Financial Viability Appraisal

Address:	**Parker Collins House, Portsmouth Road, Ripley, Woking, Surrey, GU23 6JA**
LPA:	**Guildford Borough Council**
Planning ref:	**N/A**
Client:	**Rushmon Ltd**
Date:	**10th January 2024**

Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at Parker Collins House, Portsmouth Road, Ripley, Woking, Surrey, GU23 6JA. The process involves utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019), Assessing Viability in Planning under the NPPF Framework (2023), and National Planning Policy Guidance on Viability (NPGV 2019), and complies with RICS professional standards and guidance Financial Viability in Planning: Conduct & Reporting.

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	£7,745,000.00
Costs excl. land and profit	£4,784,632.40
Finance	£444,227.72
Return	£1,549,000.00
BLV	£1,560,000.00
RLV	£967,139.88
RLV-BLV	(£592,860.12)
Target profit	20.00%
Actual profit	12.35%

Target developer return includes a risk-adjusted rate for market residential (20.00%). Sensitivity analysis demonstrates this is the minimum return necessary to offset the current risk environment.

Benchmark Land Value (BLV) is assessed via the EUV+ and AUV method where relevant in line with national policy. A 20% premium has been added in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the benchmark land value exceeds the residual land value of the scheme. Therefore, the development cannot viably provide the targeted contributions.

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

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Introduction

S106 Management is instructed by Rushmon Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at Parker Collins House, Portsmouth Road, Ripley, Woking, Surrey, GU23 6JA

Guildford Borough Council seeks an Affordable Housing S106 contribution in accordance with Policy H2 of the Guildford Local Plan (adopted April 2019).

The existing site comprises Parker Collins House – a 4-bedroom detached property with a total GIA of 220.27m2. The house is located on a large plot, measuring c. 0.3561 ha.

This FVA is to be viewed in conjunction with a new application. The proposed development seeks to demolish the existing house and use the plot to erect 6 x semi-detached houses and 3 x detached houses. In total, the development will provide 1,236.5m2 of residential accommodation.

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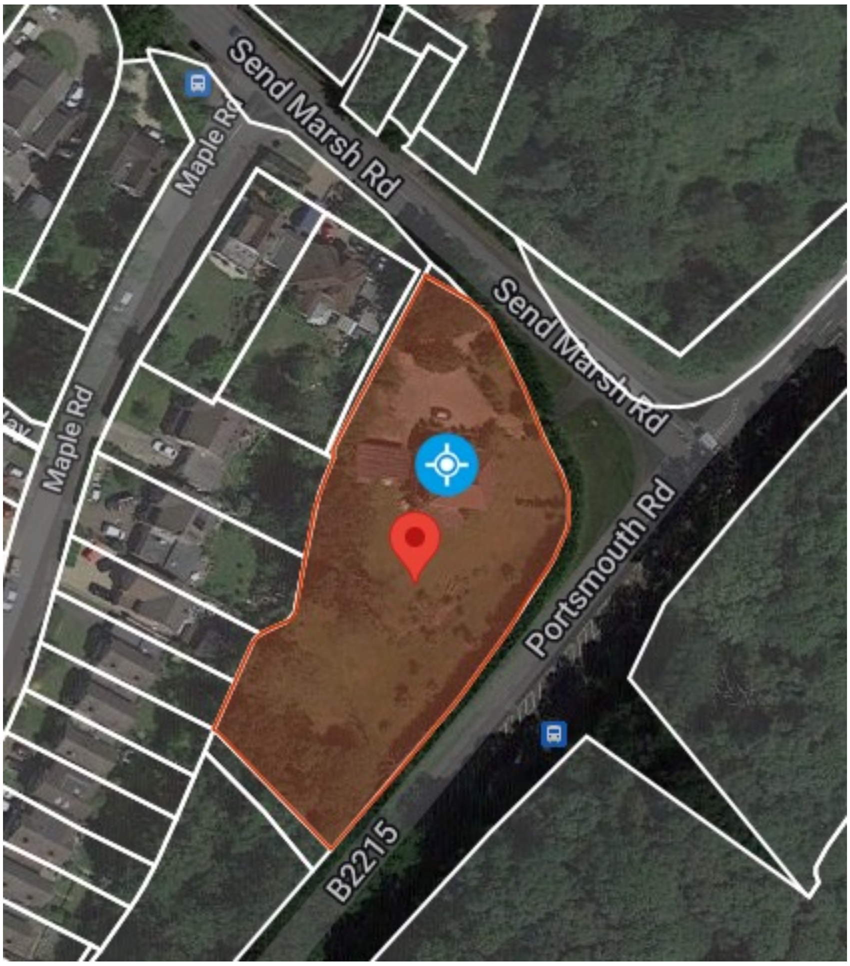
Location Plan



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S106 Management

S106 Management is a viability consultancy established in 2011. 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 local authorities, **S106 Management** has often been at the forefront of planning viability matters. The company is now one of the most effective and experienced specialist viability consultancies in the UK, combining expertise from all corners of the industry and benefiting from a considerable evidence base of several thousand development appraisals countrywide.

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Planning Policy

By virtue of section 38 (6) of the Planning and Compulsory Purchase Act 2004, planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, the policy starting point is Guildford Borough Council Local Plan, adopted in April 2019.

POLICY H2: Affordable homes

(1) As well as providing and managing affordable homes ourselves, the Council will work with registered providers, developers and landowners to increase the number of affordable homes in the borough to contribute to meeting identified needs. These will be provided on developments providing solely affordable housing either on public sector-owned land or developments by registered providers.

(2) The Council will also seek affordable homes on sites providing 11 or more homes (gross), or where dwellings would have a combined gross internal floorspace of more than 1,000 square metres. The Council will seek at least 40% of the homes on these sites as affordable homes.

(3) In Designated Rural Areas, the threshold where we will seek an affordable housing contribution of at least 40% of the homes on these sites will be on sites providing more than 5 dwellings. For developments of between 6 and 10 dwellings inclusive (gross), a financial contribution in lieu of on-site provision of affordable housing will be sought which is of broadly equivalent value relative to on-site provision.

(4) The tenure and number of bedrooms of the affordable homes provided on each qualifying site must contribute, to the Council's satisfaction, towards meeting the mix of affordable housing needs identified in the Strategic Housing Market Assessment 2015, or subsequent affordable housing needs evidence. This currently includes a tenure split of at least 70% Affordable Rent, with the remainder being other forms of affordable housing. A minimum of 10% of the affordable homes provided on each site under this policy must be available for affordable home ownership, except where an exemption applies in the NPPF. Affordable Rent must be no more than the maximum level set out in our most recent housing guidance or strategy.

(Continued on the next page)

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(5) Affordable housing contributions may be provided off-site, or by payment in lieu where the Council agrees that on site provision and management would be impractical due to size and / or location of the development. Off-site provision or payment in lieu is expected to enable the same amount of additional affordable housing as would have been delivered on site. The agreed off-site provision must be completed before 50% of the market homes are occupied unless otherwise agreed by the Council. On developments in designated rural areas of between 6 and 10 dwellings inclusive (gross), the commuted payment in lieu of on-site affordable housing provision will be payable after completion of the units within the development.

(6) If developers satisfactorily demonstrate that providing the amount of affordable housing required by this policy would not be economically viable, the Council will consider the following to assist with delivering a scheme:

(a) varying the tenure mix of the affordable housing (for example, more intermediate housing and less rented housing), size, and/or type of homes to be provided; and/or
(b) reducing the overall number of affordable homes.

(7) Planning permission will not be granted for development that would result in the net loss of any affordable homes that have been built, that were secured by planning obligation or condition.

Policy H2 suggests that developments of 11 or more units or with a combined gross internal floorspace of more than 1,000 m2 will be required to provide at least 40% of units as on-site affordable homes.

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

This policy has been informed by the underlying local plan evidence base including 'Guildford Borough Council Local Plan and CIL Viability Study' , completed on behalf of the council in November 2016 by Peter Brett Associates (PBA).

More recently, the study was updated by Porter Planning Economics Ltd in November 2017.

Further, Guildford Borough Council adopted a Planning Contributions SPD in 2017; where appropriate we refer to these documents within the conclusions of our report.

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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 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) (2021), and the 'National Planning Guidance for Viability' (NPGV) (May 2019).

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National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF.

Paragraphs 57, 58 and 64 of the NPPF are of particular relevance:

> 57. Planning obligations must only be sought where they meet all of the following tests[26]:
>
> a) necessary to make the development acceptable in planning terms;
>
> b) directly related to the development; and
>
> c) fairly and reasonably related in scale and kind to the development.
>
> 58. 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.
>
> 65. 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[31].

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.'***

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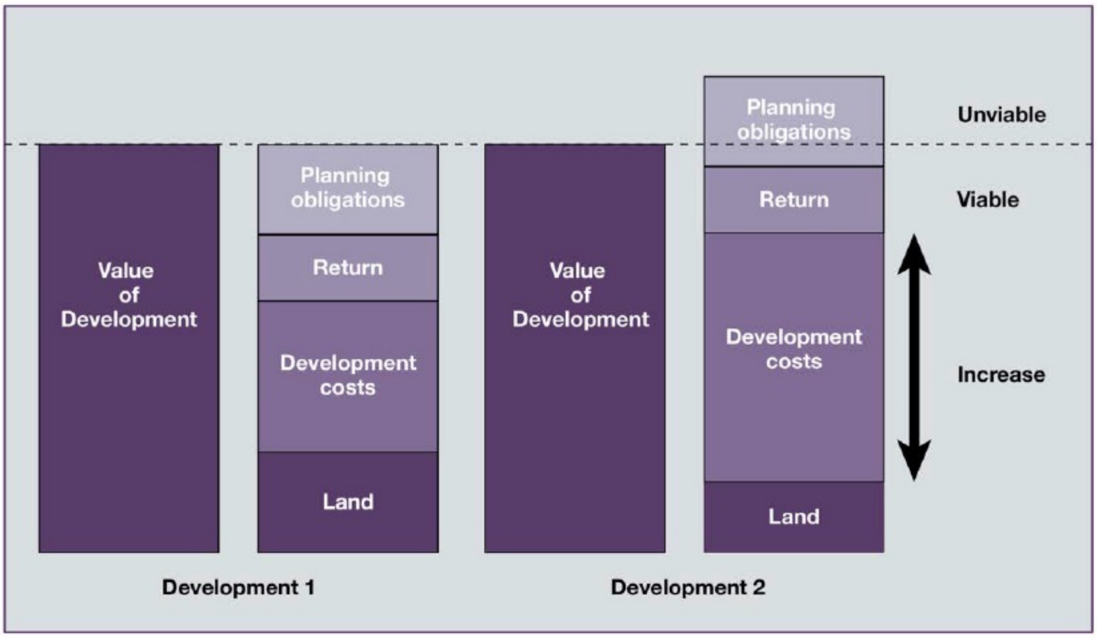
This is summarised well in the below figure from RICS guidance:



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 012 which sets out the costs that should be included in any viability statement, and paras 013-017 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.

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Particular Circumstances

Both RICS guidance and PPG Viability note that particular circumstances must justify the need for a site-specific viability assessment. These circumstances are broad, with a non-exhaustive list provided by the PPG.

> *'Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.'*
>
> *PPG Viability para 007*

The particular justification for this site-specific viability assessment is that significant economic changes have occurred since the plan was brought into force.

Following the RICS guidance:

3.10.3 The main differences in FVAs for decision taking, compared to for plan making, are that:

- the level of planning requirements has been determined in the plan
- the site will be identified
- the scheme will be specified in more detail
- any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and any costs incurred in readying the site for development, and
- the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

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Viability

The relevance of viability is accepted in the Local Plan Policy H2 which states:

> (5) Affordable housing contributions may be provided off-site, or by payment in lieu where the Council agrees that on site provision and management would be impractical due to size and / or location of the development. Off-site provision or payment in lieu is expected to enable the same amount of additional affordable housing as would have been delivered on site. The agreed off-site provision must be completed before 50% of the market homes are occupied unless otherwise agreed by the Council. On developments in designated rural areas of between 6 and 10 dwellings inclusive (gross), the commuted payment in lieu of on-site affordable housing provision will be payable after completion of the units within the development.
>
> (6) If developers satisfactorily demonstrate that providing the amount of affordable housing required by this policy would not be economically viable, the Council will consider the following to assist with delivering a scheme:
>
> (a) varying the tenure mix of the affordable housing (for example, more intermediate housing and less rented housing), size, and/or type of homes to be provided; and/or
>
> (b) reducing the overall number of affordable homes.

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

There are several proprietary toolkits in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT); and Argus Developer.

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 viability toolkit examining the viability of this site; the toolkit is shown in **Schedule 1** of this report. The comments below address the inputs to the toolkit sequentially and an electronic copy can be provided to the LPA on request.

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Toolkit Inputs

Proposed Development

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

Unit	Area (m2)	Type
1	128.10	3B6P Semi-detached
2	128.10	3B6P Semi-detached
3	128.10	3B6P Semi-detached
4	128.10	3B6P Semi-detached
5	128.10	3B6P Semi-detached
6	128.10	3B6P Semi-detached
7	128.10	3B6P Detached
8	157.90	4B7P Detached
9	181.90	4B8P Detached
Total area (m2)	**1,236.50**	
Total area - Semi	**896.70**	
Avg. unit size - Semi	**128.10**	
Total area - Detached	**339.80**	
Avg. unit size - Detached	**169.90**	

The unit mix comprises 6 x semi-detached houses and 3 x detached house, with a total GIA of 1,236.5m2.

Affordable Housing Values

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.

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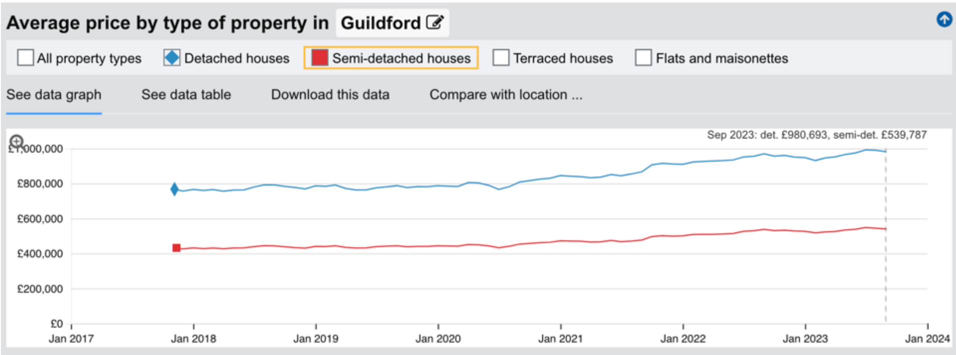
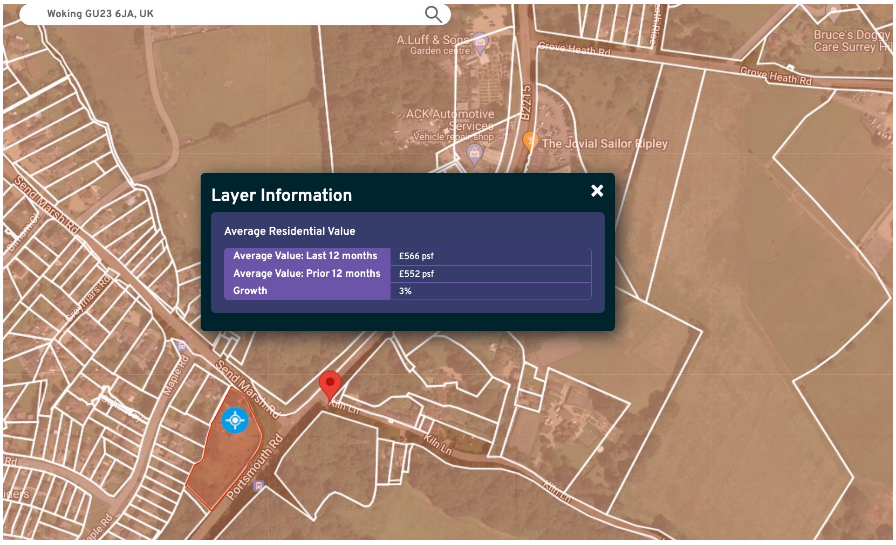
Open Market Housing Values

Land Registry data for Guildford suggests the following average values for detached and semi-detached houses.



Therefore, as of September 2023 the average sales price for a detached house was £980,693, while a semi-detached house achieved an average of £539,787.

Nimbus suggests the following data:



This suggests an average open market value for properties in the immediate area of £6,092.424/m2. However, this is not differentiated by property type and hence is of limited use.

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Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). Values in Guildford are extremely sensitive to small changes in search area. We have limited our transactional search to within ½ mile for semi-detached houses however, this had to be extended to +1 mile for detached units. All transactions below occurred in the past 1 year.

SOLD - Semi - within 1/2 mile, last 1 year					
Address	**Type**	**Sale Date**	**Area (m2)**	**£/m2**	**Price**
5, Stringhams Copse, Ripley, Woking, Surrey GU23 6JE	2-bed semi: 1 bath, off-street parking and detached garage, in need of modernisation, large rear garden	04.08.2023	113.50	£4,625.55	£525,000
11, The Copse, Ripley, Woking, Surrey GU23 6BN	Semi house	30.05.2023	107.00	£5,953.27	£637,000
13, Beech Drive, Ripley, Woking, Surrey GU23 6LG	Semi house	02.03.2023	102.00	£5,098.04	£520,000
Backer, 44, Linden Way, Ripley, Woking, Surrey GU23 6LW	3-bed semi: 1 bath, home study, utility room, driveway parking, rear garden	16.02.2023	95.90	£5,578.73	£535,000
10, Bramble Way, Ripley, Woking, Surrey GU23 6LL	3-bed semi: 1 bath, home study, rear garden, cul-de-sac location, garage, utility room	30.01.2023	121.00	£4,628.10	£560,000
12, Burnt Common Close, Ripley, Woking, Surrey GU23 6HH	4-bed semi: 2 baths, refurbished throughout, garage in block,. Rear garden, countryside setting	01.01.2001	95.00	£5,315.79	£505,000
			Avg. £/m2	**£5,173.39**	
			Avg. area	**105.73**	

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SOLD - Detached - within 1/2 mile last 2 years.					
Address	**Type**	**Sale Date**	**Area (m2)**	**£/m2**	**Price**
Kimmeridge, Boughton Hall Avenue, Send, Woking, Surrey GU23 7DE	4-bedroom, 3-bathroom large detached house with double garage and driveway parking sitting on a 0.5acre plot	13/04/2023	225.60	£6,205.67	£1,400,000
Little Dormers, Send Marsh Road, Ripley, Woking, Surrey GU23 6JT	4-bedroom large detached house with single garage and driveway.	12/04/2023	182.20	£4,720.09	£860,000
Birchwood, Burnt Common Lane, Ripley, Woking, Surrey GU23 6HD	4-bedroom, 2-bathroom detached house with internal garage, cul de sac location	17/11/2022	157.00	£4,840.76	£760,000
Easterbrook, Kiln Lane, Ripley, Woking, Surrey GU23 6EX	4-bedroom, 4-bathroom detached house on large plot	04/11/2022	227.80	£6,281.83	£1,431,000
Clarons, Boughton Hall Avenue, Send, Woking, Surrey GU23 7DD	4-bedroom , 3-bathroom detached house on 1 acre plot with detached garage.	07/09/2022	282.00	£6,365.25	£1,795,000
			Avg. £/m2	**£5,812.40**	
			Avg. area	**214.92**	

The average achieved prices are lower, when compared to the average Nimbus data noted above. This is due to the fact that this data is compiled from across the postcode and typologies. More granular data presents a more accurate picture.

We have also studied properties which are currently on the market, located within ½ mile.

FOR SALE - Semi - within 1/2 mile					
Address	**Type**	**Sale status**	**Area (m2)**	**£/m2**	**Price**
Ripley, Surrey, GU23	3-bed semi: 1 bath, 2 x reception rooms, driveway parking & garage, rear garden, in need of moderni-sation	For sale	79.20	£5,997.47	£475,000
Linden Way, Ripley, Woking, GU23	3-bed semi: 1 bath, conservatory, rear garden, driveway & garage, in need of modernisation	Sold STC	88.00	£5,454.55	£480,000
Maple Road, Ripley, Woking, Surrey, GU23	3-bed semi: 1 bath, in need of mod-ernisation, rear garden, driveway & garage	For sale	119.90	£4,170.14	£500,000

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Ripley, Surrey, GU23	3-bed semi: 1 bath, refurbished throughout, 2 x reception rooms, cul-de-sac location, driveway parking & detached garage, rear garden	Sold STC	82.10	£6,090.13	£500,000
Ripley, Surrey, GU23	3-bed semi: 1 bath, driveway parking, in good condition, home office, rear garden	Sold STC	80.40	£6,529.85	£525,000
Ripley, Surrey, GU23	2-bed semi: 2 baths, driveway parking & garage, utility room, in need of modernisation, mature rear garden	Sold STC	105.60	£5,445.08	£575,000
Ripley, Surrey, GU24	4-bed semi: extended, in need of modernisation, off-street parking and garage, 2 baths	Sold STC	152.00	£3,947.37	£600,000
Bramble Way, Send Marsh, Woking, Surrey, GU23	4-bed semi: 2 baths, 2 x reception rooms, conservatory, refurbished throughout, driveway parking, cul-de-sac location	For sale	130.40	£4,792.94	£625,000
Ripley, Surrey, GU23	4-bed semi: 2 baths, utility room, garage & driveway parking, 4 x reception rooms, garden studio, quiet road	Sold STC	222.10	£4,164.79	£925,000
			Avg. £/m2	**£4,911.77**	
			Avg. area	**117.74**	

FOR SALE - Detached - within 1/2 mile					
Address	**Type**	**Sale status**	**Area (m2)**	**£/m2**	**Price**
Manor Road, Ripley, Send, Surrey, GU23	4-bed detached: 2 baths, modernised throughout, home study, utility room, driveway parking, rear garden	For sale	148.50	£5,050.51	£750,000
Woodlands, Send, Woking, GU23	4-bed detached: 2 baths, in good condition, large sitting room with open fireplace, driveway & garage, separate dining room	Sold STC	140.30	£5,666.43	£795,000
The Copse, Ripley, Woking, Surrey, GU23	4-bed detached: 2 baths, in good condition, garden, conservatory, private gated development, corner plot, driveway & garage	For sale	161.80	£4,913.47	£795,000

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Ripley, Surrey, GU23	4-bed detached: 1 bath, well-presented, gated development, driveway & garage, goof sized garden	For sale	163.40	£4,865.36	£795,000
Ripley, Surrey, GU23	3-bed detached: cul de sac location, large integral garage, potential to extend, 2 baths, in good condition	Sold STC	198.10	£4,038.36	£800,000
Boughton Hall Avenue, Send, Woking, Surrey, GU23	3-bed detached: 2 baths, 3 x reception rooms, double garage, 2 baths, in good condition	For sale	211.50	£4,727.90	£999,950
Ripley, Surrey, GU23	4-bed detached: 3 baths, unique modern design interior, under floor heating, rear & side garden, automated gates	Sold STC	251.40	£4,673.83	£1,175,000
Ripley, Surrey, GU24	5-bed detached: 3 baths, study, utility room, integral garage, in good condition	For sale	211.20	£5,681.82	£1,200,000
			Avg. £/m2	**£4,918.55**	
			Avg. area	**165.13**	

Lastly, we have reviewed new-build data. We note the development at Oldlands Grange provides a useful benchmark of new build values in the local vicinity.

NB FOR SALE - Semi - within 1/2 mile					
Address	**Type**	**Sale status**	**Area (m2)**	**£/m2**	**Price**
Send, Surrey, GU23	4-bed semi: 3 baths, landscaped rear garden, integrated garage, electrical charging point, modern interiors	Sold STC	147.15	£6,761.81	£995,000
Oldlands Grange, Burnt Common Lane, Ripley, GU23	3-bed semi: 2 baths, flint fronted, underfloor heating at GF, modern interiors	For sale NB	100.00	£5,999.50	£599,950
			Avg. £/m2	**£6,453.37**	
			Avg. area	**123.58**	

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NB FOR SALE - Detached - within 1/2 mile					
Address	**Type**	**Sale status**	**Area (m2)**	**£/m2**	**Price**
(Plot 4) Oldlands Grange, Burnt Common Lane, Ripley, GU23	4-bed detached: 3 baths, utility room, integral garage, ground floor underfloor heating	For sale NB	155.00	£6,290.32	£975,000
Oldlands Grange, Burnt Common Lane, Ripley, GU23	3-bed detached: 3 baths, garden, modern interiors, underfloor heating,	For sale NB	120.00	£7,499.58	£899,950
			Avg. £/m2	**£6,818.00**	
			Avg. area	**137.50**	

We note that Curchods are currently marketing plot 4 of Oldlands Grange as highlighted above for £975,000 (£6,290/m2). As a 4-bedroom detached new build unit this provides a useful benchmark for the proposed units.

The average £/m2 values and GIAs from the data sets above are summarised below:

	Nimbus (General)	Sold	For Sale	NB For Sale
Avg. £/m2 - Semi	£6,092	£5,173	£4,912	£6,453
Avg. £/m2 - Detached	£6,092	£5,812	£4,919	£6,818
	Sold	**For Sale**	**NB For Sale**	**As Proposed**
Avg. GIA - Semi	105.73	117.74	107.85	128.10
Avg. GIA - Detached	186.88	165.13	92.96	169.90

Further to the above, our client instructed Curchods to value the proposed units, their valuation document can be seen at **Schedule 4**, and we have summarised below for ease of reference:

Unit	Area (m2)	Type	£/m2	Price
1	128.10	3B6P Semi-detached	£6,362.22	£815,000
2	128.10	3B6P Semi-detached	£6,362.22	£815,000
3	128.10	3B6P Semi-detached	£6,362.22	£815,000
4	128.10	3B6P Semi-detached	£6,362.22	£815,000
5	128.10	3B6P Semi-detached	£6,362.22	£815,000

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6	128.10	3B6P Semi-detached	£6,362.22	£815,000
7	128.10	3B6P Detached	£6,362.22	£815,000
8	157.90	4B7P Detached	£6,111.46	£965,000
9	181.90	4B8P Detached	£5,909.84	£1,075,000
Total area (m2)	**1,236.50**		**Total GDV**	**£7,745,000**

Given Curchods are experts in the local market, we have adopted the values proposed, this represents £/m2 values of £6,362 for the semi-detached units and £6,101 for the detached units.

Our appraisal with the corresponding figures,

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 advice from 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.

Timing

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. We therefore allow a 6-month pre-commencement period.

Construction is projected over 14 months with sales expected between months 12 and 18.

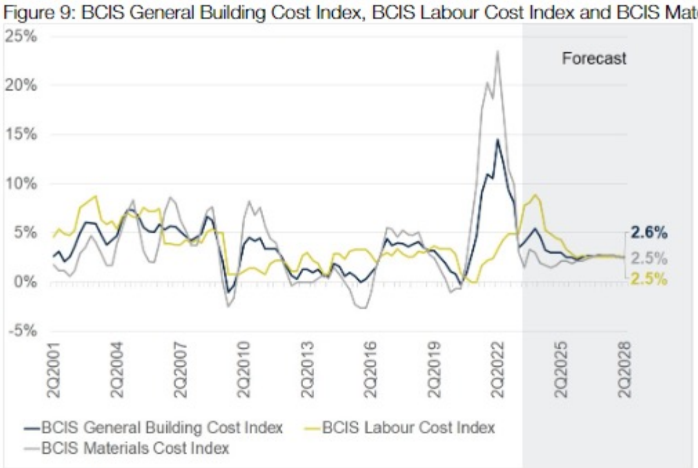
Construction Costs

The below commentary is drawn from the most recent BCIS update.

Wide predictions of a forthcoming recession combined with persistent high inflation provides a bleak outlook for construction over the next two years. Construction demand is expected to shrink, and with fewer opportunities there will be greater keenness to secure work. Although materials prices will fall long term, in the short term, current inflationary pressures are expected to keep labour costs rising resulting in increases in both costs and tenders. Tender prices will be rising more slowly than input costs over the next two years as contractors seek to fill order books and it is not until the last two years of the BCIS forecast period that margins, and output are expected to recover.

Building costs, as measured by the BCIS General Building Cost Index, rose 8.1% in the year to 1Q2023 and the annual rate of inflation continues to follow the downward trend from the recent peak of 14.6% in 2Q 2022. The slowdown in the growth of construction costs is mainly attributed to the fall in material cost inflation, which remains the main driver of building cost inflation. This, however, is expected to change - as the increased cost of labour is predicted to overtake materials to become the main driver of construction costs in the second half of 2023.

Figure 9: BCIS General Building Cost Index, BCIS Labour Cost Index and BCIS Materials Cost Index



Source: BCIS

RICS released further advice in June 2023:

▪ Tender prices in 2Q2023 rose by 1% compared with the previous quarter, and by 4.9% on the same time last year. Labour site rates continue to rise faster than wage awards and are expected to become the main driver of the growth in overall costs in the second half of 2023. Materials' inflation has been easing and supply chain issues are being mostly resolved. Annual growth in tender prices is expected to continue to ease, standing at 2.4% in 2Q2024. It is not until the 2Q2025 that tender prices are likely to rise faster than costs, with tender prices forecast to rise by 16% in the five years to 2Q2028.
▪ Materials prices are expected to go up by 3.1% in the 12 months to 2Q2023. Although overall the availability of materials is at pre-Covid levels and energy prices are going down, costs for some materials, especially those requiring an energy intensive manufacturing process, are seeing high growth rates.
▪ Wage awards over the next year are likely to come under pressure from high inflation, with the annual growth in BCIS Labour cost index forecast at 4.9% in 2Q2024 and 8.3% in 2Q2024. Site rates have already risen in

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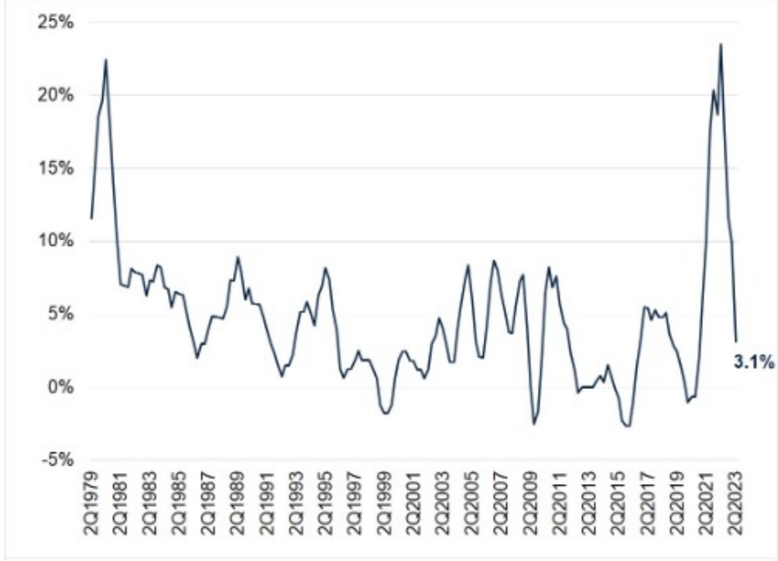
line with inflation and may steady in 2023. This will be reflected in the market conditions element of the TPI.
▪ BCIS General Building Cost Index is forecast to grow by 3.5% in the 12 months to 2Q2023. Costs are predicted to rise by 16.3% over the forecast period (2Q2023 to 2Q2028).
▪ Total new work output grew by 4.4% in 2022 compared with the previous year. New construction output is expected to contract in 2023-2024, before returning to growth thereafter, and rising 13% over the forecast period (2023-2028).

Figure 14: Annual growth in BCIS Materials Cost Index



Source: BCIS

Therefore, while there are initial positive signs, and some predictions of a more competitive environment driving pricing into 2024, overall build costs continue to increase at the current time.

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Taking the above into consideration, the applicant has obtained a site specific Quantity Surveyors cost plan from Mr. David Parker (MRICS) - the full report can be seen at **Schedule 5** and is summarised below for ease of reference.

Item	Cost
Foundations / Slab	£170,000.00
External walls	£422,800.00
Roofs	£301,800.00
Upper floors	£73,800.00
Staircases	£56,000.00
Windows, doors and screens	£151,800.00
Internal partitions	£128,600.00
Internal doors	£72,900.00
Joinery	£283,000.00
Floor finishes	£106,500.00
Wall finishes	£56,200.00
Ceiling finishes	£47,800.00
Decorations	£90,000.00
Sanitary installation	£195,000.00
Plumbing installation	£332,300.00
Electrical installation	£211,400.00
Underground drainage	£70,000.00
Acoustic testing	£3,500.00
Main contractors prelims. (12.50%)	£346,700.00
Main contractors profit (10%)	£312,000.00
TOTAL BASE COST	**£3,432,100.00**
Total GIA (m2)	**1,237.00**
Construction cost £/m2	**£2,774.54**

Our appraisal has been run with the corresponding figure

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External / Abnormal works

The cost plan provided includes external works costs, as shown below:

Item	Cost
Demolitions	£48,000.00
External works	£223,000.00
Incoming services	£54,000.00
NHBC / Warranty	£30,000.00
Main contractors prelims. (12.50%)	£30,100.00
Main contractors profit (10%)	£38,500.00
TOTAL EXTERNAL COST	**£423,600.00**

This represents c. 12.3% of total build costs. The toolkit has been run with corresponding figures.

Fees

Professional fees are often quoted on a range of 8-12%, with separate allowances for planning fees.

The Local Plan CIL Viability Study (Nov 2017) at Table 4.2 (page 17) suggests that a level between of 10% is appropriate. This is not differentiated by site type.

This will vary according to the size and complexity of the scheme. We normally adopt 6-8% for large sites (with repetitive designs and no complicating factors), 10-12% for more differentiated sites (with a variety of different house types or areas) and 10-15% for small sites, where the scale of the fees is often larger due to the lower overall cost of build and lack of potential efficiencies.

We also adopt a figure of 10% for this scheme on the basis of 9 x houses and 1,236.50m2 size of scheme.

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Contingency

PPG Viability para 012 notes:

> *Explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.*

Inflation is currently at 6.3%, which given the early stage of this assessment (pre-planning consent) is a material long-term risk. All prudent developers are currently adopting a standard contingency allowance of 10-20% to account for this risk. While general risk is accounted for in the project's target return, the lower the return assumption the higher the contingency adoption should be, ensuring an operating profit is retained in all instances.

In this case we adopt 5% on the basis of a 20% target return. If the target return is reduced, then the contingency allowance must likewise be adjusted to compensate.

Planning Obligations (S106 contributions & CIL)

Guildford Borough Council have yet to adopt their CIL charging Schedule, However, they currently rely on their developer contributions SPD which was adopted in 2017.

We have estimated the following contributions based on the current SPA and Open Space Contributions tariff 2023-2024:

SPA	£87,194.54
Open Space	£68,412.36
Total	**£155,606.90**

Our appraisal has been run with the corresponding figures.

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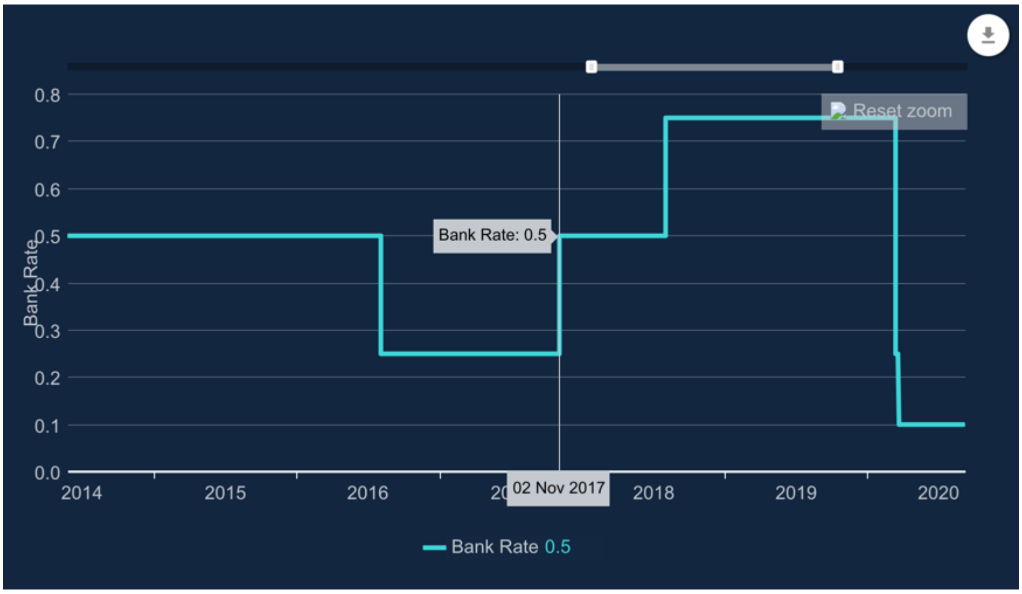
Site Acquisition Costs

The BLV is £1.56m as explained below. We have included acquisition costs comprised of SDLT at 5%, legal fees at 0.75% and agency fees of 1%.

Finance Costs

Given the macro-economic context, lenders have become increasingly risk averse and therefore funding is becoming harder to acquire. The Bank of England maintained the base rate to 5.25% in December 2023 however, further rate rises are expected throughout 2023. The local plan CIL and viability study in May 2022 adopted 6.0%. The base rate at that time was 0.5%. The base rate has increase 4.75% since this date.



Therefore, a minimum interest figure of 9% is appropriate, and has been used in the toolkit. In reality finance deals are now significantly exceeding this level, but as an all-in rate 9% accommodates all fees and is applied to all costs.

Sales/Marketing Costs

We have adopted a sales/marketing cost of 3% and legal fees of £1,000 per unit.

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Developer Profit

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.'*

The RICS guidance similarly notes the test laid out in the PPG as a starting point.

> ### Return to the developer
>
> **4.2.27** 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'. This implies, in addition to other inputs, a similar test regarding developer's profit to that used at the plan-making stage.

The guidance further notes that timescale, uncertainty and any particular characteristics that increase risk are factors which particularly influence profit assumptions.

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 Local Plan Viability Study (November 2017) adopts 20.00% on GDV for open market housing.

Our experience is that for the previously assumed finance terms to be offered by commercial lenders, a minimum of 17.5% is generally required, up to a maximum of 25% on riskier proposals. Development finance will generally therefore set the expectations for return on investment.

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Considering the risk profile of the development we consider the assumption adopted in the Local Plan Viability Study to be appropriate (20%) This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The appraisal has been run accordingly.

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Benchmark Land 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.'*

RICS guidance Assessing Viability in Planning under the NPPF Appendix B lays out the appropriate approach to assessing existing use value, including relevant data sources:

> 5.2.5 The assessment of the BLV requires the assessment of five components. They should be calculated and reported to the plan-maker/decision-maker **separately** to counter circularity arguments that BLVs from one method of valuation have been used as an input into another method, in order to reduce developer contributions.
>
> 5.2.6 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.

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B.1.3 The PPG paragraph 015 identifies the type of evidence base that can be used to support the determination of the EUV and the sources of that evidence. At the plan-making stage, this should be accomplished with collaboration between the plan-makers, developers and landowners, and can use published sources of information on rental and capital values of land and property, such as:

- 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 and
- public sector estate/property teams' locally held evidence.

EUV

The existing site comprises the property at Parker Collins House – a 4-bedroom detached property with a total GIA of 220.27m2. The house is located on a large plot, measuring c. 0.3561 ha.

In order to establish an accurate value for the existing property, we have turned to the sold data which has been extrapolated from Rightmove. All the transactions presented occurred in the past 1 year and are located within 1/2 mile of the subject site.

SOLD - Detached - within 1/2 mile last 2 years.					
Address	**Type**	**Sale Date**	**Area (m2)**	**£/m2**	**Price**
Kimmeridge, Boughton Hall Avenue, Send, Woking, Surrey GU23 7DE	4-bedroom, 3-bathroom large, detached house with double garage and driveway parking sitting on a 0.5acre plot	13/04/2023	225.60	£6,205.67	£1,400,000
Little Dormers, Send Marsh Road, Ripley, Woking, Surrey GU23 6JT	4-bedroom large, detached house with single garage and driveway.	12/04/2023	182.20	£4,720.09	£860,000
Birchwood, Burnt Common Lane, Ripley, Woking, Surrey GU23 6HD	4-bedroom, 2-bathroom detached house with internal garage, cul de sac location	17/11/2022	157.00	£4,840.76	£760,000
Easterbrook, Kiln Lane, Ripley, Woking, Surrey GU23 6EX	4-bedroom, 4-bathroom detached house on large plot	04/11/2022	227.80	£6,281.83	£1,431,000

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Clarons, Boughton Hall Avenue, Send, Woking, Surrey GU23 7DD	4-bedroom, 3-bathroom detached house on 1 acre plot with detached garage.	07/09/2022	282.00	£6,365.25	£1,795,000
			Avg. £/m2	**£5,812.40**	
			Avg. area	**214.92**	

The average achieved value is £5,812.40. However, the properties Kimmeridge and Clarons are of particular interest as they both sit on large plot as does the existing property, this appears to be reflected in the sale price. The average £/m2 of the two highlighted properties is £6,285.46, and once run against the area of the existing property produces a value of £1,384,498.

Our client also obtained advice from Curchods on the value of the existing property, it was their opinion that the value would be circa £1.3m **Schedule 6**, which correlates broadly with the above.

We adopt the lower figure of £1.3m as our EUV.

Premium

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*

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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).'

D.2.4 The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors, third-party rights and covenants
- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.

D.2.5 Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

D.2.6 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.

D.2.7 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.

In this instance, we apply a 20% premium, to obtain a BLV of £1.56m.

AUV

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

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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.'

In this instance we have not considered the AUV of the site.

Policy Compliant Appraisal

In this instance we have not completed a policy-compliant residual calculation as the outcome of the 100% open market appraisal demonstrates this is not viable.

The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the viability toolkit. 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.

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Conclusions

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

Sales	£7,745,000.00
Less Costs	
Construction Costs (Resi)	£3,432,100.00
Commercial Costs (Build & Fees)	£0.00
Other Site Costs	£1,111,182.40
Marketing	£241,350.00
Finance Costs	£444,227.72
Developer Return	£1,549,000.00
Residual Site Value	£967,139.88
Benchmark Land Value	£1,560,000.00
Result	**(£592,860.12)**

To determine the viability of targeted affordable housing provision, the Benchmark Value of the site as stated above, is deducted from the Residual Value calculated by the viability model. If the result is negative, as it is in this case, the development does not achieve the target return on a 100% open market basis and therefore is unlikely to be able to viably deliver the targeted contributions.

The following table summarises the above conclusions.

Spreadsheet Residual Value	**£967,139.88**
Plus Target Developer Return	**£1,549,000.00**
Less Benchmark Value	**£1,560,000.00**
Actual Profit	**£956,139.88**
Percentage actual profit	**12.35%**

This presents a return which is lower than the 20% target identified previously. Any planning obligations would further reduce this level.

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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 to inform assessment of risk.

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%	6.78%	11.78%	16.78%	21.78%	26.78%
	-5%	4.56%	9.56%	14.56%	19.56%	24.56%
	0%	2.35%	7.35%	12.35%	17.35%	22.35%
	5%	0.13%	5.13%	10.13%	15.13%	20.13%
	10%	-2.09%	2.91%	7.91%	12.91%	17.91%

This demonstrates that in 20 out of 25 scenarios the achieved return is below the targeted 20%, suggesting a high-risk development.

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T&Cs and Compliance

1.1 S106M has been instructed by the applicant to review the viability of the proposed development and engage with the local authority and their representatives on this matter.

1.2 Scope of instruction extends to provision of 1 report document and schedules for submission as part of a planning application.

1.3 S106M has not inspected the property.

1.4 This report is prepared as an assessment of the Planning Financial Viability of a proposed development for the purposes of agreeing appropriate Section 106 planning obligations and affordable housing contributions. It is not a valuation of the subject site or scheme. It is exempted from the RICS Red Book on the basis of the parties negotiating and agreeing the planning obligations and the authoritative requirement of the NPPF and PPG. It does not constitute a Red Book valuation report, and should under no circumstances be relied upon as such, although it may refer to the conclusions of third parties in this regard for which no liability is accepted. The date of the report can be viewed on the front page and will require updating for market uncertainty after a reasonable time period has elapsed.

1.5 The report is assumed to be made publicly available for transparency purposes unless otherwise stated. The Executive Summary can be considered a Non-Technical Summary for the purposes of the guidance.

1.6 S106M accepts responsibility only to the commissioning party named at the start of this report alone that this report has been prepared with the skill, care and diligence reasonably to be expected of a competent consultant but accept no responsibility whatsoever to any other person or entity.

1.7 S106M confirm that any RICS members involved in this reporting have complied with the mandatory requirements of RICS Professional Statement Financial Viability in Planning: Conduct and Reporting May 2019, including the following:

- We have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information (para 2.1).
- We have identified no conflicts of interest or risk of conflicts in preparing this report (para 2.2).
- We are not working under a contingent or performance related fee agreement basis (para 2.3).
- We support positive, proactive, transparent and appropriate engagement between all parties in the planning process. This report is prepared on the basis that it will be made publicly available, except in specifically agreed exceptional circumstances (para 2.4).
- We have not been involved in the preparation of the Council's Local Plan Area Wide Viability Assessment (para 2.5); however we have regard to this in line with PPG Viability para 002 and the statutory development plan.
- All inputs are reasonably justified by market and supporting evidence including but not limited to the local plan viability study which justifies the adopted planning policy in line with para 008 PPG Viability (para 2.6-2.7).
- The status of this report is Final as of the dated front page subject to any further reasonable, proactive and constructive negotiations to resolve reasonable professional differences of opinion in line with para 2.6, 2.8 and 2.10 of the Professional Statement.
- Our report includes sensitivity testing in line with the para 2.9.
- Where there are professional differences of opinion over inputs we seek to resolve these during negotiations following submission of the original report in line with para 2.8-2.10. Where differences of opinion cannot be re-

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solved this is stated clearly.

▪ The Executive Summary complies with the Non-Technical Summary requirement of para 2.11.

▪ Any sub-consultants contributing to this report have been made aware of the Professional Statement and its requirements, and confirm compliance with it (para 2.13).

▪ We have been allowed sufficient time since instruction to carry out this FVA bearing in mind the scale of the development and the status of the information as at the date of this report (para 2.14).

▪ Appropriate regard has also been had to RICS Guidance Note: Assessing Viability in Planning under the NPPF 2019 (2021).

Material Uncertainty

In respect of the planning and development sector as at the report date where unprecedented sets of circumstances are highlighted, including for example COVID-19, the Ukraine War and Energy Crisis, creating an absence of relevant/sufficient market evidence on which to base our judgements, our report will be reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of the report less certainty – and a higher degree of caution – should be attached to that report than would normally be the case.

For the avoidance of doubt this explanatory note, including the 'material valuation uncertainty' declaration, does not mean that the report cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which said report may have been prepared. In recognition of the potential for market conditions to move rapidly in response to changes in market conditions we highlight the importance of the valuation date and any reporting material uncertainty.

Quality Control

This report is provided for the stated purpose and for the sole use of the named clients. In line with para 2.12 the following quality control pathway has been taken, with all parties involved in the compilation of this report and history of previous viability discussions noted:

Alex Toma BA Hons

Tim Wills CIHM

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