



Financial Viability Appraisal

Address:	7 Elvetham Road, Fleet, Hampshire, GU51 4QL
LPA:	HART DC
Planning reference (if any)	N/A
Client:	PMPS2 Ltd
QC Checked:	TF 25-02-21



Contents

Executive Summary	3
Introduction	5
S106 Management	7
Planning Policy	8
National Guidance	10
Viability	13
Spreadsheet Inputs	14
Benchmark Value	27
HCEAT Spreadsheet Conclusions	30
Conclusions	31
Sensitivity Matrix	32

Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at 7 Elvetham Road, Fleet, Hampshire, GU51 4QL, utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019) and National Planning Policy Guidance on Viability (NPGV 2019).

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

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

GDV	£3,145,000.00
Costs exc land and profit	£2,088,230.16
Finance	£161,139.47
BLV	£700,000.00
RLV	£266,630.37
RLV-BLV	(£433,369.63)
Target profit	20.00%
Actual profit	6.22%

Target developer return includes a risk-adjusted rate for market residential (20%). Sensitivity analysis demonstrates this is the minimum return necessary to offset a high-risk environment. This is broadly policy and precedent compliant.

Benchmark Land Value (BLV) is assessed via the EUV+ method in line with national policy. No premium has been added to the EUV in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the resulting actual return to the developer following all costs including land value detracted from gross development value would be significantly below target return. Therefore, the development cannot viably provide additional s106 contributions.

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

Introduction

S106 Management is instructed by PMPS2 Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that should be expected from proposed development at 7 Elvetham Road, Fleet, Hampshire, GU51 4QL.

Hart District Council seeks an Affordable Housing contribution in accordance with new policy H2 of their Local Plan (March 2020).

The site currently accommodates a former Care Home; a large, detached property which extends to 325m². The development comprises the demolition of the existing building, and the erection of a three-storey block, providing 12 high quality, self-contained flats. In total the development will provide 733.35m² of residential accommodation.

Location Plan



S106 Management

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

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating with LPAs, **S106 Management** has often been at the forefront of new statutory procedures, making one of the first Commons De-registration Applications, and one of the first S106BA viability review applications. The company is now one of the most effective viability consultancies in the UK, combining expertise from all corners of the industry.

S106 Management have worked with clients on more than 1,000 developments, facilitating over 20,000 homes across the UK. Our viability reports have been successfully used at pre-application discussions with Planning Officers and Affordable Housing Officers, supporting planning applications, written appeals, and planning appeal hearings.

Planning Policy

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

Therefore, our starting point is policy H2 of the new Hart Local Plan:

Policy H2 Affordable Housing

On major developments (i.e developments where 10 or more homes will be provided, or the site has an area of 0.5 hectares or more) the Council will require 40% of the new homes to be affordable housing, to be provided in accordance with the following criteria:

This policy suggests that developments of 10 or more homes should provide 40% onsite Affordable Housing. The proposed scheme is for 12 units; thus, 4.8 dwellings.

The purpose of this FVA is to determine whether such a contribution is financially viable.

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

Further guidance is provided by the 'Hart District Council Whole Plan and CIL Viability Study' was produced by Adams Integra in December 2016 (hereafter referred to as the CIL Study) and detail from that document is applied where possible to corroborate the assumptions set out later in this report.

We also turn to 'Hart's Affordable Housing Informal Development Guidance' (February 2019) (hereafter known as the AHG) for more recent advice, and to add validity to this viability study.

PPG Viability para 008 states:

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

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

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

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

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

National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF, which replaced the previous advice in PPS3.

Paragraph 57 of the NPPF is of relevance:

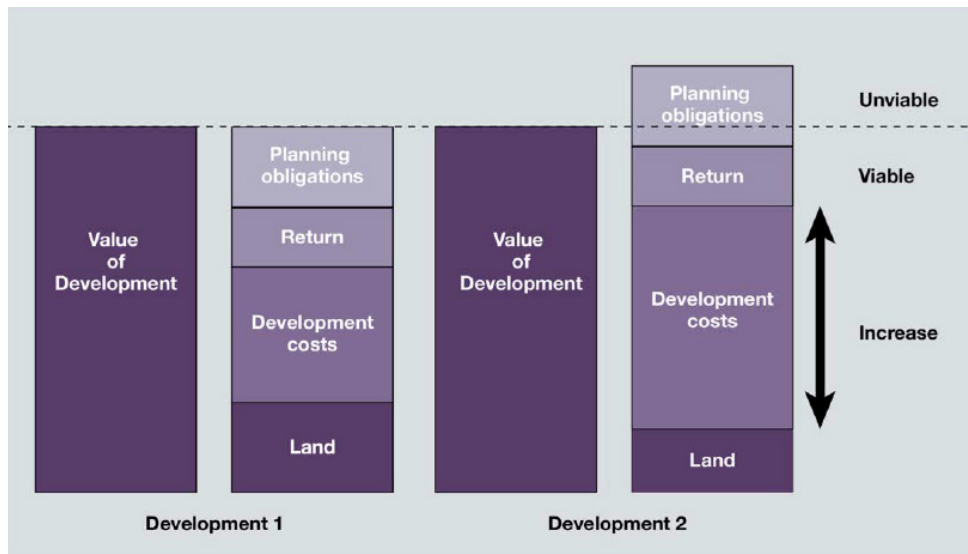
57. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

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

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

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

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



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

The concept of viability is well expressed by the NPGV, in particular para 12 which sets out the costs that should be included in any viability statement, and paras 13-17 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

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

Vacant Building Credit

The 2018 NPPF establishes Vacant Building Credit (VBC) in Para. 63:

63. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount

We consider that the Property has the benefit of a Vacant Building Credit, as follows:

Existing vacant floor area:	325m²
Proposed floor area:	733.5m²

The existing vacant floor space is equivalent to 44.3% of the proposed development; thus the maximum amount of Affordable Housing that could be provided, irrespective of the financial viability addressed in this report, is 2.1 units.

Viability

The relevance of viability is accepted in policy H2 of the new Hart Local Plan (March 2020) which states:

Where it is robustly justified and it is clearly demonstrated that the provision of affordable housing on site is impractical, the Council may accept off-site provision, or a financial contribution of equivalent value in lieu of on-site provision.

Only when fully justified, will the Council grant planning permission for schemes that fail to provide 40% affordable housing, or fail criteria a) to g) above. Any such proposals must be supported by evidence in the form of an open book viability assessment, demonstrating why the target cannot be met. In such cases the Council will commission an independent expert review of the viability assessment, for which the applicant will bear the cost. The Council will then negotiate with the applicant to secure the optimum quantity and mix of affordable housing that is viable and meets the identified housing need.

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

There are several proprietary spreadsheets in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT), developed by GVA Grimley in partnership with the Housing Corporation (now HCA); it is one of the Toolkits commonly used when considering development viability.

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

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

Spreadsheet Inputs

Proposed Development (input sheet 1)

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

Unit	Area m2	Type
1	82.80	2-bed semi
2	82.80	2-bed semi
3	113.90	3-bed terrace
4	113.90	3-bed terrace
5	113.90	3-bed terrace
6	113.90	3-bed terrace
7	113.90	3-bed terrace
8	113.90	3-bed detached
9	82.80	2-bed semi
10	82.80	2-bed semi
11	82.80	2-bed semi
12	82.80	2-bed semi
Total area	733.35	

Affordable Housing Values (input sheet 2)

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

Open Market Housing Values (input sheet 2)

The Zoopla data for the GU51 Postcode is set out below:

Property type	Avg. current value	Avg. £ per sq ft.	Avg. no beds	Avg. £ paid (last 12m)
Detached	£749,423	£393	4.1	£674,363
Semi-detached	£470,981	£380	3.1	£431,163
Terraced	£384,047	£388	2.7	£363,431
Flats	£261,508	£333	1.9	£204,176

The Zoopla data suggests that flats in Fleet might expect to achieve in the region of £3,583.08/m² based on an average 1.9 no of beds. However, the impact of the Covid-19 pandemic on homeowner preferences is not fully reflected in this data which is reported with a lag behind the current market.

Transactional data

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

Sold flats within 1/4 mile - last 2 years					
Address	Type	Sale Date	Area (m ²)	£/m ²	Price
27 Bramshott Place, Fleet, Hampshire GU51 4QF	2-bedroom top-floor flat in purpose-built block	26.06.2020	64	£3,671.88	£235,000
9, Lakeside Court, Old Cove Road, Fleet, Hampshire GU51 2RZ	Ground-floor flat	15.06.2020	57	£4,385.96	£250,000
17, Lakeside Court, Old Cove Road, Fleet, Hampshire GU51 2RZ	Top-floor flat	18.05.2020	56	£4,589.29	£257,000

Address	Type	Sale Date	Area (m2)	£/m2	Price
28, Lakeside Court, Old Cove Road, Fleet, Hampshire GU51 2RZ	Top-floor flat	30.04.2020	50	£4,300.00	£215,000
28 Cranbrook Court, Fleet, Hampshire GU51 4PY	2-bedroom top-floor flat, parking, communal gardens & garage in block	21.02.2020	88.4	£3,071.27	£271,500
25 Bramshott Place, Fleet, Hampshire GU51 4QF	Mid-floor flat in purpose-built development, allocated parking	01.10.2019	63	£3,968.25	£250,000
7 Bramshott Place, Fleet, Hampshire GU51 4QF	2-bedroom flat in purpose-built development, allocated parking	01.08.2019	64	£3,417.97	£218,750
10, Douglas Court, Fleet Road, Fleet, Hampshire GU51 4QQ	Top-floor flat	19.07.2019	60	£4,166.67	£250,000
17 Cranbrook Court, Fleet, Hampshire GU51 4QA	3-bedroom maisonette in need of modernisation, parking, communal garden & garage in block	28.05.2019	92	£2,934.78	£270,000
			Avg. £/m2	£3,730.23	

The average achieved price extrapolated from Rightmove is higher than the average suggested by Zoopla, due to the reasons noted above.

There is also evidence of the commonly seen 'quantum' inverse correlation between unit area and £/m2 value, meaning we would expect the smaller units to achieve higher £/m2 values than the larger.

We have also studied properties which are currently on the market within 1/4 mile of the subject site:

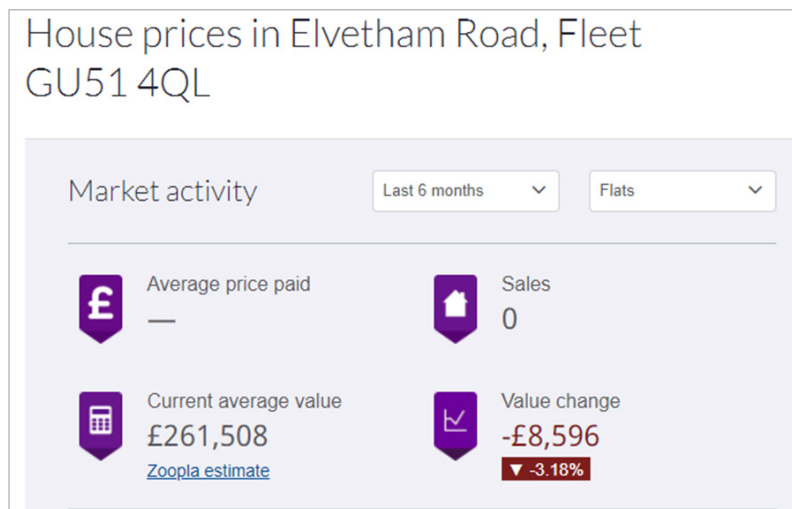
<i>Flats for sale + 1/4 mile</i>					
Address	Type	Sale Date	Area m2	£/m2	Price
Douglas Court, Fleet Road, Fleet	2-bedroom flat in purpose-built development, allocated parking	For Sale	60	£4,000.00	£240,000
Lakeside Court, Old Cove Road, Fleet	2-bedroom first-floor flat, allocated parking	For Sale	56.5	£3,893.81	£220,000
Waterside Court, Fleet	2-bedroom contemporary flat, allocated parking, communal garden	Guide Price	48.7	£4,620.12	£225,000
Waterside Court, Fleet, GU51	2-bedroom refurbished flat, allocated parking, communal grounds	For Sale	50	£4,500.00	£225,000
Minley Grove, Minley Road, Fleet, GU51	1-bedroom flat in purpose-built block, allocated parking	For Sale	38	£5,261.84	£199,950
Bramshott Place, Fleet, Hampshire, GU51	2-bedroom flat	For Sale	57	£3,947.37	£225,000
Bramshott Place, Fleet, GU51	2-bedroom ground-floor flat	Sold STC	65	£3,384.62	£220,000
Cranbrook Court, Fleet, GU51	3-bedroom ground-floor maisonette in need of part modernisation, garage in block, communal garden	Guide Price	93	£3,064.52	£285,000
Bramshott Place, Fleet, GU51	2-bedroom modern penthouse apartment, Juliet balcony, allocated parking	Sold STC	63.8	£3,605.02	£230,000
			Avg. £/m2	£3,890.88	

Furthermore, we have looked at new-build flats currently for sale; however, the search had to be extended to 1+ miles due to constrained supply; therefore, for the reasons mentioned above, the £/m2 are skewed compared to the more localised values.

New build flats for sale + 1 mile					
Address	Type	Sale Date	Area m2	£/m2	Price
Fleet Mill, Minley Road, Fleet	2-bedroom high specification flat in new apartment block development, parking	For Sale	61	£4,754.10	£290,000
Minley Road, Fleet, Hampshire, GU51	2-bedroom penthouse apartment in a brand-new luxury homes development, landscaped communal gardens	For Sale	72.4	£4,557.32	£329,950
Minley Road, Fleet, Hampshire, GU51	2-bedroom first-floor apartment in brand new luxury homes development, landscaped communal gardens	For Sale	75.4	£4,641.25	£349,950
Fleet Mill, Minley Road, Fleet	1-bedroom flat in new apartment block development, not yet complete	For Sale	46	£5,108.70	£235,000
Fleet Mill, Minley Road, Fleet	1-bedroom flat in new apartment block development, not yet complete	For Sale	43	£5,232.56	£225,000
Fleet Mill, Minley Road, Fleet	2-bedroom high specification flat in new apartment block development, parking	For Sale	63	£4,285.71	£270,000
Minley Road, Fleet	3-bedroom luxury penthouse apartment, private roof terrace, parking & communal gardens	For Sale	190	£4,289.47	£815,000
Fairway Heights	2-bedroom apartment in new luxury gated development	Prices From	771	£4,279.51	£329,950
Barley Way, Fleet	1-bedroom high specification new apartment	For Sale	51	£4,558.82	£232,500
Avg. £/m2				£4,532.85	

Fleet Mill, Minley Road, Fleet (New build) - A high specification development, has similar characteristics to the proposed and has onsite off-road parking.

Further, considering the Zoopla data for average price achieved for flats in the N16 8HR area a negative trend is apparent over the last 6 months.



This aligns with agents' reports of a negative impact of the pandemic upon values for flatted units, particularly those with limited private outdoor amenity as with the proposed development.

Taking the above research into account, and based on the proposed scheme's characteristics, we have valued the smallest flats optimistically at £260,000, adjusting the values of the larger units to follow the inverse correlation discussed previously.

Unit	Area m2	Type	£/m2 value	Price
1	60.97	GF	£4,264.39	£260,000
2	60.77	GF	£4,278.43	£260,000
3	60.63	GF	£4,288.31	£260,000
4	62.23	GF	£4,258.40	£265,000
5	60.83	GF	£4,274.21	£260,000
6	61.35	FF	£4,319.48	£265,000
7	60.73	FF	£4,281.24	£260,000
8	60.53	FF	£4,295.39	£260,000
9	60.71	FF	£4,282.66	£260,000
10	61.37	FF	£4,318.07	£265,000
11	61.67	SF	£4,297.07	£265,000
12	61.56	SF	£4,304.74	£265,000
Total area	733.35		£4,288.53	£3,145,000

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

For the sake of clarity, we have run with the average £/m2 value of £4,288.53/m2 to produce a GDV of £3,145,000.

The capital value of the Freehold Ground Rents from the project is included at zero for the purposes of this viability appraisal because legislation is proposed in the next parliamentary session to limit annual rents to a peppercorn, and national and local government are currently encouraging this. See MHCLG announcement 07/01/2021 <https://www.gov.uk/government/news/government-reforms-make-it-easier-and-cheaper-for-leaseholders-to-buy-their-homes>.

Taking the above research into account, and based on the proposed scheme's characteristics, we have valued the smallest unit optimistically at £190,000 (£2,294.69/m²), adjusting the values of the larger units to follow the inverse correlation discussed previously.

Five major national housebuilders (Barratt, Bellway, Countryside, Tailor Wimpey, and Berkeley) announced in December 2020 they are abolishing ground rents on new flatted development. As such, to remain competitive, any future development is likely to need to limit ground rent to a peppercorn at maximum.

Further, the terms of government programmes such as Help to Buy and the Homebuilders Fund now preclude the charging of significant ground rents.

Timing (input sheet 2)

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

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

The 6-month period before commencement of build has not been included in our calculations.

Construction Costs (input sheet 2)

We refer to the BCIS database for average build costs rebased to Q1 2021 and the Hart area:

Results
 > Rebased to 1Q 2021 (328; forecast) and Hart (111; sample 16) Edit

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims. ?
 Last updated: 13-Feb-2021 00:41

Maximum age of results: Default period ▼

Building function (Maximum age of projects)	Mean	Lowest	£/m ² gross internal floor area				Sample
			Lower quartiles	Median	Upper quartiles	Highest	
New build							
816. Flats (apartments)							
Generally (15)	1,649	818	1,370	1,575	1,862	5,674	886
1-2 storey (15)	1,567	966	1,331	1,494	1,733	2,856	209
3-5 storey (15)	1,623	818	1,364	1,560	1,845	3,449	577
6 storey or above (15)	1,984	1,212	1,616	1,855	2,143	5,674	97

It should be noted that BCIS costs do not currently reflect the considerable impact of Covid-19 on productivity, prelims, and market conditions. As such RICS (July 2020) advise making adjustments to BCIS averages, suggesting costs will have increased due to social distancing, lockdown delays and material price increases.

Taking the above into consideration, along with the anticipated high spec finish of the flats, we adopt the mean quartile costs of £1,623/m² for new-build 3-5 storey buildings.

The net area of the flats (733.35m²) represents 78% of the gross area (944m²), with the additional space allowing for all communal areas and commercial space; the HCEAT Spreadsheet has been run with a corresponding correction factor.

The HCEAT has been run with a corresponding figure.

The BCIS data only allows for the costs of creating the envelope of the proposed dwellings, all external work is addressed subsequently in our analysis.

Non-BCIS build costs

BCIS average costs cover only the cost of the envelope of the building. As such we have further considered non-BCIS costs as below:

Work required	Quantity	Cost per unit	Total cost
Demolition	1	£35,000.00	£35,000.00
Incoming services	12	£5,000.00	£60,000.00
NHBC or similar	12	£1,083.00	£12,996.00
Bin stores	12	£500.00	£6,000.00
Cycle stores	12	£700.00	£8,400.00
Topsoil and levelling	12	£200.00	£2,400.00
Planting / turfing	12	£500.00	£6,000.00
Brick paving to driveways etc	12	£2,000.00	£24,000.00
Paving slabs for patios / paths	12	£300.00	£3,600.00
Timber fencing	12	£750.00	£9,000.00
Drainage connection to main road	12	£1,250.00	£15,000.00
Total			£182,396.00

The HCEAT has been run with the corresponding input.

Fees (input sheet 2)

10% for fees is the default value of the HCEAT Spreadsheet and the commonly accepted industry standard allowance. This is confirmed as an appropriate assumption by the Hart whole plan viability study.

Contingency (input sheet 2)

5% for contingencies is the default value of the HCEAT Spreadsheet and is the commonly accepted industry standard allowance. This is confirmed as an appropriate assumption by the Hart whole plan viability study.

Section 106 Payments (input sheet 2)

Hart District Council have yet to adopt a CIL charging schedule. Therefore, no allowance has been made in our calculations. We are unaware of any other S106 contributions at this stage. We are informed by the client that an SPA contribution is sought by the council, although as yet no figure has been produced. This will need to be confirmed by the client and the LPA.

This is subject to confirmation by the charging authority.

Site Acquisition Costs (input sheet 2)

The value of the site, as explained subsequently in our report, is £700,000; therefore, we have allowed £30,000 in acquisition costs, which includes £25,000 In SDLT.

Finance Costs (input sheet 2)

Typically, banks are prepared to lend only the building cost (£1.5m) of this type of development; their arrangement fee will be 2% and the spreadsheet carries an input of £30,000.

While base rates are at a historic low level, cost of funding expressed as a percentage above LIBOR is at historically high figures. Further, given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. Therefore, an interest figure of 7% (£132,452) is used in the spreadsheet.

Marketing Costs (input sheet 2)

We have adopted a marketing cost of 3% and legal fees of £1,000 per unit. This aligns with the assumptions of the Hart viability study.

Developer Profit (input sheet 2)

The NPGV contains the following advice at paragraph 18:

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

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

As previously noted, Paragraph 008 of the NPGV provides a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties. The Hart District Whole Plan Viability Study, produced by Adams Integra in December 2016, which, at Para. 11.3 identifies 20% gross development value as an appropriate assumption for market housing. This aligns with national policy and precedent.

We have further considered the risk profile of the development and developer in the below table:

	Risk level
Developer size / ability to mitigate risk (smaller = higher risk)	High
Development size / multi-phase (larger = higher risk)	Low
Number of storeys (taller = higher risk)	Low
Macroeconomic environment (unemployment, inflation, outside risk factors such as Covid lockdowns)	High
Sales value reduction risk (current trends and predictions)	High
Delay to start risk (e.g. from lockdowns, planning delay etc)	High
Finance availability risk (tighter lender criteria = higher risk)	High
Build cost increase risk (based on TPI all-in index and materials cost reporting)	High

Taking into account the risk profile of the development we have adopted the assumption adopted in the CIL Viability Assessment as appropriate (20%). This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The HCEAT appraisal has been run accordingly.

Benchmark Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV). Paragraph 15 requires that the EUV of the site should be identified:

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

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

In this instance we have not adopted the EUV approach.

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

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

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

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

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

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

We have sought advice from Mr John Carter (RICS Commercial Valuer):

'I have been asked to carry out a valuation of a premises at 7 Elvetham Road, Fleet, Hants, GU51 4QL

The premises comprise a detached house previously operating as a care home extending to some 3,500 ft2 in total. The accommodation comprises living room, kitchen, dining room, conservatory, office, 4 x en-suite bedrooms on ground floor together with 5 bedrooms on the first-floor (3 en-suite). A summer house is located in a separate building.

The property has a C2 residential institution planning status and was, until its closure, operated as a care home run by a non-profit making charity. I am advised the premises closed some time ago because of the lack of funds to make the operation viable, notwithstanding its charity status.

We turn to an Alternative Use to assess its value.

The property sits in a road which comprises, in the main, high-quality detached residential houses, and for the purposes of this particular valuation, I believe it is not unreasonable to consider a refurbishment of the existing property to convert it back into a single dwelling house. The conversion would be in keeping with the other houses in the road, and bring it back to its original use.

The average stats for a detached house in this particular location is based on £407 per ft², which following refurbishment, would produce valuation well in excess of £1 million.

More significantly, I've have spoken at length to a representative from Bridges and Co. (Fleet estate agents who sell many properties of this quality/type in the area) who happens to know the property well, having undertaken an inspection of it sometime ago. His view is that on refurbishment, the premises would sell for a figure of between £800,000 and £900,000.

By way of a useful comparable, a sale was concluded recently of similar premises at 43 Elverson Road (5x bedrooms, 2x bathrooms, 3x receptions) at a sum of £950,000. Hence, my view is that a value of £850,000 would be achieved in this case.

Although refurbishment would be necessary to bring the property up to a standard in-line with comparables in the road, the fact remains that most of the bedrooms do have en-suite facilities. In my view, an appropriate cost of conversion would be at a sum of £150,000. Furthermore, it is likely that a sale would be made to an owner occupier, who may be able to further reduce the overall cost.

Having regard to the above circumstances my Alternative Use Value for the premises is at the sum of £700,000.'

We adopt this as our BLV.

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

HCEAT Spreadsheet Conclusions (spreadsheet summary)

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

Sales	£3,145,000.00
<i>Less Costs</i>	
Construction Costs (Resi)	£1,532,020.92
Commercial Costs (Build & Fees)	£0.00
Other Site Costs	£449,859.24
Marketing	£106,350.00
Finance Costs	£161,139.47
Developer Return	£629,000.00
Residual Site Value	£266,630.37
Benchmark Land Value	£700,000.00
Result	(£433,369.63)

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site as stated above (**£700,000**), is deducted from the Residual Value calculated by the HCEAT spreadsheet. If the result is negative, as it is in this case (**-£433,369.63**), the development cannot viably provide a contribution towards Affordable Housing.

Conclusion

The following table has been compiled using data from the HCEAT spreadsheet to reveal the profit that the developers will earn from this project:

Spreadsheet Residual Value	£266,630.37
Plus Target Developer Return	£629,000.00
Less Benchmark Value	£700,000.00
Actual Profit	£195,630.37
 Percentage actual profit	 6.22%

This presents a return of 6.22% which is clearly significantly lower than the 20% target identified previously.

Any contribution towards Affordable Housing would further reduce this level.

This report demonstrates that the scheme can be considered policy compliant without the provision of any Affordable Homes or S106 contributions towards Affordable Housing.

Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important given current material valuation uncertainty resulting from the Covid-19 pandemic and Brexit. As advised by RICS build costs, and in particular materials costs, have already been subject to considerable fluctuation which is not reflected in the current BCIS average data. Further, following the end of current fiscal stimulus such as the stamp duty holiday in September 2021 the negative trend already identified in recent flatted sales values due to changing homeowner preferences may be further compounded.

Sensitivity testing conclusions are included below.

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

Developer profit %	Sales Values					
		-10%	-5%	0%	5%	10%
Build Costs	-10%	1.09%	6.09%	11.09%	16.09%	21.09%
	-5%	-1.34%	3.66%	8.66%	13.66%	18.66%
	0%	-3.78%	1.22%	6.22%	11.22%	16.22%
	5%	-6.22%	-1.22%	3.78%	8.78%	13.78%
	10%	-8.65%	-3.65%	1.35%	6.35%	11.35%

This demonstrates that the maximum profit likely to be achieved is below the 20% target identified in all scenarios, with no supra profit likely, unless sales values increase by circa 10%.

Given the previously noted macroeconomic environment, this appears highly unlikely. Based on the distribution of values, this is a high-risk development and therefore a minimum 20% target developer profit is fully justified.