Independent Viability Experts

FAO Ms Maxine Simmons
South Holland District Council

Sent by email only

David Newham MRICS
Director
CP Viability Ltd

Our ref: DN-0987
Your ref: H16-0136-23
Date: 12th April 2024

Dear Ms Simmons,

PROPERTY ADDRESS: **Land at Monks House Lane Spalding Lincolnshire PE11 3LH**
INSTRUCTING BODY: **South Holland District Council**
APPLICANT: **Seagate Homes**



Further to your instruction dated 20th March 2024, we are pleased to report as follows.

1. Property Overview

1.1. The property is located on the western edge of Spalding, a market town approximately 16 miles north of Peterborough, and around 10 miles north east of Market Deeping. Main road access to the town is via the B1173 (Cowbit Road) which runs centrally in a north to south direction. The A16, which provides a direct route to Market Deeping in the south and Boston in the north east, skirts the eastern edge of the town and can be accessed at three points, all less than 2.2 miles from the subject site.

1.2. More specifically, the site is situated to the west of Monks House Lane. Residential housing is located to the north on Derwent Way and to the south of Meadway and The Chantry. To the east further residential housing is located on Wygate Road. A cluster of mature tress is located to the north western end of the site adjacent the access point. Almost opposite (on the other side of Monks House Lane) there is Nimmerdor Nurseries, which itself is surrounded by undeveloped agricultural land.

1.3. The site is an elongated rectangular shape and is generally flat. It is comprised of a former horticultural nursery. A dwellinghouse is located to the south western corner adjacent to the access point. Glass greenhouses are located to the remaining western portion of the site and are surrounded by concrete areas of car parking. The remaining land to the east is scrub/grassland.

1.4. According to the Maxey Grounds ("MG") "Viability Assessment" dated 26th February 2024, the site area extends to 2.30 Ha (5.68 acres) on a gross basis.

1.5. The current application (ref **H16-0136-23**) is for the following:

> *"Proposed residential development of 70 dwellings, including demolition of existing glass houses."*

1.6. We have been provided with the following schedule of accommodation:

Type	Beds	No.	Sq m (each)	Sq m (total)
S153 - Terrace	1	2	50	100
S102 – Quarter House	1	4	52	208
S213 – Semi/terrace	2	28	69	1,932
S318 - Semi	3	8	78	624
S303 - Semi	3	8	83	664
S319 – Semi	3	8	84	672
S301 – Detached	3	2	87	174
S306 – Detached	3	1	87	87
S312 – Detached	3	3	89	267
S430 – Semi (2.5 storey)	4	6	124.50	747
Totals		**70**		**5,475**

1.7. There appears to be a (minor) error in MG's appraisal as the market value dwelling type S303 has been inputted in the appraisal as being 76 sq m, rather than 83 sq m. This means that the overall area as shown in MG's appraisal is 5,447 sq m, not 5,475 sq m as shown in the schedule of accommodation. We have corrected this in our appraisal.

2. Scope of Assessment and General Assumptions

2.1. MG submitted their "Viability Assessment" dated 26th February 2024. MG conclude that "…the site is clearly not viable for development on the basis of the provision of affordable housing and S106 cash contributions at the level proposed…"

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 12th April 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 26th February 2024. This considers 3 scenarios:

Scenario 1. 25% affordable housing and S106 contributions of £1,056,493 returning a residual land value of (minus)-£2,913,217. As this is below the (separately assessed) benchmark land value of £632,500 the scheme is deemed to be unviable.

Scenario 2. 10% affordable housing and nil S106 contributions. This returns a residual land value of (minus) -£1,274,775.

Scenario 3. 0% affordable housing and nil S106 contributions. This returns a residual land value of (minus) -£1,032,195.

3.2. To summarise this 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.	Av £psm	Total
Market Value	53	£2,641	£11,420,000
Affordable rent	12	£1,543	£1,157,220
Shared Ownership	3	£1,712	£402,325
First Homes	2		£259,000
Total	**70**		**£13,238,545**

Gross Development Cost (Outgoings)

Type	Detail	Total
Plot Costs	£1,341 per sq m	£7,304,427
Garages	7@ £13,500 each	£94,500
Air Source heat pumps	70@ £5,000 each	£350,000
EV Charging	70@ £500 each	£35,000
External works costs	25.72% of build costs	£2,002,224
Contingency	2.72% of build costs	£265,934
Professional fees	6.03% of build costs	£591,012
Abnormals	various	£592,125
S106 contributions	£15,093 per unit	£1,056,493
Marketing	3.07% of GDV	£350,370
MV / RP legals	55 @ £750 each	£46,250
Finance costs	7.50% Debit	£650,398
Misc	Legals, surveyor, SDLT	£57,450
Benchmark Land Value		£632,500
Developer's profit	17.50% on MV/ 5.33% on AH	£2,123,078
Total		**£16,151,761**

3.2 Based on the above appraisal assumptions, MG's appraisal generates a deficit of (minus) -£2,913,216. This is therefore deemed to be unviable with the full planning policies applied.

4. CP Viability's appraisal

Gross Development Value (Revenue)

4.1. We have assessed the scheme mix as set out above in paragraph 1.6.

4.2. MG's adopted market values are as follows:

1b terrace / quarter	50-52 sqm	£135,000-£145,000 (£2,596-£2,900 per sq m)
2b semi/terrace	69 sqm	£185,000 (£2,681 per sqm)
3b semi	78-84 sqm	£215,000-£225,000 (£2,530-£2,756 per sqm)
3b detached	87-89 sqm	£245,000-£260,000 (£2,809-£2,931 per sqm)
4b semi	125 sqm	£270,000-£280,000 (£2,169-£2,249 per sqm)

4.3. To arrive at the above, in their report MG state the following:

- "The gross development value (GDV) is calculated using market evidence from newbuild residential sites in and around Spalding. As such, values of between £2,167 per sq m and £2,921 per sq m have been adopted…".

- On Pg 15 they appear to focus on new build developments at Meadow Way, Spalding and Jubilee Way, Gosberton (with the latter around 5.5 miles north of the subject site).

- However, as Appendix III to their report there is as schedule of comparable evidence provided, which refers to various schemes including developments at Gosberton, Quadring, Donington, Kirton, Sutterton and Spalding.

4.4. For the purposes of our review, firstly we have considered Land Registry data in respect of new build houses for the postcode area 'PE11' (within which the subject site is located) since January 2022. We note the following:

Broadgate Homes – St John's Circus

	Address		Pcode	Sq m	£ psm	Price	Date	Type
8	FAULKNER DRIVE	SPALDING	PE11 1YJ	82	£ 2,500	£204,995	29/11/2022	Det
10	FAULKNER DRIVE	SPALDING	PE11 1YJ	82	£ 2,500	£204,995	18/11/2022	Det
				82	**£ 2,500**			
4	FAULKNER DRIVE	SPALDING	PE11 1YJ	72	£ 2,403	£172,995	16/09/2022	Semi
6	FAULKNER DRIVE	SPALDING	PE11 1YJ	72	£ 2,417	£173,995	06/10/2022	Semi
				72	**£ 2,410**			
7	CIRCUS APPROACH	SPALDING	PE11 1WN	133	£ 1,966	£261,500	12/08/2022	Semi
9	CIRCUS APPROACH	SPALDING	PE11 1WN	133	£ 1,966	£261,500	11/08/2022	Semi
23	CIRCUS APPROACH	SPALDING	PE11 1WN	133	£ 1,966	£261,500	21/10/2022	Semi
				133	**£ 1,966**			

- Circa 0.8 miles to the south east of the subject site.
- According to the UK House Price Index there has been little change in the average values in South Holland since Q3/Q4 2022.
- However, there has been house price inflation since this time. In this regard, we note that there is The Auchterarder currently available for sale, which is a 4 bed 3 storey semi-detached dwelling (size unknown) at a current asking price is £279,995. The Kenmore (3 bed 3 storey semi of 113 sq m) is currently available at £231,995 to £239,995 (£2,053 to £2,124 per sq m).
- At the subject site for a 4 bed semi (124.50 sq m) MG allow (£270,000 to £280,000, which is equivalent to £2,169 to £2,249 per sq m).

- There is also The Glencarse, a 3 bed semi of 85 sq m. Asking price is £210,995 (£2,482 per sq m). At the subject site, for a 3 bed semi of 84 sq m MG allow £225,000 (£2,679 per sq m).
- There is also The Kinfauns, a 2 bed semi of 72 sq m. Asking price is £184,995 (£2,569 per sq m). At the subject site, for a 2 bed semi of 69 sq m MG allow £185,000 (£2,681 per sq m).

4.5. The values adopted by MG in their appraisal therefore compare well with the current asking prices at Broadgate Homes St John's Circus scheme.

4.6. In addition, we also note Bellway Homes' Pinchbeck Fields scheme just over 1.5 miles to the north east of the subject site. The current house types are available:

- **The Tailor:** 3 bed semi 75 sq m asking price £229,950 (£3,066 per sq m). Assuming a 5% discount for sales incentives this would equate to £218,453 (£2,801 per sq m). At the subject scheme, for a 3 bed semi of 78 sq m, MG allow £215,000 (£2,756 per sq m). Again, this is broadly similar (once incentives are allowed for, which is deemed to be necessary in the current market).
- **The Thespian:** 3 bed semi 86 sq m asking price £264,950 (£3,081 per sq m). Assuming a 5% discount for sales incentives this would equate to £251,703 (£2,996 per sq m). At the subject scheme, for a 3 bed semi of 84 sq m, MG allow £225,000 (£2,679 per sq m). This is therefore significantly below the Bellway scheme, even once incentives are allowed for.

4.7. We also note new build availability at Gosberton, however we have placed less weight on this evidence as this location is further away than the above examples (being over 5 miles north of the subject site) and furthermore is its own separate location. We consider the evidence identified in Spalding and Pinchbeck to carry more weight.

4.8. Having considered all of the above, generally we find MG's adopted net sales values to be reasonable (it could be argued that some of the house type values allowed are slightly below expectations, but equally it could be argued that some of the figures adopted are above expectations). Overall, we therefore find MG's adopted net sales values to be appropriate for the viability testing and have adopted the same.

4.9. In terms of the affordable dwellings, for the Affordable Rented units we have assumed 50% of market value, increased to 67.50% of market value for the Intermediate. First Homes are assumed to be 70% of Market Value.

Build costs

4.10. In order to allow a comparison with build cost databases and also other schemes we have appraised we have looked to categorise the costs put forward in MG's appraisal. By way of summary, we have identified the following:

- Plot costs	£7,304,427 (£1,341 per sq m)
- Garages	£94,500
- Air Source Heat Pumps	£350,000 (£5,000 per unit)
- EV Charging	£35,000 (£500 per unit)
- Externals	£2,002,224 (25.72% of above)
- Contingency	£265,934 (2.72% of above)
- Abnormals	£592,125 (£104,187 per acre)

4.11. 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.

4.12. MG choose to adopt the "…mid point on BCIS guidance for estate housing between lower quartile and median figures, which we consider reflects the savings available for this scale of development for a regional builder". This is stated as being £1,341 per sq m.

4.13. We agree that it is appropriate to sense check the figures provided by referring to the BCIS. Please note, the BCIS data excludes externals, garages, Part L changes (at least at the current time), Electric Vehicle Charging points, contingency, abnormals and professional fees and therefore these costs need to allowed for in addition within the appraisal.

4.14. 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.

4.15. 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).

4.16. We have reviewed the latest BCIS rates, rebased for South Holland:

BCIS®

£/M2 STUDY

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

Last updated: 06-Apr-2024 07:23

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)	1,489	774	1,262	1,430	1,631	5,121	1397	
Single storey (15)	1,691	1,001	1,426	1,624	1,853	5,121	233	
2-storey (15)	1,433	774	1,237	1,391	1,570	3,114	1083	

4.17. The current 2 storey lower quartile rate (deemed appropriate in this case as the majority of the dwellings being delivered are 2 storey) is therefore £1,237 per sq m. We have applied this to our appraisal.

4.18. MG's allowances for the garages are deemed to be reasonable and have been accepted in our appraisal.

4.19. MG also make additional allowances for Air Source Heat Pumps (£5,000 per dwelling) and Electric Vehicle Charging (£500 per unit).

4.20. We agree to the Electric Vehicle Charging allowance. In terms of the Air Source Heat Pump we are concerned about 'double counting'. The current BCIS rates already allow for the cost of installing a heating system. In this respect, if the cost of an Air Source Heat Pump is deemed to be £5,000 per unit and this is simply added onto the BCIS rate, then the costs of installing a traditional gas boiler heating system and an Air Source Heat Pump are being allowed for, which is not accepted. However, on other schemes across the wider region we have agreed to net additional costs to be included to take into account the July 2023 changes to Part L and F of the Building Regulations (which are costs not currently reflected through the BCIS rate). On other schemes, we have agreed to £4,000 per unit to cover these additional costs. For the subject site, we suggest removing the Air Source heat pump allowance of £5,000 per unit and instead replacing this with a £4,000 per unit to cover the Part L and F changes (which allows a consistent approach to other schemes in the region).

4.21. In terms of the 'standard' external costs, MG's allowance of £2,002,224 is equivalent to 27.88% of our adjusted plot costs and garages, Part L & F and EV charging or £352,300 per acre. This includes the following:

Externals	
Site prep	190,000
Roads	1,360,000
Services	100,000
Landscaping	50,000
Drainage (SUDS)	92,224
Plot specific external works	210,000

4.22. 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 (identifying a ranging from 50 to 100 dwellings), appraised since Jan 2020. 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:

Local Authority	Date of appraisal	Gross (acres)	Units	Externals (% of build cost)	Exertnals per acre
Breckland Council	Mar-20	15.34	85	18.65%	£ 158,648
East Lindsey	Apr-20	8.52	86	21.24%	£ 245,625
South Holland DC	May-20	7.24	55	12.70%	£ 146,349
South Holland DC	May-20	7.56	83	16.41%	£ 169,939
Boston BC	Jun-20	5.02	68	14.41%	£ 188,267
South Holland DC	Aug-20	7.17	77	19.72%	£ 209,062
South Holland DC	Sep-20	5.68	60	19.96%	£ 214,958
East Lindsey	Mar-21	8.52	89	15.00%	£ 149,527
South Holland DC	Jul-21	9.07	81	19.32%	£ 178,783
South Holland DC	Oct-21	13.47	100	15.35%	£ 180,088
South Holland DC	Jan-22	8.43	100	22.37%	£ 331,084
South Holland DC	Sep-22	4.15	52	18.05%	£ 279,260
South Holland DC	Nov-23	7.41	68	16.48%	£ 260,826
				17.67%	**£ 208,647**

4.23. As shown above, in this context MG's external cost allowance of over 25% of the corresponding plots costs / over £350,000 per acre appears significantly higher than what we are seeing on other schemes across the wider region.

4.24. Furthermore, the most recent case in South Holland from Nov-23 was the Crossroads Nursery site in Quadring for 68 dwellings (planning ref H15-0022-24). MG undertook a viability review of that scheme and adopted external costs equivalent to £260,647 per acre (which we accepted in our review). In light of this most recent example in South Holland, for a similar sized scheme, we consider it reasonable to expect a similar rate per acre for the subject site. In light of this, we have adjusted the external cost allowance to £1.5million in our appraisal, which is equivalent to £263,931 per acre (or 20.89% of our adjusted plot costs).

4.25. 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). 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.

4.26. We are of the view that 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.

4.27. As for what we consider reflect site specific infrastructure / abnormals, MG's appraisal includes the following (totalling £592,125 or £104,187 per acre):

Enhanced foundations	490,000
Dewatering	52,125
Archaeology	50,000

4.28. We would stress that we are not quantity surveyors and therefore we are unable to interrogate the abnormal costs in any great detail.

4.29. However, to some degree the impact of abnormal costs can be offset in the land price (at least when determining viability). 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. 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.

4.30. 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).

4.31. Having considered these factors, for the purposes of our base viability modelling we have applied MG's abnormal costs, albeit on the basis that the remaining sum is balanced with the appropriate level of the benchmark land value, as per the requirements of the Planning Practice Guidance.

Professional fees

4.32. MG have allowed for professional fees totalling £591,012 (equivalent to 6.81% of our adjusted build costs).

4.33. By way of evidence, we have again reviewed the other viability appraisals referred to above in para 4.22. Please note, 'professional fees' are deemed to incorporate NHBC warranties and EPC costs. The percentages are based on the plot costs, externals / infrastructure works, garages, renewables and electric car charging points, but not abnormals (just for the purposes of the analysis). We note:

Local Authority	Date of appraisal	Units	Prof fees (applied to build)
Breckland Council	Mar-20	85	8.19%
East Lindsey	Apr-20	86	8.00%
South Holland DC	May-20	55	7.57%
South Holland DC	May-20	83	4.99%
Boston BC	Jun-20	68	5.25%
South Holland DC	Aug-20	77	4.78%
South Holland DC	Sep-20	60	6.53%
East Lindsey	Mar-21	89	6.00%
South Holland DC	Jul-21	81	4.83%
South Holland DC	Oct-21	100	5.13%
South Holland DC	Jan-22	100	4.73%
South Holland DC	Sep-22	52	5.11%
South Holland DC	Nov-23	68	6.63%
			5.98%

4.34. Across the sample, the average professional fee allowance equates to 5.98%. MG's allowance is therefore deemed to be above expectations. We have applied 6% to our modelling.

S106 / Other Council Policy Requirements

4.35. We understand there is a policy requirement for 25% onsite affordable housing. This is to be split between affordable rented, shared ownership and First Homes.

4.36. In terms of S106 contributions MG allow the following (totalling £1,056,493 or £15,093 per unit):

Education	420,333
Social infrastructure	28,000
Transport (off site highway works)	561,960
Health	46,200

4.37. However, the Council has confirmed that the policy requirements should be as follows:

Education	£420,333
Play equipment in the vicinity	£3,500
Transport (off site highway works)	£561,960
Health	£46,200

4.38. The above totals £1,031,993. For the purposes of our review, we have adopted the same in our appraisal. If, at a later date, the above is subject to a significant adjustment this could impact on our overall conclusions.

Marketing / legal costs

4.39. To cover sales and marketing, MG have allowed the equivalent of 3.07% of the revenue for the market value dwellings in their appraisal. A further allowance equivalent to circa £750 per unit is adopted for the sales legal fees for the market values dwellings and £5,000 for the affordable.

4.40. In order to identify an appropriate allowance, we have again reviewed the sites discussed above in para 4.22 and note the following:

Local Authority	Date of appraisal	Units	Marketing
Breckland Council	Mar-20	85	2.33%
East Lindsey	Apr-20	86	1.00%
South Holland DC	May-20	55	1.50%
South Holland DC	May-20	83	2.50%
Boston BC	Jun-20	68	2.50%
South Holland DC	Aug-20	77	2.50%
South Holland DC	Sep-20	60	3.00%
East Lindsey	Mar-21	89	3.00%
South Holland DC	Jul-21	81	3.00%
South Holland DC	Oct-21	100	3.00%
South Holland DC	Jan-22	100	3.00%
South Holland DC	Sep-22	52	3.00%
South Holland DC	Nov-23	68	3.00%
			2.56%

4.41. Please note, in the most recent South Holland case (Crossroads Nursery, Quadring) we adopted 2.5% on revenue.

4.42. For the subject site, in light of the above and also the approach adopted on the most recent case in South Holland, we consider it appropriate to adopt 2.5% on revenue, plus the legal costs allowed for by MG.

Finance

4.43. We consider a debit interest rate of 8% to be appropriate for the viability testing, plus arrangement fees / exit fees totalling £30,000.

4.44. 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

4.45. MG adopt a profit equivalent to 17.5% on revenue for the market value units and 5.08% for the affordable.

4.46. 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.

4.47. 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 PPG viability guidance (albeit within the context of plan viability testing).

4.48. 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.

4.49. MG's allowance is considered to be consistent with other schemes we have appraised across the district and also the Local Plan testing assumptions. On this basis, we have accepted 17.5% on revenue for the market value dwellings, however we have increased the affordable rate to 6% as this is consistent with the approach recently adopted at the Crossroads Nursery site in Quadring (as referred to above).

Benchmark land value

4.50. 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.

4.51. 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.

4.52. 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:

4.52.1. 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.

4.52.2. The EUV should disregard any hope value.

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

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

4.52.5. 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.

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

4.52.7. 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.

4.53. 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.

4.54. In their report, MG look to follow the guidance and first calculate the existing use value, before applying a premium uplift to arrive at the benchmark land value.

4.55. In their report, MG calculate the Benchmark Land Value as follows:

- Existing Use Value: agricultural land value £25,000 per gross Ha
- Premium uplift 11 times the existing use value (see comments below in para 4.56)

4.56. The existing use value allowance adopted by MG is considered to be reasonable and has been accepted in our appraisal.

4.57. Whilst the guidance is silent on the level of premium uplift, there are now planning appeal decisions which suggest a broad range of 10 – 15 times the existing use value, dependent on factors such as location, scale, level of abnormal costs etc. Taking into account the abnormal costs associated with the scheme and compared to other schemes we have appraised we find MG's allowance to be reasonable and have adopted the same in our appraisal.

4.58. In summary, we agree that a benchmark land value of £632,500 is reasonable for the purposes of the viability testing.

5. Appraisal results and conclusions

5.1. We have initially applied the full Council planning policies; however this results in a financial loss.

5.2. On a 'trial and error' basis we have subsequently reduced the planning policy requirements until the scheme reaches a viable position (if possible). Please see our attached appraisal. With nil affordable housing and a reduced S106 payment of £225,000, the scheme generates a residual land value of £634,176. As this is above the benchmark land value of £632,500 the scheme is therefore deemed to be viable, but only on the basis of nil affordable housing and a reduced S106 payment of £225,000.

5.3. Alternatively, if the Council favours onsite affordable housing instead of S106 payments, if the S106 contribution is set to nil, the scheme would be able to viably support 2/3 onsite affordable units (dependent on the tenure mix required by the Council).

5.4. Please note that this is despite differences between the respective appraisals. For illustrative purposes, the key differences between our base appraisal and MG's assessment are as follows:

Input	MG appraisal	CPV appraisal
Plot costs	£7,304,427	£6,772,575
ASHP / Part L & F	£350,000	£280,000
Externals	£2,002,224	£1,500,000
Professional fees	£591,012	£520,925
Marketing / disposal	£350,370	£359,625

5.5. As per the mandatory requirement of the RICS we have also undertaken sensitivity testing, which can be summarised below. This considers the impact on developer profit in the event that sales values and plot costs increase and decrease by 2.5% increments:

	Sales: Rate /m²				
Construction: Rate /m²	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
-5.000%	17.50% (£465,013)	17.50% (£715,226)	17.50% (£965,439)	17.50% (£1,215,652)	17.50% (£1,465,865)
-2.500%	17.50% (£299,382)	17.50% (£549,594)	17.50% (£799,807)	17.50% (£1,050,020)	17.50% (£1,300,233)
0.000%	17.50% (£133,750)	17.50% (£383,963)	17.50% (£634,176)	17.50% (£884,389)	17.50% (£1,134,602)
+2.500%	17.50% £32,136	17.50% (£218,330)	17.50% (£468,544)	17.50% (£718,757)	17.50% (£968,970)
+5.000%	17.50% £199,093	17.50% (£52,700)	17.50% (£302,913)	17.50% (£553,126)	17.50% (£803,339)

5.6. By way of explanation, if construction costs were to reduce by 5% and sales values remain the same scheme the residual land value would increase to £965,439 and therefore there would be an additional surplus available for further planning policies.

5.7. In conclusion, we agree with the applicant that the scheme cannot currently support the full planning policy requirements. On viability grounds there is therefore a legitimate argument for reducing the planning policy requirements. However, and contrary to the applicant's position, we find that the scheme can provide a (reduced) S106 payment of £225,000.

5.8. Furthermore, if the Council agrees to reduce the financial S106 contributions then in keeping with the requirements of the viability guidance we would recommend that a 'clawback' or overage provision is factored in. This would be with a view to retesting viability at a later point as and when dwellings are being sold within the scheme. If, at that point, viability had improved the Council would then have a mechanism for capturing some / all of its lost polices. We can provide advice on this separately if required.

5.9. 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.