be factored into the assessment of land value (with the implication being the higher the abnormal costs the greater the downward pressure on land value).
- 4.27. In practical terms, it is not the case that if abnormal costs go up by £100,000 per acre the land value will always decrease by £100,000 per acre, as the land value still has to be at a sufficient level to incentivise a landowner to release the site for development. For example, if a site has an existing use value as an agricultural field at £10,000 per acre and, after abnormal costs are deducted, a residential scheme can only deliver a land value of £15,000 per acre then this would not represent a sufficient incentive for a landowner to release the site for development. There still has to be some sort of suitable premium above the existing use value. However, it is reasonable that the burden of the higher abnormal costs on a development should not fall solely on the Council through a reduction in their planning policies. The principle that the land value must bear the most significant proportion of any abnormal costs is a sound one.

- 4.28. In short, changes in abnormal costs are of course significant, however when assessing viability, they should be balanced against land value (which can serve to dampen the effect of abnormal costs on the overall viability outcome). On this basis, we have accepted the abnormal costs put forward by the applicants in their appraisal, however face allowance has also been reflected in the assessments of the benchmark land value (discussed in more detail below).

Professional fees

- 4.29. The professional fees adopted by the applicant equate to 6.55% of the combined build costs (excluding abnormal works costs).
- 4.30. This is considered to be slightly above our expectations (and other schemes we have appraised across the region). In our appraisal we have adjusted this to 6%.

S106 / Other Council Policy Requirements

- 4.31. The Council has confirmed that there is a health contribution requirement equivalent to £444 per dwelling. This equates to £25,752.
- 4.32. The Council's affordable housing policy (as detailed in the South East Lincolnshire Local Plan, as adopted 8th March 2019) requires 25% of the on-site housing to comprise affordable units. In addition, however, the S.106 agreement dated 24 September 2018 required the appropriate number of affordable homes (15 in total), to be split in accordance with an agreed scheme, which is as follows:
- 67% affordable for rent (10, comprising 4 x 1 bed semi; 4 x 2 bed semi; 2 x 3 bed detached)

- 33% intermediate housing for sale (5, comprising 4 x 3 bed semi; 1 x 3 bed detached)

4.33. We have adopted this mix in our appraisal testing.

Marketing / legal costs

4.34. The applicant has adopted marketing and sales costs equivalent to 2.5% of the sales revenue plus legal costs of sale of £750 per unit for the market value dwellings but nothing for the affordable units.

4.35. These allowances are considered to be reasonable and have been accepted in our appraisal.

4.36. We also note that in the South East Lincolnshire Viability Study from 2017 the allowance applied for marketing / disposal was equivalent to 3% of the construction costs.

4.37. In light of the above, the applicant's allowance is below expectations for the marketing and disposal costs. For consistency, we consider an increase to 2.5% on revenue to be appropriate here, plus £750 per dwelling to cover legal costs.

Finance

4.38. The applicant has allowed for a debit rate of 6%. This is acceptable, as is the arrangement fee allowance of £10,000.

- 4.39. To calculate the finance we have inputted our appraisal data into the ARGUS Development Appraisal Toolkit, which is an industry approved discounted cash flow model (appended to this report).

Developer's profit

- 4.40. The applicant's appraisal shows a 'blended' return equivalent to 17.34% of revenue, comprising 17.5% on the GDV of the market value dwellings, and 5-6%% on the cost of the affordable dwellings.
- 4.41. 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.
- 4.42. In our experience, and for a scheme of this size, 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 for market value dwellings. For affordable units, where the risks are reduced (as the dwellings are transferred in bulk to a pre-identified Registered Provider) we tend to see separate profit margins in the region of 6% on revenue.
- 4.43. The recent Planning Practice Guidance ('PPG') from July 2018 refers to a broad range of 15% to 20% on revenue (albeit within the context of area wide viability testing).
- 4.44. In 2 recent cases we have appraised in South Holland the developer profit agreed was equivalent to 17.5% on revenue for the market value units, plus 5% on revenue for the affordable dwellings.

- 4.45. We also note that in the South East Lincolnshire Viability Study from 2017 the allowance was equivalent to 17.5% on revenue for the market value units and 6% on revenue for the affordable.
- 4.46. Having considered all of the above, we consider it appropriate here to apply a developer profit equivalent to 17.5% on revenue for the market value dwellings and 5% on revenue for the affordable.

Benchmark Land Value

- 4.47. 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.
- 4.48. 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.

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

- 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.
- The EUV should disregard any hope value.
- Benchmark land value should reflect the implications of abnormal costs, site specific infrastructure costs and professional site fees.
- Benchmark land value should be informed by market evidence including current uses, costs and values wherever possible.
- 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.

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

4.50. 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.

4.51. In their assessment the applicant has adopted a land value of £750,000 (equivalent to £103,591 per gross acre).

4.52. To establish the benchmark land value it is appropriate to follow the guidance and base this primarily on the 'existing use value plus premium' method.

4.53. As an existing use value, we consider agricultural land value of £10,000 per acre to be appropriate for the undeveloped part of the site. Taking into account the level of abnormal costs, and comparisons to the 2 other schemes referred to above in paragraph 4.44, we consider a premium uplift of 9 times the existing use value to be appropriate (i.e. around £90,000 per gross acre).

4.54. In respect of the garage premises, we have reviewed the information contained in the current Rating List (2017), which shows the following entry:

- 25 Roman Road, Moulton Chapel PE12 0XQ – assessed as “Vehicle repair workshop and premises”, the rating assessment is based on a total floor area of 311.8 sq m (3,356 sq ft), to which a headline rate (notional rental) of £22.80 per sq m (£2.12 per sq ft) is applied, which, together with a spot figure for the petrol forecourt and shop, produces a rateable value of £7,000.

4.55. The rateable value is based on an assessment as at April 2015 (known as the antecedent date). allowing a small uplift in the rental value since this time we therefore consider a Market Rent of £9,000 per annum to be reasonable for the purposes of this assessment. Given the secondary nature of this property we are of the view that a 10% yield is reasonable here, which gives a capital value of £90,000 for this accommodation. In terms of the premium uplift, in this particular case we consider a 30% uplift to be a reasonable incentive for a hypothetical landowner to release the property for development. This therefore equates to (rounded) £120,000.

4.56. According to an online measuring tool, the garage premises as a total site area of around 0.3 acres. Deducting this from the wider site area therefore gives a residual area of 6.94 acres. As discussed above, we consider a benchmark land value equivalent to £90,000 per acre to be appropriate for the rest of the site. This totals £744,600.

4.57. In light of this, we consider the applicant’s proposed benchmark land value of £750,000 to be broadly in line with expectations and therefore we have accepted this in our appraisal.

5. Appraisal results and conclusions

- 5.1. We have run an appraisal for the scheme as proposed incorporating the various appraisal inputs detailed above. Our initial approach was to apply the full planning policy requirements, including a 25% onsite affordable housing provision, together with the health contribution of £25,752. This returns a residual land value below the benchmark land value and therefore can be regarded as being unviable.
- 5.2. On a 'trial and error' basis we have subsequently reduced the planning policy provisions to see at what point (if possible) the scheme returns a viable outcome (i.e. where residual land value is broadly in line with the benchmark land value of £750,000). Please see our attached appraisal. This shows that the scheme is able to support 3 affordable units in total (5.17%) plus a health contribution of £25,752. The affordable units comprise of 2 affordable rented dwellings and 1 shared ownership.
- 5.3. Having considered the above, we conclude that the scheme is unable to viably support the full affordable housing on site provision at 25% of the scheme, plus the health contribution of £25,752. Instead, our modelling shows that in order for the scheme to be delivered it is appropriate to reduce the affordable housing provision to 5.17% (together with the health contribution of £25,752).
- 5.4. In terms of the reasons why the policy provisions cannot be delivered, we have looked to compare the appraisal assumptions with the 2017 viability study to identify the differences:

Appraisal Input	2017 Viability Study for (Rates/Percentages Rural 30 dwellings)	Roman Road appraisal
Density	30 dwellings per Ha	24.79 dwellings per Ha
Average Value	£1,900 per sqm	£2,202 per sqm
Average Size	100 sqm	118 sqm
Build Cost	£911 per sqm	£1,216 per sqm
Externals	10% on build cost	15% on build cost
Contingency	3% on build cost	2.03% on build cost
Professional Fees	7% on build cost	6.00% on build cost
S106	Up to £5,000 per dwelling	£444 per dwelling
Sales/Marketing	3% on revenue	2.5% on revenue
Developer Profit	17.5% Market, 6% Afford	17.5% Market, 5% Afford
BLV (inc abnormals)	£535,000 per Ha	£484,811 per Ha

- 5.5. As shown above, there are various assumptions at the subject site which compare favourably to the 2017 viability study assumptions (e.g. professional fees, contingency, sales/marketing).
- 5.6. However, the reduced density of this scheme is having a negative impact on the viability of this scheme. As shown above, the 2017 viability study assumed a ratio of 30 dwellings per Ha, whereas the subject scheme reflects 24.79 dwelling per Ha. At the subject property this is a difference of 12 dwellings. In short, if the 2017 viability study density was applied to the subject scheme the total number of dwellings would be 70, which would significantly increase the ability of the scheme to deliver affordable housing.
- 5.7. Also, we note that the construction costs used in the 2017 viability study were equivalent to around 48% of the sales values. The construction costs at the subject scheme are higher, being around 55% of the sales values. This is also having a negative impact on the overall scheme viability.

- 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 timeframe then market conditions may have changed sufficiently for our conclusions on viability to be adjusted. Under this scenario we would strongly recommend the scheme is re-appraised.

Yours sincerely



David Newham MRICS
Director
CP Viability Ltd