



Independent Viability Experts

FAO Ms Lucy Buttery
Principal Planning Officer
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Sent by email only

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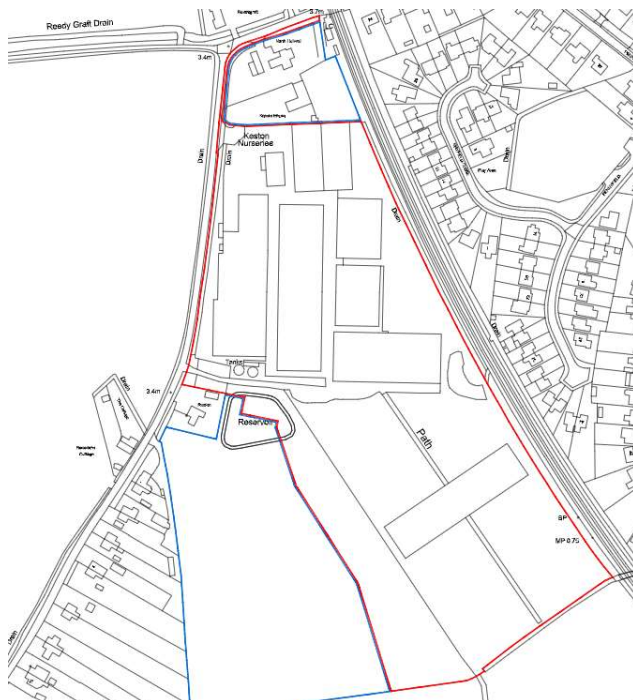
Date: 4th April 2022

Dear Ms Buttery

PROPERTY ADDRESS: Keston Nurseries Mill Green Road Pinchbeck Spalding Lincolnshire

INSTRUCTING BODY: South Holland District Council

APPLICANT: Keston Fields Ltd



Further to your instruction dated 17th December 2021, our initial draft dated 18th Jan 2022, the applicant's rebuttal dated 15th Feb 22 and our response dated 7th March we are pleased to provide our final report as follows.



1. Property Overview

- 1.1. The property is located on the south western edge of Pinchbeck a village located approximately 1.9 miles to the north of Spalding and circa 9 miles west of Holbeach. Main road access to the town is via Spalding Road (B1356) which runs north to south becoming Pinchbeck Road as it enters Spalding and connecting the village with the town centre. The A16 is located approx. 2 miles to the east providing direct access to Peterborough in the south and Boston in the north.
- 1.2. More specifically, the subject site is situated to the east and south of Mill Green Road with the railway line located to the east. The site is in an edge of settlement location around 0.5 of a mile from the natural centre of the village. To the north are two existing buildings, to the east the railway line and residential housing beyond that and the west Mill Green Road beyond which are open fields and. To the south the site also overlooks undeveloped agricultural land.
- 1.3. The site comprises the former Keston Horticultural Nursery, its greenhouses and various industrial style buildings. The site has an irregular shape. According to the Maxey Grounds ("MG") "Viability Assessment" dated 27th October 2021, the gross site area (including the approved permission extends to 5.45 Ha (13.47 acres).
- 1.4. In terms of the planning history, the property was granted outline planning consent in Feb 2018 (ref [H14-0355-17](#)) for "Proposed residential development (re-submission of H14-0942-16)". As part of the original consent, the applicant (at that time) entered into a S106 Agreement which required the following:

- | | |
|---|------------------------|
| - Onsite affordable housing | 33.30% |
| - CallConnect Bus contribution | £50,000 |
| - CallConnect Bus Maintenance and Improvement | £15,000 |
| - Education | Based on a set formula |
- 1.5. A Deed of Variation was signed on 25th March 2019, which reduced the affordable housing provision to 25% (in line with the Council’s overarching policy requirement following the adoption of the Local Plan).
- 1.6. Reserved matters (ref [H14-1162-18](#)) were approved on 29th March 2019.
- 1.7. The current planning application ([H14-1159-21](#)) is for:
- “Discharge of 106 Agreement relating to affordable housing, education & call connect bus contributions due to the financial viability of the development”.*
- 1.8. We understand that construction has begun on stage. We note a document on the planning file for H14-1159-21 which states “According to Building Control records as of the end of October 2021 this development is under construction with over 17 of the 100 plots onsite”.
- 1.9. We have been provided with the following schedule of accommodation from MG’s appraisal model:

Type	Description	Beds	No.	Sq m (each)	Total
A	Det Bung	3	6	118	708
B	Det Bung	3	20	130	2,600
C	Det bung	3	17	135	2,295
D	Semi	3	6	104	624
E	Detached	3	8	132	1,056
F	Detached	4	13	191	2,483
G	Detached	4	5	160	800
H	Quad	1	4	52	208
I	Semi	1	2	46	92
J	Semi	2	12	64	768
K	Semi	3	4	88	352
L	Terrace	3	1	85	85
L	End Terrace	3	2	85	170
Totals			100		12,241

1.10. The scheme includes 74 garages, 37 single and 37 double.

2. Scope of Assessment and General Assumptions

2.1 MG submitted their “Viability Assessment” dated 27th October 2021 in support of the applicant’s proposal to remove the planning policy contributions as set out in the S106 agreement. The policy compliant scheme for 100 dwellings would include 25% affordable dwellings and S106 capital contributions totalling £266,864. MG’s target policy compliant appraisal shows a scheme deficit of -£1.49million, leading to MG’s conclusion that “...the development is still not viable, unless the developer accepts a profit level of below 17.5%”

- 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 4th April 2022.
- 2.9 This assessment does not provide a critique of the proposed development design. Our role is limited to testing the viability of the proposals as detailed on the relevant planning applications.
- 2.10 We have relied on the information provided to us by the instructing body and the applicant and in particular information publicly available through the Council's planning portal website. We have not met either of the Instructing Body or the applicant.
- 2.11 In accordance with the RICS "Assessing viability in planning under the National Planning Policy Framework 2019 for England (Guidance Note 1st Edition, March 2021), our appraisal assumes a hypothetical landowner and a hypothetical developer. The intention of a viability assessment is therefore to identify the approach a 'typical' or 'average' developer / landowner would take to delivering the site for development. A viability assessment does not therefore seek to reflect the specific circumstances of any particular body (whether landowner or developer).
- 2.12 Our review also adheres to the guidance set out in the Planning Practice Guidance for viability, as published in July 2018 (and updated most recently in September 2019).

- 2.13 In undertaking our appraisals, we have utilised the ARGUS Development Appraisal Tool. This is an industry approved cash-flow model, designed specifically for development appraisals.
- 2.14 This report reflects the independent views of CP Viability, based on the research undertaken, the evidence identified and the experience of the analysing surveyor.

3. MG's appraisal – summary

- 3.1. MG have modelled two scenarios.

Scenario 1 – 100 units with 25% affordable housing and S106 contributions of £266,864, this produces a deficit of circa £1.49million.

Scenario 2 – 100 units with 0% affordable housing and 0 S106 contributions, this returns a deficit of circa £250,000 (so is still shown to be unviable).

- 3.2. For the purposes of this section, we have focused on MG's Scenario 1 (i.e. a policy compliant scheme). To summarise MG'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 "Plot construction". Any unusual costs are referred to as "Abnormals", and so on. This categorisation approach allows us to undertake a comparison between the subject scheme and other developments we have assessed.

Gross Development Value (Revenue)

Type	No.	Average £ per sq m	Total
Market Value Houses	75	£2,497	£26,387,000
Affordable housing (Affordable rent)	17	£1,399	£1,493,123
Affordable housing (SO)	8	£1,545	£939,634
Total	100		£28,819,757

Gross Development Cost (Outgoings)

Type	Detail	Total
2 storey housing	£1,240.45 per sq m (6,638sq m GIA)	£8,234,128
Bungalows	£1,350 per sq m (5,603 sq m GIA)	£7,564,050
Garages	37x single@£9k / 37x double @15k	£888,000
External works costs	15.35% of build costs	£2,561,000
Contingency	5.96% of build costs	£1,147,817
Professional fees	5.13% of build costs	£987,323
Abnormals	Various @ £82,701 per acre	£1,113,736
S106 contributions	Education/Health	£266,864
Sales & marketing	3% of GDV	£791,610
Sales legal fees (MV)	£750 per market dwelling	£56,250
Sales to RP legal fees	£320 per dwelling	£8,000
Finance costs	6.25% debit	£350,451
Arrangement fees etc	Inc. broker fee	£15,000
Benchmark land value	£111,384 per acre	£1,500,000
Acquisition costs	Legals, SDLT	£75,750
Developer's profit	17.50% on MV dwellings/5.58% on AH	£4,751,993
Total		£30,311,972

3.3. Based on the above appraisal assumptions, MG's appraisal returns a deficit of – (minus) £1.49million. This is an unviable outcome; MG conclude that the affordable housing and S106 contributions should be removed. However, even if the full planning policy costs are removed the developer would need to reduce their profit margin expectations downwards from 17.5% to make the scheme viable.

3.4. The Planning Practice Guidance on viability states the following:

Where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. Paragraph 007

Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then. Paragraph 008

3.5. When there is a Local Plan in place (as is the case for South Holland District Council through the South East Lincolnshire Local Plan) the PPG therefore requires an applicant to demonstrate what has changed since the plan was brought into place and also specifically to comment upon what is different between the site-specific circumstances of the scheme and what was used in the viability testing which informed the plan.

3.6. MG do specifically comment upon this in their report. It is noted that the main points affecting the viability position for the site in question are:

- The density of the scheme is lower than assumed in the Local Plan (which reflects the nature of the scheme which includes bungalows, which typically have larger plot sizes than 2 storey housing).
- Build costs have increased by circa 46% compared to those assumed in the Local Plan. However, sales values have only increased by around 30% compared to the figures used in the Local Plan.
- External / site specific infrastructure costs are significantly higher than the assumption in the Local Plan.

3.7. MG comment that these factors combined result in a different viability position when compared with the Local Plan and reassessment of the viability position is required for this development to be delivered.

3.8. We have subsequently reviewed the South East Lincolnshire Local Plan and plotted the assumptions used at the subject scheme against the assumptions used (for a similar scheme type) in the Local Plan testing:

Appraisal Input	2017 Viability Study (Rates/Percentages for 150 dwellings)	Keston Nurseries (based on 100 dwellings)
Density	35 dwellings per net Ha	Circa 22 dwellings per net Ha (assuming an 80% gross to net ratio)
Average Value	£1,900 per sq m	£2,497 per sqm
Average Size	100 sq m	122 sq m
Build Cost	£911 per sq m	£1,291 per sq m
Externals	10% on build cost	15.35% on build cost
Contingency	3% on build cost	5.96% on build cost
Professional Fees	7% on build cost	5.13% on build cost
S106	Up to £5,000 per dwelling	£2,669 per dwelling
Sales/Marketing	3% on revenue	3% on revenue
Developer Profit	17.5% Market, 6% Afford	17.5% Market, 5.58% Afford
BLV (inc abnormals)	£535,000 per net Ha	£599,481 per net Ha (assuming 80% gross to net ratio)

- 3.9. As shown above, there are a number of differences between the assumptions applied to MG's appraisal testing and that used in the South East Lincolnshire Plan viability.

4. CP Viability's appraisal

Gross Development Value (Revenue)

- 4.1. We have assessed the scheme mix as set out above in paragraph 1.9.
- 4.2. In their assessment, MG's average market values can be summarised as follows:
- | | | | |
|-----|-------------|----------|---|
| – A | 3b det bung | 118 sq m | £375,000-£380,000 (£3,178 - £3,220 psm) |
| – B | 3b det bung | 130 sq m | £385,000 (£2,962 psm) |
| – C | 3b det bung | 135 sq m | £385,000 (£2,852 psm) |
| – D | 3b semi | 104 sq m | £234,500 (£2,255 psm) |
| – E | 3b detached | 132 sq m | £265,000-£275,000 (£2,008 - £2,083 psm) |
| – F | 4b detached | 191 sq m | £350,000 (£1,832 psm) |
| – G | 4b detached | 160 sq m | £350,000 (£2,188 psm) |
- 4.3. In support of these values, MG state that "Phase 1 of the development is underway with some plots having sold, therefore, where appropriate, we have adopted the same values that have already been achieved on the site..."
- 4.4. We agree that values that have been achieved on site already reflect a good indication of value for the remainder of the scheme (albeit for similar type and sized dwellings).

- 4.5. By way of summary, the values stated to have been achieved (which are yet to be recorded on the Land Registry) are as follows:
- Type B 3 bed bungalow 130 sq m. 2 sales are shown at £385,000, 1 at £389,000 and 2 at £365,000. In their appraisal MG allow an average of £385,000. This is considered to be reasonable based on the values achieved and therefore has been accepted in our report.
 - Type D 3 bed semi 104 sq m. 1 sale at £220,000 and 1 sale at £234,500. In their appraisal, MG use the higher figure of £234,500. This is deemed to be reasonable and has been accepted in our report.
- 4.6. Having established a value for Type B, it is possible to therefore identify a value for Type C, which is similar albeit a slightly larger 3 bed detached bungalow of 135 sq m. In their appraisal, MG adopt the same value for Types B and C, being £385,000. However, further evidence has been provided which shows Type C has been achieving £360,000. In light of this we have applied a value of £360,000 for Type C.
- 4.7. Furthermore, we also consider it reasonable to use the values established for Types B and C to arrive at a suitable value for Type A (which is a smaller 3 bed detached bungalow of 118 sq m). In their assessment, GDS apply a value of £375,000 - £380,000. In the context of the values established for Types B and C, this is considered to be a reasonable allowance and has been accepted in our appraisal.
- 4.8. In summary, drawing on the values already achieved at the subject scheme, we have established market values for Types A, B, C and D.

- 4.9. For Types E, F and G (being 2 storey detached dwellings) no sales have been achieved onsite for similar dwelling types.
- 4.10. However, we do note that Type F is currently being marketed for sale at the subject scheme (i.e. Keston Fields) at an asking price of £459,000. This is significantly higher than the net value of £350,000 used in MG's appraisal. Likewise, Type G is also currently being marketed for sale at an asking price of £455,000. Again, this is significantly higher than the net value of £350,000 shown in MG's appraisal.
- 4.11. Whilst we would expect some level of discount / incentives to drive a sale for Types F and G, it appears unlikely that the developer would need to allow in excess of £100,000 to cover these allowances. Adopting what we consider to be a cautious approach, we have adopted an average net sales value of £400,000 for Type F and £390,000 for Type G.
- 4.12. Finally, for Type E this is a 3 bed detached dwelling of 132 sq m, to which MG have applied a value of £265,000 to £275,000. We note, however, in additional information provided that the applicant has set a target value of £335,000. In the context of this a value of £265,000 to £275,000 is considered to be too low. Taking a cautious approach, we have adopted a value of £320,000 for Type E.
- 4.13. In summary, we have adjusted the following values in our appraisal:
- Type C to £360,000
 - Type E to £320,000
 - Type F to £400,000
 - Type G to £390,000
- 4.14. The other values shown in our appraisal are in keeping with MG's allowances.

- 4.15. For the affordable rented units, latest average transfer value allowance equates to £1,399 per sq m. This is deemed to be reasonable and has been accepted in our appraisal.
- 4.16. For the shared ownership units, MG's average transfer value allowance equates to £1,545 per sq m. This is deemed to be reasonable and has been accepted in our appraisal.

Build costs

- 4.17. For their standard plot construction costs, MG refer to the Build Cost Information Service ("BCIS") database. This is a database regularly used in the construction industry, providing average build price rates for different types of accommodation in different locations.
- 4.18. MG apply what they refer to as "...the weighted average BCIS lower quartile figure", for the various different dwelling types (detached, semi, terrace and detached bungalows). BCIS rates exclude external works costs, garages, contingency and abnormal works costs and as such these need to be included elsewhere in the appraisal.
- 4.19. MG make an additional allowance for external works. What we consider to be 'standard' external works (road and sewers, landscaping / public open space and plot specific externals) equates to £2,561,000 (15.35% of their basic plot construction costs).

4.20. Further allowances are made for garages (£9,000 for attached / detached singles and £15,000 for doubles) and a contingency sum equivalent to 5.96% of the plot construction, externals and garages. Finally, abnormals / site specific infrastructure costs are included, totalling £1,113,736.

4.21. With regards to the date of the BCIS figures applied. We note that MG have used October 2021 for the whole of the scheme. However, as noted in para 1.8 above, the scheme has already commenced and as at October 21. However, the applicant has since confirmed that in some cases 40 – 75% of the dwelling had been built, however for the majority less than 25% had been constructed.

4.22. Having considered this, and adopting a cautious approach, we have subsequently applied an up to date build costs to the whole scheme (and not applied a figure from prior to Oct 21 for some of the dwellings).

Plot 17 Type B detached bungalow 130 sqm

4.23. In terms of the appropriate BCIS rate to apply we disagree with MG's approach to arriving at a base build costs figure for the following reasons:

- In our experience of having undertaken over 500 individual viability appraisals since incorporation in 2016, it is common practice to apply the general estate housing rate when considering larger scale developments (which we would class as being developments in excess of 10 units). MG's suggested approach is therefore contrary to the approach applied by other applicants / their advisors up and down the country.
- The Council's Local Plan viability testing used the general estate housing rates and not the individual dwelling type rates.

- Notwithstanding this, we have reviewed the sample used by the BCIS to establish the detached dwellings rate per sq m (which has recently increased to 22 from 21) and note the following:
 - Of the sample of 22 schemes analysed, only 5 were taken from the last 5 years. The majority of the data analysed (over 75%) are taken from schemes which were constructed between 5 and 15 years ago. This reduces the reliability of the data when considering construction costs in the current marketplace.
 - One of the sample is considerably in excess of the rest of the data, being £4,678 per sq m. This relates to the construction of 4 lodges at Feldon Valley Golf Club. This should not form part of the sample as it is anomalous. The issue is that because the sample is so small, the inclusion of this within the data 'skews' the overall average.
 - One of the sample relates to single detached dwellings (a single detached mews house in London and a detached dwelling in Cambridge). The costs associated with this type of development are higher than a larger scale scheme where there would be cost savings through bulk buying materials and labour. The inclusion of this in the sample also unfairly 'skews' the average higher than it should be.
 - More than one of the sample relates to detached bungalows (e.g. North Cray Road, Lord Street, Haddows Close etc). The costs associated with bungalows are higher than 2 storey dwellings, so again the inclusion of these figures in the sample 'skews' the average.

4.24. We therefore are of the view that the use of the detached dwelling rate per sq m is unreliable and overstated based on the small sample size and the fact that a number of the figures used in the sample for the analysis are not appropriate when considering 2 storey estate housing build costs. In line with the overwhelming majority of viability cases that we have assessed over a number of years, as well as the Council's own Local Plan viability testing approach, we remain of the view that the use of the general estate housing BCIS rate is appropriate when testing the viability of this type of scheme. We also consider it appropriate to separately allow for bungalows, as the sample size is good (being 244) and therefore can be considered to be reliable.

4.25. The rates relevant rates identified from the BCIS data can be summarised as follows:

- Bungalows to be built 3,383 sq m - £1,290 per sq m
- 2 storey to be built 6,430 sq m - £1,134 per sq m

4.26. Overall, the above equates to a build cost totalling £14,755,362 (which is an overall blended rate of £1,205 per sq m).

4.27. The allowances adopted for garages (£9,000 for single and £15,000 for doubles) are considered to be in keeping with other appraisals we have assessed in the region. As the BCIS rate excludes garages, we therefore agree that it is appropriate to allow for these costs separately.

4.28. With respect to the external works, based on our adjusted plot construction rate these equate to 16.37% of the plot construction / garage costs. We typically see external costs at circa 15% of the BCIS rates, therefore these costs are slightly above expectations although they are deemed to be within an acceptable tolerance and have been accepted in our appraisal.

4.29. With regards to contingency, MG's allowance is equivalent to 5.96% of their combined plot construction, garages and external costs. As set out above in para 3.8 the contingency allowances used in the Local Plan testing equated to 3%. By way of additional evidence, we have also reviewed other cases we have been involved with in South Holland, considering specifically the contingency allowances put forward by applicants in their own appraisals. During the last 2 years we have appraised 7 cases ranging from 77 to 150 dwellings. We note the contingency allowances as put forward by the applicants are as follows (5 out of the 7 were submitted by MG):

- Surfleet Aug 20	77 dwellings	1.99% contingency
- Holbeach Jul 21	81 dwellings	2.91% contingency
- Holbeach May 20	83 dwellings	3.10% contingency
- Holbeach Sep 21	104 dwellings	2.74% contingency
- Deeping St Nicholas Oct 20	120 dwellings	2.50% contingency
- Donington Feb 20	136 dwellings	3.61% contingency
- Weston Jan 21	150 dwellings	2.55% contingency

Sample average 2.77%

4.30. Having considered the above evidence, we conclude that MG's allowance is significantly above expectations. An adjustment to 3% is considered to be justified.

4.31. With respect to abnormals / site specific infrastructure costs, the following allowances are included:

Site prep / demolition	206,995
SUDS & storm attenuation	107,442
Junction improvements / pipework	322,000
Dewatering	65,000
Acoustic measuring	61,280
Foul pumping station & rising main	240,019
E/O foundations for housing	550,845
E/O foundations for garages	111,000

- 4.32. The above totals £1,664,581 (£381,785 per net Ha, assuming an 80% gross to net ratio).
- 4.33. It is stressed that the impact of abnormal / site specific infrastructure costs can be offset (at least partially) by reductions in the benchmark land value. The Planning Practice Guidance (PPG) publication on viability (published alongside the NPPF and recently updated in September 2019) states that benchmark land values should “reflect the implications of abnormal costs; site-specific infrastructure costs; and professional costs”. In other words, the higher the abnormals / infrastructure works, the lower the benchmark land value and vice versa. This is also discussed below under the ‘benchmark land value’ section.
- 4.34. In this respect, if at a later date savings were found in the abnormal costs or additional costs were identified this will not necessarily impact on the overall viability outcome. This is because the benchmark land value would also need to be adjusted, which would largely offset any changes in the abnormals.
- 4.35. Having considered the above, for the purposes of our review we have accepted the abnormal costs as put forward in MG’s appraisal. This is on the basis that the benchmark land value reflects the level of abnormal costs.

Professional fees

4.36. MG have included professional fees which are equivalent the equivalent of 5.42% of our adjusted standard build costs.

4.37. As set out above in para 3.8 the professional fees allowances used in the Local Plan testing equated to 7%. By way of additional evidence, we have also reviewed other cases we have been involved with in South Holland (the same as discussed above in para 4.32). We note the professional fees allowances as put forward by the applicants are as follows:

- Surfleet Aug 20	77 dwellings	4.78% professional fee
- Holbeach Jul 21	81 dwellings	4.83% professional fee
- Holbeach May 20	83 dwellings	4.99% professional fee
- Holbeach Sep 21	104 dwellings	5.62% professional fee
- Deeping St Nicholas Oct 20	120 dwellings	7.23% professional fee
- Donington Feb 20	136 dwellings	7.53% professional fee
- Weston Jan 21	150 dwellings	6.00% professional fee

Sample average 5.85%

4.38. Having considered the above evidence, we conclude that MG's allowance is reasonable and broadly in keeping with expectations.

S106 / Other Council Policy Requirements

4.39. The Council's policy requires a 25% on-site affordable housing requirement (25 units). MG adopt the following split:

	Affordable Rent	Shared Ownership
1 bed	6	0
2 bed	8	4
3 bed	3	4
Total	17	8

4.40. In addition, MG allow for the following S106 contributions:

- Transport £65,000
- Education £201,864

Marketing / legal costs

4.41. For sales and marketing costs, MG have allowed 3% on the market value revenue. For sales legal costs, an additional allowance of £750 per unit has been applied to the market value units, plus £8,000 for the affordable dwellings.

4.42. As set out above in para 3.8 the marketing / disposal fees allowance used in the Local Plan testing equated to 3%. By way of additional evidence, we have also reviewed other cases we have been involved with in South Holland (the same as discussed above in para 4.32). We note the professional fees allowances as put forward by the applicants are as follows:

- Surfleet Aug 20 77 dwellings 2.50% marketing / disposal
- Holbeach Jul 21 81 dwellings 3.00% marketing / disposal
- Holbeach May 20 83 dwellings 2.50% marketing / disposal
- Holbeach Sep 21 104 dwellings 3.00% marketing / disposal

- Deeping St Nicholas Oct 20 120 dwellings 3.03% marketing / disposal
- Donington Feb 20 136 dwellings 3.00% marketing / disposal
- Weston Jan 21 150 dwellings 2.00% marketing / disposal

Sample average 2.72%

4.43. Having considered the above evidence, we conclude that MG's allowance is reasonable and broadly in keeping with expectations.

Finance

4.44. MG have allowed for these costs at a debit rate of 6.25%, with an additional £15,000 for arrangement fees and other costs. This is considered to be reasonable. We have subsequently adopted the same in our appraisal.

4.45. 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

4.46. MG adopt a profit equivalent to 17.5% on revenue for the market value units and circa 5.52% for the affordable.

4.47. 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.

4.48. 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).

4.49. 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.

4.50. As set out above in para 3.8 the developer profit allowance used in the Local Plan testing equated to 17.5% for the market value units and 6% for the affordable. By way of additional evidence, we have also reviewed other cases we have been involved with in South Holland (the same as discussed above in para 4.32). We note the developer profits as put forward by the applicants are as follows:

- Surfleet Aug 20	77 dwellings	17.50% MV / 4.30% AH
- Holbeach Jul 21	81 dwellings	17.50% MV / 4.90% AH
- Holbeach May 20	83 dwellings	17.50% MV / 4.60% AH
- Holbeach Sep 21	104 dwellings	17.50% MV / 6.40% AH
- Deeping St Nicholas Oct 20	120 dwellings	16.67% 'blended'
- Donington Feb 20	136 dwellings	17.50% MV / 5.04% AH
- Weston Jan 21	150 dwellings	17.50% MV / 5.68% AH

4.51. Having considered this and the above, we conclude that an allowance of 17.5% is acceptable for the market value dwellings, together with 5.58% for the affordable.

Benchmark land value

- 4.52. 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.
- 4.53. 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.
- 4.54. 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:

- 4.54.1. 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.
- 4.54.2. The EUV should disregard any hope value.
- 4.54.3. Benchmark land value should reflect the implications of abnormal costs, site specific infrastructure costs and professional site fees.
- 4.54.4. Benchmark land value should be informed by market evidence including current uses, costs and values wherever possible.
- 4.54.5. 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.
- 4.54.6. Under no circumstances will the price paid for land be a relevant justification for failing to accord with the relevant policies in the plan.

- 4.54.7. 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.
- 4.55. 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.
- 4.56. In their report, MG calculate the existing use value as being based on agricultural land value (which they suggest is around £10,000 per acre or £25,000 per gross hectare). This is considered to be broadly reasonable and is consistent with what has been agreed on other sites elsewhere.
- 4.57. MG arrive at a benchmark land value of £1,500,000. This is circa 11 times the existing use value (when assessed on a gross area basis).
- 4.58. As part of our analysis, we have looked to compare this to the rate used in the Local Plan testing, which is £535,000 per net Ha (when the abnormal costs are included). However, the applicant has only provided a gross area for the site therefore a direct 'like for like' comparison cannot be made, without adjustment to the site area.

- 4.59. For the purposes of our analysis, we have assumed a circa 80% gross to net ratio, giving a net area of 4.36 Ha. This appears broadly consistent with MG's own considerations of the net area, as their report refers to a scheme density of 22 dwellings per Ha (pg 15 of their report) which we note must be based on an assumed net site area (as on a gross basis 100 dwellings equates to 18 dwellings per Ha).
- 4.60. Assuming a net area of 4.36 Ha, MG's allowance for the benchmark land value equates to £344,037 per net Ha. The abnormals put forward equate to £381,785 per net Ha. Combined this equates to £725,821 per net Ha, compared to £535,000 per net Ha as used in the Local Plan testing. On this basis, MG's allowance appears to be above expectations, when taken within the context of the net site area and abnormal costs.
- 4.61. For the purposes of our review, we have reduced the benchmark land value to £1,300,000. This equates to £679,950 per net Ha (when combined with the abnormals) which, if anything, could be argued to be overstated.

5. Appraisal results and conclusions

- 5.1. We have run an initial appraisal for the scheme as proposed incorporating the various appraisal inputs detailed above and applying the full planning policy requirements, including a 25% onsite affordable housing provision plus £266,864 in S106 contributions. This generates a residual land value of £1,623,359. As this is comfortably above our benchmark land value of £1,300,000 the scheme is deemed to be viable with the full planning policies applied. The surplus above the minimum viability position is £323,359.
- 5.2. For illustrative purposes, the key differences between our base appraisal and the MG assessment are as follows:

Input	MG appraisal	CPV appraisal
Market Values average	£2,497 psm	£2,575 psm
Plot Construction	£15,798,178	£14,755,362
Contingency	£1,147,817	£546,131
Benchmark land value	£1,500,000	£1,300,000

5.3. In summary, we disagree with the applicant's position and instead conclude that the scheme is viable with the full planning policies applied.

5.4. Please note, for clarity our modelling assumes the following mix of affordable dwellings:

	Affordable Rent	Shared Ownership
1 bed	6	-
2 bed	8	4
3 bed	3	4
Total	17	8

5.5. Notwithstanding the technical viability outcome, we would also comment that the Council is under no obligation to change the S106 agreement even if there was a viability argument (which is not the case here). In the Planning Practice Guidance: Viability para 009 under the section "How should viability be reviewed during the lifetime of a project?" it states the following:

“...realisation of risk does not itself necessitate further viability assessment or trigger a review mechanism. Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities’ ability to seek compliance with relevant policies over the lifetime of the project.”

- 5.6. This suggests that if, during the construction / disposal process of a scheme, a developer perceives the financial performance of the development to be below initial expectations, then that is not a reasonable justification for re-assessing viability. Developments carry risks, which are known to developers from the outset and, as stated, realisation of risk does not mean that the developer should be compensated to protect their profit through a loss of planning policies.
- 5.7. Our conclusions remain valid for 6 months beyond the date of this report. If the implementation of the scheme is delayed beyond this then market conditions may have changed sufficiently for our conclusions on viability to be adjusted. Under this scenario we would strongly recommend the scheme is re-appraised.

Yours sincerely



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Director
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