



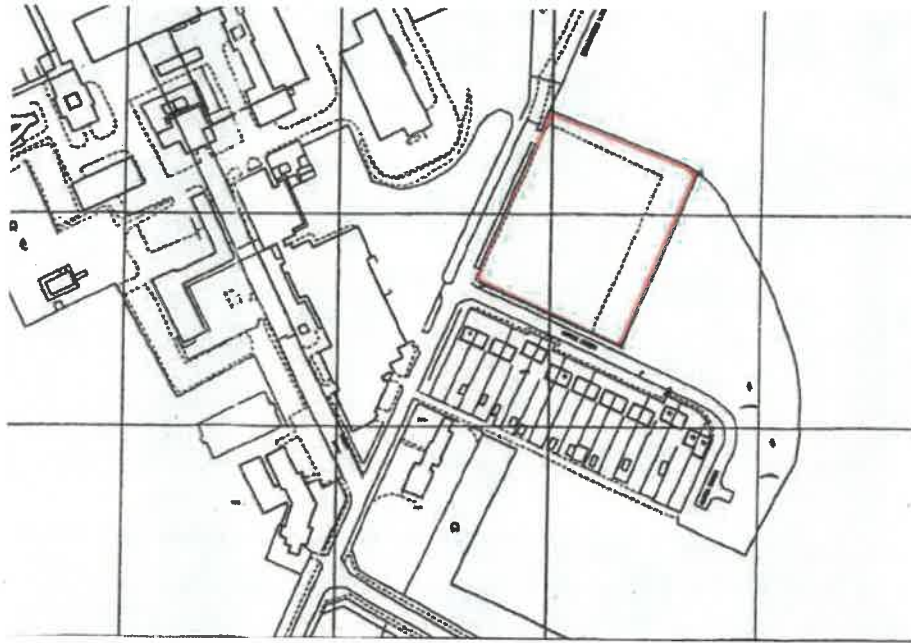
North Green, Calverton Viability Appraisal



1. Introduction

1.1 The report will provide an assessment of the viability of the proposed development of 20 bungalows on former car parking land at North Green, Calverton to determine if the affordable housing and infrastructure obligations required by the Council are economically viable.

1.2 The site measures approximately 0.54Ha and is deemed a brownfield site by virtue of its former use as a Coal Authority car park.



1.3 The viability assessment will be undertaken in the context of the requirements of the NPPF in respect of the imposition of planning obligations in a manner which maintains the economic viability of development. The assessment will also draw on best practice advice contained in the and National Planning Practice Guidance issued by the Government in July 2018 and updated in September 2019.

1.4 The study seeks to assess the ability of the proposed development to make infrastructure or affordable housing contributions. The overall value of the completed development will be assessed and compared with the total costs. The appraisal will make an allowance for a reasonable return to the Landowner and a reasonable return to the Developer as required by statutory guidance.

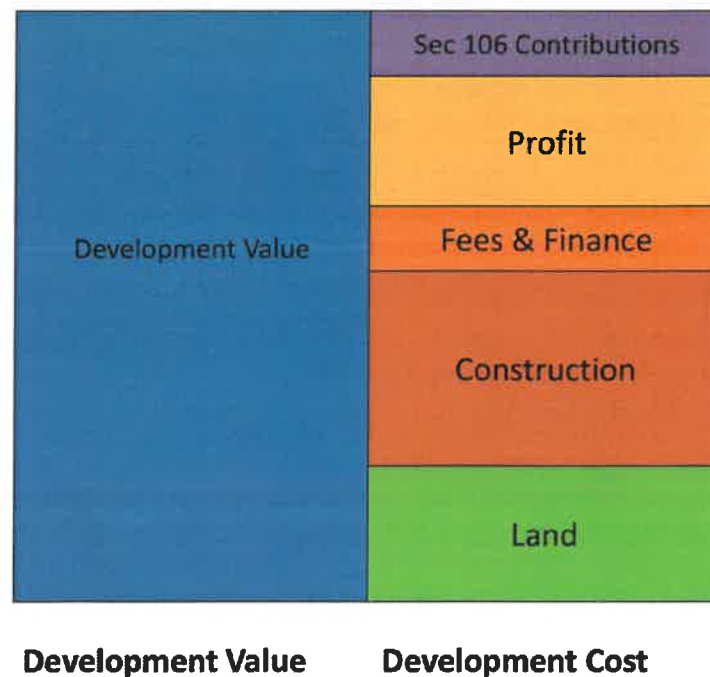
1.5 Having considered the overall value and total costs of the proposed development, the study will consider whether any margin exists, beyond a reasonable developer's profit, to make infrastructure or affordable housing contributions in line with local plan policy targets.

2 Methodology

2.1 The NPPF conveys an obligation on Local Planning Authorities to consider the impact of planning policies, affordable housing requirements and infrastructure contributions on the economic viability of development

2.2 The use of viability models to assess the impact of developer contributions and affordable housing is widely established and well understood. However it is the approach to the allowance for the 'minimum return at which a reasonable landowner would be willing to sell their land' that will determine how robust the assessment is.

The Development Equation



2.3 The appraisal model is illustrated by the above diagram and summarises the 'Development Equation'. On one side of the equation is the development value ie the sales value which will be determined by the market at any particular time. The variable element of the value in residential development appraisal will be determined by the proportion and mix of affordable housing applied to the scheme.

2 Methodology

2.4 On the other side of the equation - the development cost - includes the 'fixed elements' ie construction, fees, finance and developers profit. Developers profit is usually fixed as a minimum % return on gross development value generally set by the lending institution at the time. The flexible elements are the cost of land and the amount of developer contributions (CIL and Planning Obligations) sought by the Local Authority.

2.5 Economic viability is assessed using an industry standard Residual Model approach. The model subtracts the Land Value and the Fixed Development Costs from the Development Value to determine the margin available for Developer Contributions.

Viability Assessment Model

Development Value (Based on Floor Area) Eg 1000sqm Residential Developmentt x £2,200 sqm	£2,200,000
Development Costs	
Land Value	£400,000
Construction Costs	£900,000
Abnormal Construction Costs (Optional)	£0
Professional Fees (% Costs)	£90,000
Legal Fees (% Value)	£30,000
Statutory Fees (% Costs)	£30,000
Sales & Marketing Fees (% Value)	£40,000
Contingencies (% Costs)	£50,000
Finance Costs (% Costs)	£100,000
Developers Profit (% Return on GDV)	£350,000
Total Costs	£1,990,000
Output	
Gross Additional Margin for Contributions	£210,000

An example of a typical viability assessment model

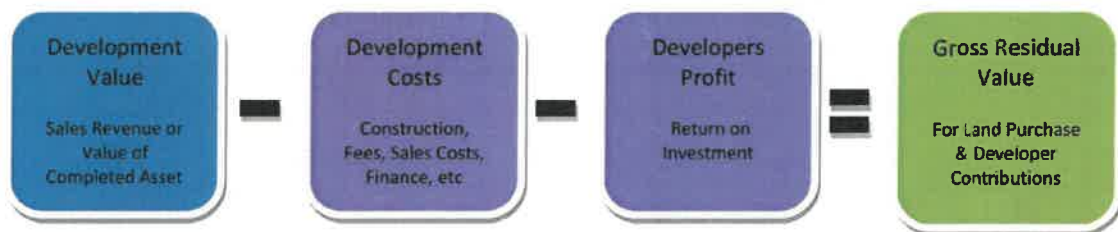
2.6 The model will calculate the gross margin available for developer contributions by considering the following elements of the development equation

2 Methodology

Land Value Assumptions

2.7 It is generally accepted that developer contributions (Affordable Housing, CIL, S106 and S278), will be extracted from the residual land value (i.e. the margin between development value and development cost including a reasonable allowance for developers profit). Within this gross residual value will be a base land value (i.e. the minimum amount a landowner will accept to release a site) and a remaining margin for contributions.

Stage 1 – Residual Valuation



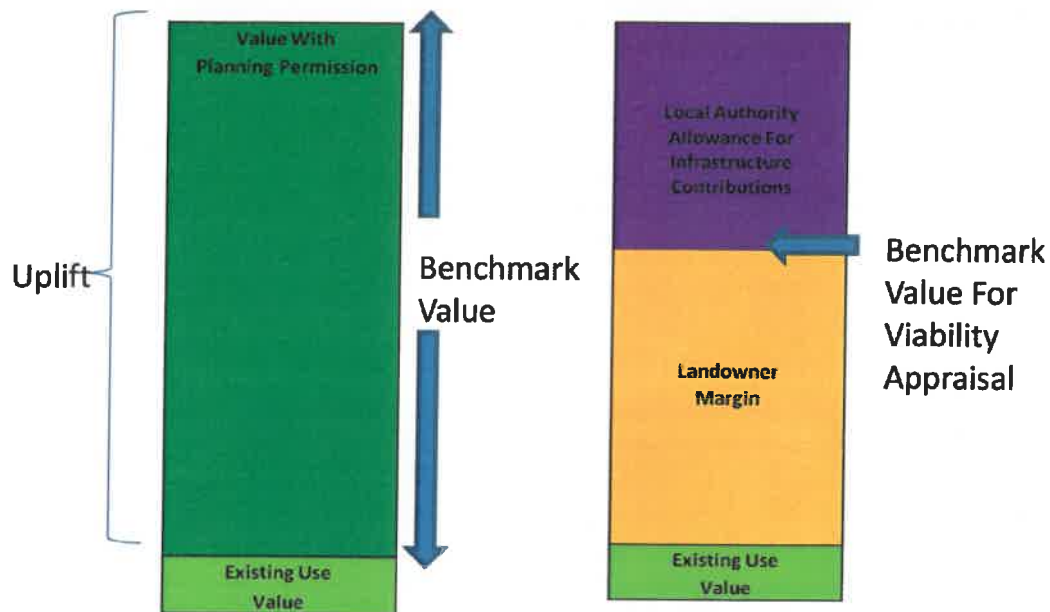
2.8 The approach to assessing the land element of the gross residual value is therefore the key to the robustness of any viability appraisal. There is no single method of establishing threshold land values for the purpose of viability assessment in planning but the NPPF and best practice guidance does provide a clear steer on the appropriate approach.

Stage 2 – Establishing Base Land Value



2 Methodology

Land Value Benchmarks



2.9 The above diagram illustrates the principles involved in establishing a robust benchmark for land value. Land will have an existing use value (EUV) based on its market value. This is generally established by comparable evidence of the type of land being assessed (e.g. agricultural value for greenfield sites or perhaps industrial value for brownfield sites may be regarded as reasonable existing use value starting points and may be easily established from comparable market evidence)

2.10 The Gross Residual Value of the land for an alternative use (e.g. residential use) represents the difference between development value and development cost after a reasonable allowance for development profit, assuming planning permission has been granted. The gross residual value does not make allowance for the impact of development plan policies on development cost and therefore represents the maximum potential value of land that landowners may aspire to.

2.11 In order to establish a benchmark land value for the purpose of viability appraisal, it must be recognised that Local Authorities will have a reasonable expectation that, in granting planning permission, the resultant development will yield contributions towards infrastructure and affordable housing. The cost of these contributions will increase the development cost and therefore reduce the residual value available to pay for the land.

2.12 The appropriate benchmark value will therefore lie somewhere between existing use value and gross residual value based on alternative planning permission. This will of course vary significantly dependent on the category of development being assessed. The key part of this process is establishing the point on this scale that balances a reasonable return to the landowner beyond existing use value and a reasonable margin to allow for infrastructure and affordable housing contributions to the Local Authority.

2 Methodology

Benchmark Land Value Guidance

2.14 In July 2018 the Government issued the revised NPPF and published guidance on best practice in viability assessment (Planning Practice Guidance for Viability). With respect to land value benchmarking the updated guidance states the following :-

“How should land value be defined for the purpose of viability assessment?”

To define land value for any viability assessment, a benchmark land value should be calculated 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 fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called ‘existing use value plus’ (EUV+).

In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process.

What factors should be considered to establish benchmark land value?

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value 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 but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

2 Methodology

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

What is meant by existing use value in viability assessment?

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.

How should the premium to the landowner be defined for viability assessment?

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 land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

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

AMK Approach to Benchmark Land Values

2.15 In line with the above guidance we adopt a benchmark land value following the following principle :

Existing Use Value (EUV)	+	Premium (To reflect reasonable incentive For landowner to sell)	=	Benchmark Land Value (BLV)
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2.16 The EUV will reflect an appropriate market comparable land value for either greenfield or brownfield existing use value dependent on the type of site being assessed.

3 Viability Appraisal Assumptions

Property Sales Value

3.1 A valuation of the proposed development has been prepared by [REDACTED]. This is provided separately to this report. It is noted that these values significantly exceed the zone 2 residential sales rates of £2150/sqm adopted in the viability study to support the Local Plan in 2016.

3.2 The following schedule sets out proposed sale values giving a total project value of £2,880,150 for the 20 unit scheme.

Type	Units	Size	Sqm Value	Unit Value	Total Value
1 Bed B Semi	2	47	£2,800	£131,600	£263,200
1 Bed B Detach	1	47	£2,950	£138,650	£138,650
1 Bed D Semi	6	47	£2,800	£131,600	£789,600
1 Bed D Terrace	3	47	£2,700	£126,900	£380,700
2 Bed C Detach	2	60	£2,800	£168,000	£336,000
2 Bed E Semi	4	60	£2,650	£159,000	£636,000
2 Bed E Detach	2	60	£2,800	£168,000	£336,000
	20				£2,880,150

Land Value Allowance

3.3 Based on the approach set out at para 2.15 above the land value allowance in the appraisal is based on the following :-

Existing Use Value	+	Premium	=	Benchmark Land Value
(EUV)		(To reflect reasonable incentive For landowner to sell)		(BLV)
£232,000	+	£58,000	=	£290,000

3.4 The EUV is based on minimum brownfield value in this area. The NCS viability study undertaken to support the Local Plan in 2016 adopted a brownfield EUV of £450,000 per Ha. The 0.54 Ha site is therefore deemed to have an EUV of £232,000. A premium of 25% is added to represent a reasonable incentive for the landowner to release the site in accordance with the NPPG guidance. This equates to £58,000.

3.5 Based on the EUV + Premium approach the Benchmark Land Value adopted in the appraisal is £290,000.

3 Viability Appraisal Assumptions

Construction Standards

3.6 The study assumes adoption of the latest Building Regulation requirements which are similar to former Code for Sustainable Homes 4 cost levels.

Construction Costs

3.7 The projected construction rates for the remainder of the development reflect allowances for external works, drainage, servicing and preliminaries. The viability assessment includes an industry standard 5% allowance for new build construction contingencies.

3.8 The construction cost rates adopted in the appraisal are £1475sqm

3.9 The proposed construction rates compare favourably to BCIS median build cost rates benchmarked for the Gedling Borough area prior to Corona lockdown at January 2020, set out at Appendix II, which indicate a base construction rate of £1532sqm for single storey estate housing. (base rate of £1393sqm plus 10% externals)

3.10 The following schedule indicates overall construction costs.

Type	Units	Size	Sqm Cost	Unit Cost	Total Cost
1 Bed B Semi	2	47	£1,475	£69,325	£138,650
1 Bed B Detach	1	47	£1,475	£69,325	£69,325
1 Bed D Semi	6	47	£1,475	£69,325	£415,950
1 Bed D Terrace	3	47	£1,475	£69,325	£207,975
2 Bed C Detach	2	60	£1,475	£88,500	£177,000
2 Bed E Semi	4	60	£1,475	£88,500	£354,000
2 Bed E Detach	2	60	£1,475	£88,500	£177,000
	20				£1,539,900

Abnormal Construction Costs

3.11 The build cost rates outlined above are for standard residential and commercial construction.

3.12 The land lies in close proximity to a former coal mine and was formerly used as an industrial car park. High levels of carbon dioxide have been identified on site, which will result in a significant uplift in costs associated with the ground floor construction including vented zones, gas proof membranes and sealing of penetrations. High levels of PAHs have also been recorded in the existing car park make up. Capping these areas will be required to locations of landscaped areas and removed costs will be high due to the contaminated made ground on this brown field site.

3 Viability Appraisal Assumptions

Due to site levels, it is likely that a number of plots will require private pumping systems for the foul water. The existing pumping station is unlikely to be sufficient and may need upgrading and tank storage added.

3.13 The following abnormal construction costs are estimated in association with the rectification and development of this brownfield site :-

i) Removal of car park Tarmac and disposal	£27,000
ii) Excavate and dig out 700mm of contaminated soil in soft landscaping areas and dispose, import 100mm of type 1 stone rolled and compacted, lay yellow marker barrier, provide 450mm of clean certified sub soil and 150mm of certified top soil.	£76,000
iii) Install gas monitoring for 3 months	£5,000
iv) Gas protection measures including gas membrane/Mechanical venting/ insitu reinforced suspended floor slab to suit NHBC traffic light system to each house £5000 per house	£100,000
Install private pumping to each dwelling as required to foul water to suit existing levels. Allow for upgrade of existing pumping station to North Green Road	£50,000
Total	£258,000

Fees & Ancillary Costs

3.14 It is important to note statutory guidance with respect to the application of generic allowances for development costs. Planning Practice Guidance on Viability (Para 008 Reference ID: 10-008-20190509) has a “refer back” requirement for viability assessments submitted to accompany a planning application, to 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”. The starting point for appraisal assumptions at the Decision Making stage will be those adopted in the Gedling Local Plan Viability Assessment March 2016.

3.15 The fee and other cost calculations are based on the following allowances for professional fees, legal fees, planning fees, Building Regulation fees, Warranties and Sales and Marketing costs. These reflect the allowances adopted in the Viability Assessment that informed the Affordable Housing and Developer Contribution policies in the Gedling Local Plan.

Construction Contingency	5.0%	Build Cost
Professional Fees @	8.0%	Build Cost
Legal Fees	0.5%	Market Value
Statutory Fees	1.1%	Build Cost
Sales/Marketing Costs	2.0%	Market Value

3 Viability Appraisal Assumptions

Finance Costs

3.16 An allowance of 5% fixed interest costs over the construction period has been made to reflect current lending rates for speculative development.

3.17 It is estimated that the scheme will take around 12 months to complete if market conditions remain stable. The Viability model calculates finance payments based on an assumption that costs be carried for an average of 12 months with an additional sales allowance of 6 months.

Developers Profit

3.18 Developers profit is generally fixed as a % return on gross development value or return on the cost of development to reflect the developer's risk. In current market conditions, and based on the prevailing lending conditions of the financial institutions, a 20% return on GDV is generally used as a minimum industry standard in residential viability appraisals to reflect speculative risk. A reduced 'contractor only' profit allowance of 6% is applied to any affordable housing element (where applicable) to reflect the reduced sales risk for property that is effectively 'pre-sold'. These allowances reflect those adopted in the Gedling Local Plan Viability Assessment March 2016 as required by statutory guidance.

Planning Obligation Contributions

3.19 It is understood that the Council are seeking a financial contribution towards off site open space provision and maintenance of £44,000.

3.20 The Council currently requires 20% Affordable Housing provision with 3 Affordable Rent units and 1 Intermediate unit.

3.21 A fixed Community Infrastructure Levy contribution of £62,056 has been included.

4 Results & Conclusions

4.1 The results of the Viability Appraisal are set out at Appendix I. The Residential appraisal calculates the level of Affordable Housing that is viably achievable and shows that even with 0% delivery, the development demonstrates negative viability of -£292,907. The appraisal therefore illustrates that even before affordable housing discounts are applied, the costs of the overall development compared to the projected value do not allow for a reasonable development profit or return for the landowner.

4.2 The additional impact of 20% Affordable Housing provision and £44,000 of public open space contribution would make the development uneconomic and undeliverable.

4.3 It is considered that up to date evidence of viability has been provided based on current market costs and values as advised by the statutory guidance and that due to the significant abnormal costs associated with the development and the fixed CIL charge, it has been demonstrated that the development is not capable of providing the 20% affordable housing contribution and £44,000 infrastructure contribution based on current market conditions.

4.4 The appraisal demonstrates that the overall viability position becomes positive with a reduced 14% developers return and if the applicants fund construction from internal resources to reduce the borrowing costs. The applicant can confirm that the scheme can proceed on this basis if the Affordable Housing and S106 contribution requirements are removed and therefore seek to remove all relevant planning obligation requirements on viability grounds.

Appendix I

Viability Appraisal

**20 Bungalows,
North Green, Calverton**

Appendix I

Vi-ab ² Residential Viability Appraisal	
SITE LOCATION North Green Calverton	
NET DEVELOPABLE SITE AREA	0.54 Ha
DEVELOPMENT SCENARIO	Brownfield (Greenfield, Brownfield or Residual)
UNIT NUMBERS	20 Total Units
Affordable Proportion %	0% Affordable Units
Affordable Mix	0% Intermediate 0% Social Rent 0% Affordable Rent
Development Floorspace	1044 Sqm GIA Market Housing 0 Sqm GIA Affordable Housing
DEVELOPMENT VALUE	
Total Housing Sales Area (I.e. Net Floorspace)	Apartments 0 sqm Houses 1044 sqm
MARKET HOUSES	
	Area Sales Value
Apartments	0 sqm 0 £ per sqm £0
Houses	1044 sqm 0 £ per sqm £2,880,150
AFFORDABLE HOUSING	
Intermediate	60% of Open Market Value
Apartments	0 sqm 0 £ per sqm £0
Houses	0 sqm 0 £ per sqm £0
Total Intermediate Affordable Housing Value £0	
Social Rent	40% of Open Market Value
Apartments	0 sqm 0 £ per sqm £0
Houses	0 sqm 0 £ per sqm £0
Total Social Rent Affordable Housing Value £0	
Affordable Rent	50% of Open Market Value
Apartments	0 sqm 0 £ per sqm £0
Houses	0 sqm 0 £ per sqm £0
Total Affordable Rent Housing Value £0	
Total Development Value £2,880,150	
DEVELOPMENT COSTS	
LAND COSTS	
	Net Site Area Market Housing Land Area Affordable Housing Land Area
	0.54 Ha 0.54 Ha 0.00 Ha
Market Hsg Land Value	£0 per Ha Total Market Land Value £290,000
Affordable Hsg Land Value	£0 per Ha Total Aff Hsg Land Value £0
Land Acquisition Fees & SDLT £4,522	
Total Land Cost £290,000	
CONSTRUCTION COSTS	
Apartments	0 sqm 0 £ per sqm £0
Houses	1044 sqm 0 £ per sqm £1,539,000
Total Construction Cost £1,539,000	
FEES, FINANCE & ANCILLARY COSTS	
Abnormal Costs	258000 £ £258,000
Professional Fees	8.0% of Construction Cost £123,120
Legal Fees	0.5% of Gross Development Value £14,401
Statutory Fees	1.1% of Construction Cost £16,929
Sales/Marketing Costs	2.0% of Market Units Value £57,603
Contingencies	5.0% of Construction Cost £89,850
Planning Obligations	0 £ per unit £0
CIL	0 £ per sqm Market Housing £62,056
Interest	5.0% 12 Month Construction 15 Mth Sale Comp £116,991
Arrangement Fee	1.0% of Total Costs £24,555
Development Profit	Market Hsg 20.0% of GDV Aff Housing 6.0% AH GDV £576,030
Total Costs £3,175,057	
VIABILITY MARGIN -£292,907	

Appendix II

BCIS Construction Cost Rates **Gedling Borough Council January 2020**

Appendix II



£/m2 study

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

Last updated: 18-Jan-2020 00:39

> Rebased to Getting (101; sample 13)

Maximum age of results: Default period

Building function (Maximum age of projects)	Mean	Lowest	Lower quartile	Median	Upper quartile	Highest	Sample
New build							
010. Housing, mixed developments (15)	1,295	664	1,126	1,255	1,419	2,959	1255
010.1 Estate housing							
Generally (15)	1,290	617	1,103	1,246	1,410	4,484	1648
Single storey (15)	1,445	818	1,230	1,393	1,530	4,484	271
2-storey (15)	1,280	617	1,090	1,218	1,368	2,658	1264
3-storey (15)	1,308	813	1,067	1,271	1,465	2,614	108
4-storey or above (15)	2,695	1,343	2,195	2,384	3,536	4,016	5
010.11 Estate housing detached (15)	1,626	967	1,205	1,431	1,701	4,484	21
010.12 Estate housing semi detached							
Generally (15)	1,285	745	1,106	1,252	1,407	2,387	392
Single storey (15)	1,428	897	1,222	1,398	1,596	2,387	77
2-storey (15)	1,253	745	1,102	1,226	1,373	2,171	300
3-storey (15)	1,218	627	964	1,165	1,292	1,866	15
010.13 Estate housing terraced							
Generally (15)	1,327	811	1,101	1,253	1,459	4,018	326
Single storey (15)	1,493	981	1,244	1,440	1,748	2,116	35
2-storey (15)	1,283	811	1,090	1,242	1,434	2,668	239
3-storey (15)	1,323	813	1,063	1,258	1,459	2,614	49
016. Flats (apartments)							
Generally (15)	1,513	758	1,268	1,444	1,708	5,142	927
1-2 storey (15)	1,445	896	1,232	1,383	1,604	2,672	220
3-5 storey (15)	1,489	758	1,261	1,427	1,683	3,216	612
6 storey or above (15)	1,842	1,125	1,508	1,720	1,973	5,142	32

