PATHFINDER
DEVELOPMENT CONSULTANTS

FINANCIAL VIABILITY ASSESSMENT.

At

Land at Garden House Lane, Rickinghall

for

C&H Arnold.

10th June 2022

FINANCIAL VIABILITY ASSESMENT.
Landat Garden House Lane, Rickinghall.
EXECUTIVE SUMMARY:

A Financial Viability Assessment (FVA) has been carried out on a proposed development of 10 homes on the above site.

We have considered the viability of the proposed scheme considering firstly that a commuted sum to allow the off-site provision of affordable housing (3.5 homes) is allowed for.

We have considered the value of the proposed development and subtracted the total costs in bringing the scheme forward (including construction, fees, and finance). We have also subtracted what we consider to be a suitable developers profit adjusted for the risks the scheme presents. This leaves a Residual Land Value as shown below:

Gross Development Value	£	8,208,722
Less Gross Development Costs	£	6,650,461
Less a suitable developer’s profit	£	1,436,526
Residual Land Value	£	121,735

We have compared the residual land value to the Benchmark Land Value we consider to be appropriate. Planning guidance refers to this as *“the minimum return at which it is considered a reasonable landowner would be willing to sell...”* We consider this to be £396,000 for the site based on its Existing Use Value Plus approach in line with PPG guidance and the NPPF.

This is a level, which cannot be considered to deliver a *minimum return* to the landowner, in comparison with the established convention of consideration of current costs and values.

We have therefore then considered a scheme which is also wholly market housing but with no off-site affordable housing provision which improves viability, with the residual land value being 75% of the benchmark and can be considered to be marginally viable if the developer was prepared to take additional risk in achieving sales values above the market expected rate, or to procure construction more cheaply.

It is therefore our reasonable judgment that a viable scheme is one which contains 10 homes for market sale and no provision for the off-site provision of affordable housing.

FINANCIAL VIABILITY ASSESSMENT
Land at Garden House Land, Rickinghall.

1.0 <u>Introduction</u>

1.1. C&H Arnold have commissioned Pathfinder to provide a Financial Viability Analysis for a proposed development at **Garden house Lane, Rickinghall,** a village in Mid Suffolk 6 miles to the south west of the market town of Diss.

1.2. The site benefits from an outline planning consent (2798/16 dated the12th January 2018 for the development of 10 homes and a S106 agreement signed on 9th January 2018 requiring payment of an off-site affordable housing contribution of £91,000 following viability negotiations. Furthermore the site is subject to reserved matters application DC/22/02016, validated on the 16th April 2022. Mid Suffolk DC have requested an updated viability report is prepared.

1.3. The size of the site is 0.99 hectares with an existing use as a builders yard.

1.4. We are mindful of Policy H4 in the adopted local plan which requires the provision of 33% affordable housing on sites over 0.5 hectares (85% for affordable rent and 15% intermediate tenure).

1.5. The developer is concerned about potential viability in light of the current economic situation resulting from the Covid-19 Pandemic with rapidly rising labour and material prices, and due to the scheme not conforming to a typology contained in the plan wide viability study and at a far lower density.

<u>2.0 Basis of Reporting.</u>

2.1. Our terms of engagement are to appraise and quantify the level of Residual Land Value that can be delivered by the development taking into account the planned scheme and to consider the consequent viability of the scheme. In addition, we are engaged to confirm the viability of delivering a policy compliant scheme generated by the development starting from a policy compliant approach and whether further options are required to be considered.

2.2. This report does not constitute a formal 'Red Book' valuation (RICS Valuation - Global Standards) or should not be relied upon as such. It is a viability study carried out in line with RICS guidance note, 'Assessing viability in planning under the National Planning Policy Framework 2019 for England' March 2021 and the Planning Practice Guidance relating to Viability. The RICS Professional Standards and Guidance publication 'Financial Viability in Planning: conduct and reporting' May 2019 has also been adhered to.

2.3. Specifically, it should be noted that viability assessments of each site and conclusions set out in this report, were carried out on the basis of a broad-based study, given the limited detailed site information available. This report is confidential to the Client and the authors accept no responsibility of whatsoever nature to third parties to whom this report or any part thereof is made known. Any such party relies upon the report at their own risk.

2.4. In carrying out the FVA we have acted:

- With objectivity
- Impartiality

- Without interference
- And with reference to all appropriate available sources of information.

2.5. We confirm no contingent fees have been agreed and we have no conflicts of interest.

2.6. Special Assumptions. At the time off writing this report England has emerged from its third national lockdown but with no imminent sign of the pandemic ending. The requirements of social distancing, the impact of self-isolation and materials shortages have had a significant impact on sites in the last 18 months which looks set to continue into the summer. The impact on production should not be underestimated. We have made the specific special assumption in our work that sales, construction, profit and interest rates are at pre pandemic levels. We have directly noted the pandemic only as it relates to increased risk. As such our assessments are more optimific than they could be.

2.7. Pathfinder are a consultancy offering services to house builders, landowners and promoters, assisting in the delivery of affordable housing, site identification and appraisal, land acquisition, and development consultancy within the east of England.

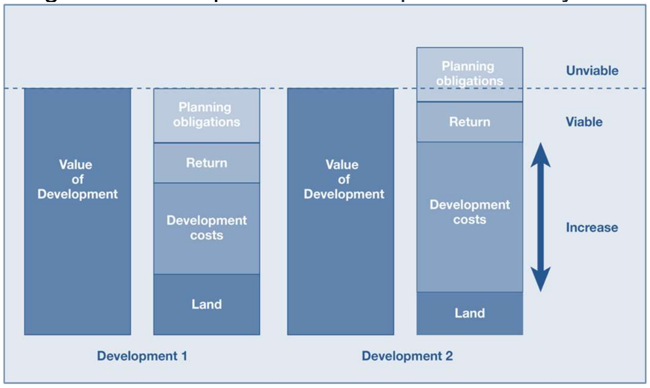
2.8. Our clients include national and regional house builders, as well as local developers, and land promotion organizations as well as individual landowners.

3.0. Standard Methodology in assessing viability

3.1. Financial Viability Assessment (FVA) is based upon a residual land value calculation, supported by a design and build cost estimate in as much detail as possible, and a scheme cash flow plotting the pattern of likely cash spend and income to generate interest on development finance.

3.2. The difference between gross development value and total cost (including a reasonable developer return) equates to a residual land value. The model runs over a development period from the date of commencement of the construction of the project, to completion when the development has been constructed, sold and occupied. In order to assess whether a development scheme can be regarded as economically viable, it is necessary to compare residual land values produced with benchmark land values. If the development proposal generates a residual land value that is higher than the Benchmark land value for the scheme, it can generally be regarded as economically viable and therefore deliverable. However, if the scheme generates a residual land value which is lower than the benchmark, it should not be deemed as economically viable (as illustrated in Diagram 1 below). The standard convention of working with current values and costs is used rather than those predicted in the future.

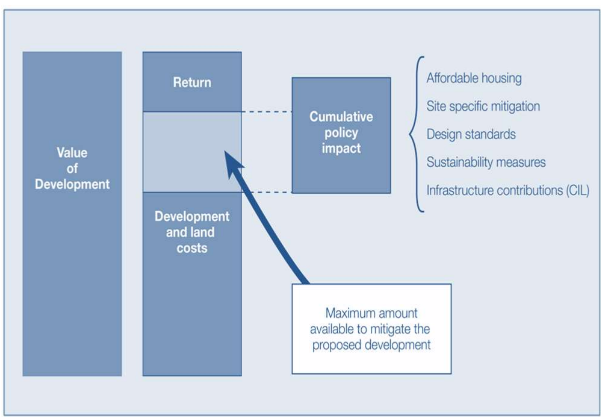
Diagram 1 - Comparative development viability



3.3. Diagram 1 illustrates the balance required to achieve a viable scheme – Development 1. It also shows how a scheme becomes unviable where there are increased development costs, due to site considerations, along with planning obligations – Development 2.

3.4. A viability assessment will have regard to not just single policy impacts, but a cumulative impact of policy and planning obligations as illustrated in Diagram 2.

Diagram 2 - Cumulative impact of policy and planning obligations



4.0. Planning Guidance

4.1. There is strong policy background detailing the objectives and methodology for undertaking FVA's. This includes:

4.1.1. On the 24th of July 2018 the National Planning Policy Framework was revised. It notes:

4.1.2 (*1.) The National Planning Policy Framework sets out the Government's planning policies for England and how these should be applied. It provides a framework within which locally prepared plans for housing and other development can be produced.*

4.1.3 (*34) Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.*

4.1.4 (57.) 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.

4.1.5 *(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.*

4.1.6 *(64.) Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups.*

4.2.1 Planning Practice Guidance relating to viability was updated on the same day (and more recently in September 2019) and notes:

4.2.2 *It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage.*

4.2.3 *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.*

4.2.4 Plans should set out circumstances where review mechanisms may be appropriate… over the lifetime of the development…

4.2.5 *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 includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.*

4.2.6 *In plan making and decision-making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.*

4.2.7 *For viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used.*

4.2.8 *Assessment of costs should be based on evidence which is reflective of local market conditions.*

4.2.13 Potential risk is accounted for in the assumed return for developers at the plan making stage.

4.2.14 *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. 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.*

4.3.1. The Royal Institution of Chartered Surveyors (RICS) has produced a revised guidance note, Assessing Financial Viability in Planning under the National Planning Policy Framework 2019 for England (November2020), which sets out good practice. The RICS guidance notes that:

4.3.2 Higher land prices reduce developer contributions and reduced developer contribution expectations can fuel higher land prices. The PPG now makes explicit that this should not occur under the new approach. Market valuations of land will need to take account of this stronger expression of policy requirements.

4.3.3 An applicant can still choose to submit a viability assessment at the planning application stage, but they will need to be able to demonstrate good reasons to justify this … where up-to-date planning policies are in place, there is a higher bar to justify the viability assessment.

4.3.4 Viability is a tool that is used to ensure planning policies are realistic and their cumulative cost does not undermine deliverability of the plan, taking account of a variety of factors, including the reasonable expectations of landowners and developers.

4.4.4 An important component of financial viability is the provision of development contributions (NPPF paragraph 34 and PPG paragraph 002). If development contributions are set too high, landowners may not release land. The extent to which landowners may decide to hold onto land will depend on various factors: the supply of, and demand for, housing and other uses in the locality; the location of the land relative to other developments in the area; whether the land is a strategic site essential to plan delivery; and landowner expectations in relation to a changing planning regime.

4.4.5 Once policies on developer contributions have been set in the plan, planning applications that comply with them should be assumed to be viable (NPPF paragraph 57). Where applicants do not feel that policy-compliant obligation levels are viable, it *is up to them to demonstrate whether there are any particular circumstances to justify the need for an FVA at the decision-taking stage.*

4.4.6 Viability has become an increasingly important consideration in planning in England. Whether preparing policy or considering a specific site proposal or scheme, viability is inherently linked to the ability to satisfy planning policy, and to deliver regeneration objectives and economic development as well as meet housing need. It is important therefore that all plan-makers and decision-takers – including government, local planning authorities, the Planning Inspectorate and all those involved in neighbourhood plans – have a good understanding of land and property markets.

4.4.7 The FVA process represents a residual valuation framework as set out in 'Valuation of development property', RICS guidance note. The FVA must be supported by appropriate evidence; at the plan-making stage that evidence is informed by engagement with developers, landowners, infrastructure and affordable housing providers.

4.4.8 The planning process works within a market context to deliver sustainable development supported by appropriate infrastructure. Successful planning policies are intended to improve the environment and enhance value for all stakeholders in the process, and development contributions add to that value enhancement.

4.4.9 Developers will expect to make a return, and landowners may have other options available to them and may not have to release land for development

4.4.10 All FVAs should include testing of alternative economic scenarios and the sensitivity of individual inputs such as projections of values and costs

4.4.11 The development cash flows that are modelled in the FVA should be those cash flows that are expected… The developer's target return in the FVA takes account of any unexpected variation away from this cash flow… The risk-adjusted return has already compensated the developer for taking on that particular risk. A review intending to reduce developer contributions based on reduced income or increased costs would be an attempt to protect the developer return and is precluded under PPG paragraph 009.

4.4.12 Decision- takers will need to exercise judgement over the level of uncertainty, informed by the sensitivity analysis, attached to each FVA and make their judgements bearing in mind the two major policy imperatives of ensuring maximum development contributions and the delivery of land for development.

4.4.13 Many policy requirements enhance the value of the development as well as increasing costs (for example design and infrastructure)

4.4.14 An FVA should determine whether developments are capable of providing levels of developer contributions that comply with policy... More specifically, an FVA estimates whether planned developments with policy-compliant levels of developer contributions are able to provide:

- *a minimum reasonable return to the landowner (defined as the EUV plus a premium), and*
- *a suitable return to the developer (defined in PPG paragraph 018).*

4.4.15 If the FVA shows that the landowner and developer returns are not enough to satisfy these benchmarks, the development typology is unviable at the level of developer contributions being tested at the plan-making stage. Similarly, a development site may subsequently become unviable at the level of developer contributions set out in the plan at the decision-taking stage.

4.4.16 A proper understanding of financial viability is essential in ensuring that:

- *land is realistically priced and released for development by landowners to achieve plan delivery*
- *all reasonable costs of construction related to the development have been accounted for*
- *developers are able to obtain appropriate market risk-adjusted returns for delivering developments …*

4.4.17 Where up-to-date plans are in place, a decision taking FVA can still be allowed but only in certain circumstances. The applicant must demonstrate whether particular circumstances justify the need for an FVA. Such circumstances could include, for example, where development is proposed on unallocated sites of a wholly different type to those used in the FVA that informed the plan, where further information on infrastructure or site costs is required, where particular types of development are proposed that may significantly vary from standard models of development for sale, or where a recession or similar significant economic changes have occurred.

4.4.18 When considering whether a proposed scheme is a significantly different development type, the assessor should reference the typologies used in the original plan-making FVA and assess whether they are representative of the development proposed.

4.4.19 For a change in economic circumstances to be taken into account, it needs to be a recession or similar significant change to the values and costs of development – well beyond more normal cyclical movements and outside any sensitivity testing parameters, which are already allowed for in the developer's return. For this reason, assessors at the plan-making stage need to provide sensitivity testing to inform viability over the life of the plan.

4.4.20 Changes in on- and off-site costs could also be related to:

- *detailed site investigations and surveys after plan making*
- *assumptions made in the plan-making FVA on the cost of the infrastructure required to deliver the scheme*
- *costs associated with planning contributions but not identified at the plan-making stage, such as those relating to s.106, CIL and Strategic Infrastructure Tariff, and*
- *directly related sunk (historic) costs not accounted for in the development and site typologies tested.*

4.4.21 Sunk cost … would normally be expected to enhance the development site value and so should be reflected in the BLV via the premium.

4.4.21 The date upon which the LPA or the Secretary of State resolves to grant or refuse a planning application is the date upon which all relevant information is considered. FVAs may need to be updated for market movements during the planning process prior to a determination or appeal.

4.4.22 A decision taking FVA tests whether the residual land value of a development, assuming policy compliant developer contributions, is sufficient to allow the reasonable landowner a minimum return. It can also test whether the residual profit is sufficient to allow the developer a reasonable return, based on an agreed and fixed BLV.

4.4.23 The assessor should consider whether their advice represents the most effective and efficient way to deliver the optimum development proportionate to the scheme being tested. This is sometimes referred to as 'value engineering'.

4.4.24 Viability review mechanisms might be appropriate, and the process for implementing them… Reviews are generally based on either:

- *a review of key viability inputs, for example changes in gross development value or build costs, or*
- *a full review of all viability inputs.*

Reviews should be capped at a policy-compliant level of contributions. The method used should be proportionate to the complexity of the typology or site.

4.4.25 Simply using current costs and values, and ignoring changes over the life of a development, can distort the analysis in all but the simplest of cases. It is recommended that, where assessors consider that the impacts of value and cost change are a significant factor in the market, these changes are identified and taken into account in the FVA,

4.4.26 It is normal to start by reference to the FVA undertaken at the plan-making stage, which, other than for key strategic sites, will have been most likely undertaken on a typology basis.

4.4.27 Standardised inputs are market, not individual developer, orientated.

4.4.28 Since value is often highly location-dependent, assessors should identify the high- and low-value locations within a plan area.

4.4.29 At the site-specific level, market evidence from the actual site or from comparable developments can be used. Paragraph 012 of the PPG states that 'Assessment of costs should be based on evidence which is reflective of local market conditions'. Additionally, it states that build costs should 'be based on appropriate data, for example that of the Building Cost Information Service' (BCIS). Wherever possible, cost estimates should be based on market evidence from similar developments. BCIS and other indices are 'appropriate' but are not always reflective of local market conditions. (For) build cost a full quantity surveyor's cost report showing how costs have been estimated should be made available for site-specific information.

4.4.30 In paragraph 018, under the heading of 'Standardised inputs to viability assessment', the PPG provides some guidance on how a return to developers is defined for the purposes of the FVA. The paragraph's focus is on a suitable return for plan making, rather than individual returns for scheme- specific decision taking. It identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making, but is silent on a decision-taking developer return. However, PPG paragraph 008 states that where a site-specific FVA accompanies a specific planning application, it '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'.*

4.4.31 In… cases, where development risks are reduced significantly, lower rates of return can be used.

*4.4.32 It is mandatory in the **Financial viability in planning: conduct and reporting** RICS professional statement that FVAs include sensitivity analysis to examine the effect of changes in key inputs. Sensitivity testing should be proportionate to the site or typology under review,*

4.4.33 Abnormal costs are associated with abnormal site conditions such as contamination, flood risk, listed buildings, etc… Enabling infrastructure is that necessary to bring the site or sites forward for development… In decision taking, the abnormal costs and any enabling infrastructure should be estimated in the FVA. Abnormal costs related to the development and enabling infrastructure normally impact on the development land value and not the EUV.

5.0. Assumptions used in our modelling framework

5.1. Our viability assessment is based upon broad approximations, where detailed information is not available. We have modelled the delivery of a scheme of 10 houses.

5.2. Property Type and Sizes. The mix of property types, and floor areas (GIFA), are typical developer sizes and based upon the planning drawings prepared by TAS Architects

6.3. Gross Development Value.

6.3.1. An analysis of current sales values in Rickinghall and asking prices for new build homes in the vicinity, has been used to identify sales prices for individual units and rates per m2 that could be achieved for the scheme. This information has been generated from Hometrack and used to generate the Gross Development Value of the site as shown in the EVA (See Hometrack report at Appendix 1) .

6.3.2. Rates used represent the Hometrack reported upper Quartile sales achieved in the area for detached properties £sqf, and are 30/35% above the upper decile absolute pricing level for individual homes. These rates are ambitious, we therefore reserve the right to review the values used in line with recent sales of new build homes. In effect larger homes generally sell for a lower £sqf as can be seen by this.

6.4. Gross Development Costs

6.4.1. Site Acquisition Costs

We have included site acquisition costs to cover agent and legal fees at a total of 1.5% of the benchmark land value. These assumptions are viewed as standard. Stamp duty at the prevailing rate has been allowed for, calculated on the residual value.

6.4.2. Design and Build Costs

We have assumed that all design costs (site survey, architecture, engineering planning consultant and fees), are included within the Cost Plan attached at Appendix 2. The cost plan is based on the design drawings and surveys relating to the Planning Application prepared by TAS Associates (see layout plans at Appendix 3) and undertaken by our experienced Associate Quantity Surveyor.

We have used the location adjusted *Building Cost Information Service (*BCIS) data, to generate the construction cost of individual homes. Rates used are adjusted to reflect the location factor for Mid Suffolk and are at the lower Median rate for detached and 2 story housinG. However we note the BCIS generally advise the use of the mean rate to determine an average build cost, i.e. the sum of the figures divided by the number of figures. They advise that the mean is likely to be more representative for all potential projects than the median. The modest size of the scheme reduces the scope for using other rates.

We note the BCIS in their August 2015 report 'Housing Development: the economies of small sites' note in relation to the general use of their data, 'BCIS advise the use of the mean to determine an average build cost… '(it) is likely to be more representative for **all** potential projects than the median.'

Typologies with greater numbers will be reflected in the ability to drive economies of scale not present here. We therefore reserve the right to review use of this rate.

External and abnormal costs are fully detailed at appendix 2 including rates and quantities, these are all items not included in the BCIS rate, and reflect the tender market. External costs are at 22% of the base build cost, typical of the range we normally see.

The analysis generates a total design and build cost of £5,384,471 or £2,174m2.

6.4.3. Abnormal, Additional and Contingency Costs

Abnormal and additional costs allowed for are clearly identified in the cost plan and include:

	£
Shredding and removal of Wood	10,327.40
Clearance of Site to Date	33,968.63
Demolitions and Remaining Site Clearance	100,000.00
Enhanced Landscaping	9,000.00
Private Driveway Areas (Excluding Parking Spaces Included Above)	19,050.00
Allowance for Alteration Works to Willomere Property adjacent Access	6,750.00
Allowance for Brick Walling Details around Properties	30,000.00
Removal of 11k Electric Underground Cable	5,817.24
Extra Over Heating for ASHP's	30,000.00
Double Garages	150,000.00
Enhanced Specification Generally	40,000.00
Mains services Upgrades including Disconnections, (Including Foul) to	76,500.00
Existing Buildings (includuing 3 Phase Electric), together with all Connections, say	
Soakaways to all Properties	9,750.00
Extra Over Boundary Fencing across Site	18,300.00
New Adoptable Footpath Connecting Site With Village	82,725.00
Reprofiling Site including Retaining Walls	50,000.00

Contingency costs have been allowed for at a rate of just 3% at the lower end of the standard range seen in undertaking such reports.

6.4.4. Design & Professional Fees

Allowances have been included to cover all design and professional fees, at 8.5% (including all planning fees and costs). This is a rate lower than typical allowances assumed in Financial Viability testing, and taking into account the nature of the development, covering all surveys, enquires and design work pre and post planning, as well as statutory fees and consultants. It is lower than the 2019 study. At the planning appeal for Shinfield, Reading (APP/X0360/A/12/2179141) the Inspector deemed a 10% professional fee to be realistic due to the nature of the site not being simple or straightforward but containing an element of known contamination, the potential presence of protected species, protected trees in the proximity of existing housing.

6.4.5. CIL and S106 Contributions

We note the CIL has been introduced and have applied the rate to cover the GIFA of the scheme.

Mid Suffolk's published formula for the calculation of off site payments / commuted sums for affordable housing has been used and is:

- Commuted sum=(plot value + build cost + monitoring fee) – RP Acquisition price.

The guidance notes the plot value as being one thirtieth of the benchmark land value per hectare. The build cost is assumed to be as is the estimate at appendix 2 applied to the most typical build form required for new affordable housing, a 2B4pH at 78m2). We have assumed a £1,000 monitoring fee and an RP acquisition price based on the lowest of the following recent transactions in the district also in Rickinghall:

Prices for affordable housing are based on recent offers below:

Date out	Scheme	No Homes	Total Price offered	Price p/u
02/2022	Badwell Ash	18	£ 2,570,000	£ 142,778
01/2022	**Fressingfield**	9	£ 1,275,000	£ 141,666
11/2021	Rickenhall	14	£ 1,863,000	£ 133,071
11/2021	**Gt Finnborough**	9	£ 1,338,000	£ 148,666
04/2022	**Stowmarket**	83	£ 12,622,000	£ 152,072

This leads to a maximum Affordable Housing contribution subject to viability and based on 3.5 homes of £175,790.

6.4.6 Marketing and Sales Costs

We have adopted full marketing sales and disposals costs within the appraisal, including:

- Marketing costs of the private properties
- Agent's fees

- Legal fees associated with private sales

On this basis we have assumed a sales and marketing cost of 2% of the gross development value of the open market sales properties, and £900 per home legal fees.

6.4.7. Finance Costs.

Where development finance is available, lenders are currently charging minimum rates of at least 6.5%. Arrangement (1%), monitoring (2%) and exit fees (1%) are also charged. These onerous lending terms persist due to on-going resistance to lending on residential development in the current market. We have adopted an interest rate of 6.5% with no additional allowance for fees, which we consider to be a standard assumption for development in the current economic climate and noting more restrictive lending practices and stringent criteria since the introduction of the Covid -19 pandemic. The rate is identical to the 2019 study.

It is conventional to assume finance on all costs in order to reflect the opportunity cost (or, in some cases, the actual cost) of committing equity to the project.

6.5. Development Programme

6.5.1. For the purpose on undertaking the Financial Viability Assessment only, we have assumed that a standard development of 10 homes, occurs over an 18 month period with the land being acquired in month one, and construction taking 17 months.

6.5.2. We have assumed sales of open market homes occur from month 14 to month 18 on an even basis. The rate of sales directly links to the assumed sales prices of individual homes and the nature of the local market, as well as the rate of production appropriate for smaller developers on high value sites.

6.5.3. These assumptions are particularly important in the calculation of development interest. The accounting for development interest on the land acquisition is from month one of the programme, not allowing for any historic holding costs of the site, in line with best practice.

6.6. Overhead & Profit

6.6.1. When considering the changing economic climate, financial institutions have tightened their requirements for overhead and profit returns on all schemes. Banks have raised their expectations in terms of risk and required returns that new developments offer. It is currently deemed likely that any private residential development proposals predicting an overhead and profit return of less than between 15% and 25% of gross development value would not be considered viable. We note the contents of the recently revised NPPF in this regard. However the current uncertainty associated with the future of the UK's trade relationship with the European Union has created uncertainty which may undermine some buyers' confidence to a degree. In this context, financial institutions are likely to tighten their requirement for profit returns on developments. As a consequence, target profit levels have increased to at least 20% on value in the short term.

6.6.2. We have provisionally adopted an overhead and profit rate of 17.5% of gross development value for the scheme, but reserve the right to review this.

6.6.3. As affordable housing contains less commercial risk, typically with a JCT Design & Build Contract or a Development Agreement being signed at the commencement of works, and monthly valuations of construction work, borrowing and risk are reduced and so lower levels of overhead and profit are the norm. We have therefore allowed an overhead and profit of 6% in relation to the delivery of affordable housing.

6.6.4. At the planning appeal for Shinfield, Reading (APP/X0360/A/12/2179141) the Inspector deemed that "the usual target being in the range 20-25%" of gross development value. This is in line with the recent appeal decision Chapel St Leonards APP/D2510/Q/14/2228037 noting that this level of return is reasonable. At (Appeal Ref: APP/W1145/Q/13/2204429, Former Holsworthy Showground, Holsworthy) the Inspector felt a blended rate including the affordable housing of, 18% was appropriate rejecting the Council's argument for 17.5% on open market housing (not dissimilar to the blended rate of 18.5% in APP/N4720/A/14/2227584, Roundhay Leeds.

7.0. Methods for Assessing Land Values

7.1 The minimum land value judged as capable of ensuring a site is brought forward is important in our calculations of scheme viability. As noted in the PPG:

"The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell..."

7.2 Planning Practice Guidance relating to Benchmark land value notes:

7.2.1.The benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. Benchmark land value should reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees.

7.2.2 *EUV should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross check of benchmark land value. Applicants should identify and evidence any adjustments to reflect the cost of policy compliance.*

7.2.3 *EUV is the value of the land in its existing use. EUV can be established… by assessing the value of the specific 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).*

7.2.4 *The premium is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements. A reasonable premium must be based upon the best available evidence. Market evidence can include BLV from other assessments. Land transactions can be used but only as a cross check to other evidence.*

7.3 The RICS guidance notes that:

7.3.1 The likely behaviour of landowners in deciding whether to sell their land is a consideration, but some changes to planning policy and practice will affect the value of land. PPG paragraph 002 states that the 'price paid for land is not a relevant justification for failing to accord with relevant policies in the plan'. It also states that landowners and site purchasers 'should consider this when agreeing land transactions'… Viability should inform landowners about reasonable expectations, having regard to planning policy and their options .

7.3.2 The PPG is clear that market evidence can be used as a cross-check for BLV, but should not be used in place of BLV… BLV should not be assumed to equate to market value.

7.3.3 Recognising this possible divergence between BLV for planning purposes and prices paid in the market, PPG paragraph 011 states that 'Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan'.

7.3.4 Landowner expectations are a very important element in the voluntary release of land for development, but these expectations may include individual criteria, such as cultural ties to the land, that create different values to individual owners and may impact on the release price of that land.

7.3.5 Development land value is ultimately a function of the residual value of the development potential of the site, including a range of development options, once all relevant costs have been deducted.

7.3.6 The EUV is not normally affected by any abnormal costs or enabling infrastructure included as part of bringing the development forward. The only costs that impact the EUV are those that would stop the existing use if not remedied. The cost of rectification should be deducted from the EUV based on the assumption of the use continuing in the future.

7.3.7 Where a residual valuation is being used to identify the residual planning obligations, the BLV used in that calculation must allow for the reduction in land value of a site that has abnormal costs.

7.3.8 The BLV will usually be based upon the EUV plus a premium (EUV+) but may sometimes be based on the AUV excluding a premium where appropriate. The BLV should not be expected to equate to the market value... The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers' contributions can be assessed… The PPG reduces the status of comparable land transactions to that of a cross-check of the BLV.

7.3.9 The components that need assessing are:

- *EUV*
- *premium*
- *AUV, where appropriate*
- *policy-compliant site value assessed by the residual method and*
- *policy-compliant site value assessed by the comparative method.*

7.3.10 The PPG identifies the evidence base for the premium… can include BLVs from other FVAs.

7.3.11 The AUV refers to the value of land for uses other than its existing use… Where the BLV is based on the AUV, no premium should be added.

7.3.12 Market evidence of land transactions can be used to cross-check the BLV assessment. Land transactions must be adjusted to be compliant with policy requirements

7.3.13 The actual process is not prescribed, but there is a clear instruction on the weight to be placed on the different assessment methods and the evidence on which each is based:

- ***Step one** is to determine EUV*
- ***Step two** is the assessment, where appropriate, of the AUV*
- ***Step three** is to assess a premium*
- ***Step four** is to determine the residual value of the site assuming actual or emerging policy requirements (to) be cross checked against the EUV+.*
- ***Step five** is to cross-check the EUV+ approach to the determination of the BLV of the site by reference to land transaction evidence.*

7.4.14 The PPG is unambiguous that EUV+ is the primary approach. The other two valuations must be used to cross-check the resulting BLV and not be the primary determinant of BLV.

7.4.15 There is no guidance in the PPG as to what that minimum return is, nor should there be. It is a feature of real estate markets that each typology and site is unique.

7.4.15 The EUV for the purposes of FVAs is the value in the existing use, ignoring any prospect of future change to that use. This may however include permitted development or change of use within the same planning use class, but only where this does not necessitate any refurbishment or redevelopment works to the existing buildings or site works.

7.4.15 Where possible and appropriate, the market comparison approach will be used; the analysis of transactions is a major part of that approach. The evidence must be adjusted to disregard any hope value

7.4.16 It would be inappropriate to determine a lower BLV and penalise the landowner for making the site ready for development.

7.4.17 The applicant must demonstrate that there is demand for the alternative use and why the proposed scheme is being promoted over the AUV, if the AUV suggests greater viability and returns.

7.4.18 BLVs from other FVAs are relevant sources of information to assist in identifying the premium element in an EUV+ approach to the assessment of the BLV.

7.4.19 Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites. In the case of greenfield, cleared brownfield or some sui generis (unique) sites outside of the normal planning use *classes, where the EUV is a small proportion of the BLV, the premium is more likely to be stated as a multiplier or could be stated as an actual amount.*

7.4.20 It should be clearly stated whether development land has been transacted with or without planning permission.

7.5.1 Regarding existing use values, sites coming forward for development can typically comprise green field sites. Guidance issued by the HCA in "Transparent Assumptions: Guidance for the Area Wide Viability Model" 2010 states that for green field land, benchmarks tend to be in a range of 10 to 20 times agricultural value. In Knight Frank's report, *The Rural Report*, Winter 2014, typical agricultural land value per hectare are noted as being £25,946. This would give a benchmark land value of between £259,460 per hectare and £518,920 per hectare.

7.5.2. When considering Benchmark land values based on EUV plus a market incentivised premium the Inspector in Pinn Court Farm, Exeter (APP/U1105/A/13/2208393) noted that it was "unrealistic and inconsistent with the principles in the Planning Practice Guidance to expect a transaction to be incentivised and to occur to deliver housing at a value less than the relevant comparables."

7.6. Benchmark Land Value used

7.6.1 In reaching a conclusion on an appropriate Benchmark Land Value we have reviewed the evidence and using our professional judgement, we believe that an appropriate Benchmark Land Value assumption for the area cannot be lower than:

- £400,000 per hectare.
- Or £396,000 for the site.
- This is based on the site size of 0.99 hectares.
- The land value generated a modest value of £39,600 per open market plot, when considering the nature of the plots.
- We consider that the EUV Plus method of establishing the Benchmark Land Value is appropriate. The site is currently a builders yard.
- The October 2020 Plan Viability Study undertaken for the local authority by Aspinall Verdi noted:
    - *(6.30) For brownfield sites we have used an existing use value of £150,000 per gross acre (£370,665 per gross hectare), this represents low grade employment land value. To the existing use value, we have applied 10% premium, to generate a benchmark land value of £165,000 per gross acre (£407,732 per gross hectare).*
    - These modest assumptions are viewed as the minimum BLV.

7.3.5 In the context of cross referencing to market evidence we consider the following transactions to have relevance:

- We note guidance issued by the HCA in "Transparent Assumptions: Guidance for the Area Wide Viability Model" 2010 states that for green field land, benchmarks tend to be in a range of 10 to 20 times agricultural value. This would give a benchmark land value of between £250,000 per hectare and £500,000 per hectare. If agricultural values were the only relevant factor the nature of the site (proximity to the village) would lead to a multiple of value at the top end of the range (20) being applicable.

- Phase 1 of the Bickers Hill Road, Laxfield development, a 0.8 hectare site for 10 homes, was acquired in 2018 for £525,000, equating to £656,250 per hectare or £52,500 per open market plot (there was no affordable housing provision required, by virtue of the GIFA being under 1,000m2).
- Mill Road, Laxfield, a 0.55 hectare site for 10 affordable and 4 open market homes, was acquired for £565,000 or £1,027,000 per hectare in 2018. The affordable homes benefited from grant funding.
- Phase 2, Mill Road, Laxfield, a 0.71 hectare site with an agreed market value for a site at contract of 9 open market and 4 affordable plots at £504,133 or £710,046 per hectare.
- A greenfield 0.8 hectare site in Charsfield with consent for 20 houses including 6 affordable sold in 2015 for £1,100,000 or **£1,375,000 per hectare.**
- A site at Saxtead Road, Framlingham at 0.4 hectares recently sold for £850,000 or **£2,125,000 per hectare**
- Earl Soham, a site of 0.95 hectares was sold for a scheme of 16 homes and a policy compliant level of affordable housing for £1,100,000 or **£1,157,894 per hectare.**

7.3.6 We note that in the recent High Court decision relating to Parkhurst Road, Holgate J noted that Benchmark Land Values ‘should reflect and not buck relevant planning policies.

8.0 Analysis of FVA Outputs and appropriate Sensitivity Analysis.

8.1. We have considered:

8.2. The proposed scheme of 10 houses for market sale, and an off-site affordable housing contribution of £175,790 which generates a residual land value of £121,735 (which equates to 31% of the benchmark value). This would not be considered to be an economically viable level of land value as required by the National Planning Policy Framework. It notes sites need to deliver *‘a minimum return at which it is considered a reasonable landowner would be willing to sell*.’ We further note in the recently published Viability Testing Local Plans document it is necessary “*for the scheme to provide a competitive return to the developer to ensure the development takes place and generates a land value sufficient to persuade the landowner to sell the land.”*

8.3. We have also considered an option where again all 10 homes are for market sale but there is no off site affordable housing contribution. The proposed scheme generates a residual land value of £297,525 (which equates to 75% of the benchmark value). This would be considered to be a marginally economically viable level of land value as required by the National Planning Policy Framework, if the developer was prepared to take additional risk in achieving sales values above the market expected rate, or to procure construction more cheaply.

8.5. We have undertaken the following economic sensitivity scenario tests of the base appraisal as follows, considering reasonable changes to assumptions which may improve viability only:
+2.5% GDV (open market) = Residual value 75% BLV
-2.5% GDV (open market) = Residual value -13% BLV

+2.5% design and build cost = Residual value -5% BLV
-2.5% design and build cost = Residual value 66% BLV

9.0 Conclusions

9.1. The FVA indicates the scheme as proposed, based on current known costs and values generates a residual land value of **£181,107** assuming the provision of 10 homes for market sale and no allowance for the off-site provision of affordable housing.

9.2. This is a level, which can only be considered to deliver a *minimum return* to the landowner, in comparison with the established convention of consideration of current benchmark values.

9.3. It is therefore our reasonable judgment that a viable scheme is one which contains 10 homes for market sale and no allowance for the off-site provision of affordable housing.

Signed:

Martin Aust BSc (Hons) DMS MRICS CMCIH CEnv
10h June 2022