Independent Viability Experts

FAO [redacted]
Planning Officer
Gedling Borough Council

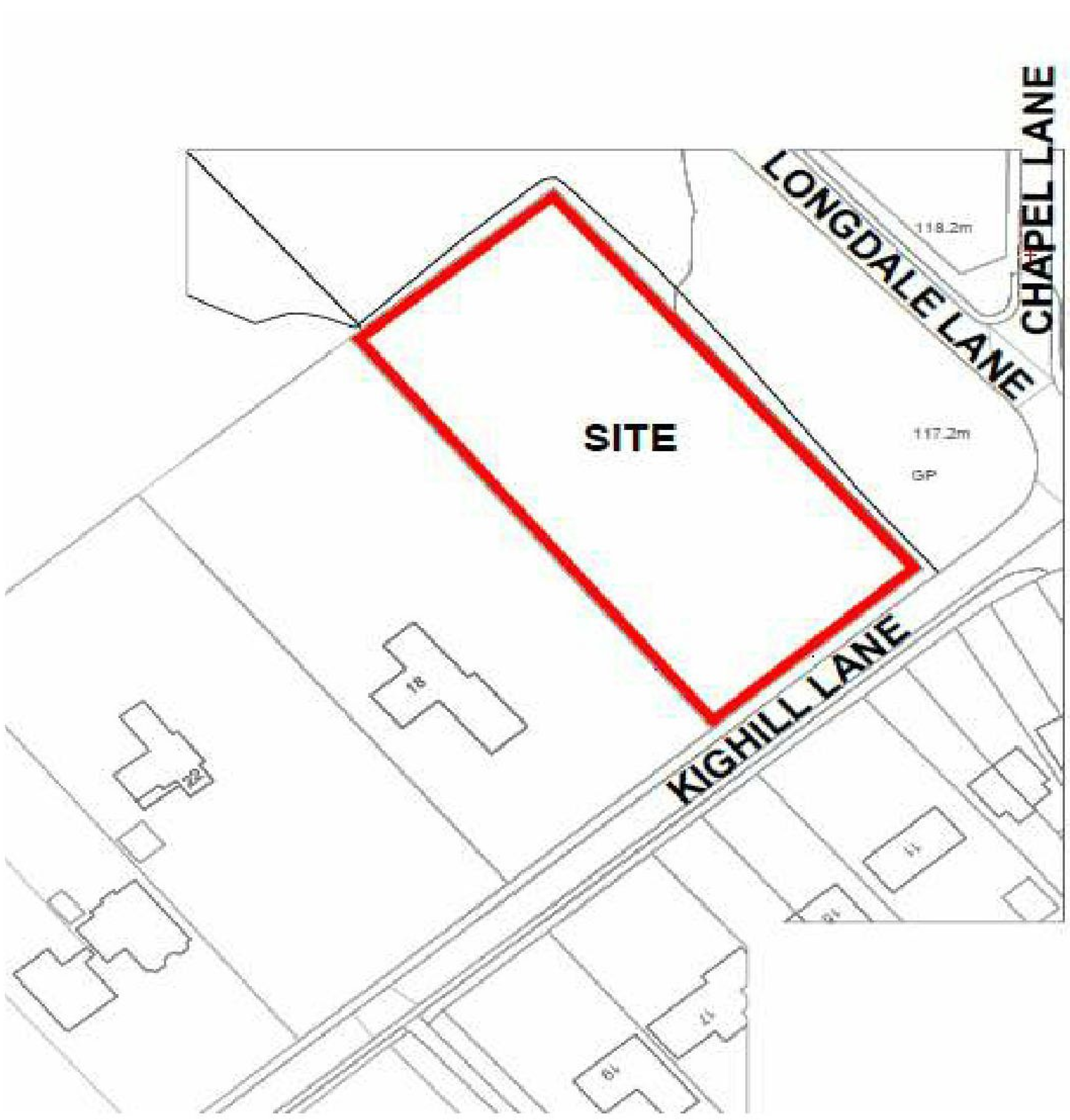
Sent by email only

[redacted]

**Our ref:** DN-0448
**Your ref:** 2020/1108
**Date:** 22nd January 2021

Dear [redacted]

**PROPERTY ADDRESS:** **Land East Of 16 Kighill Lane, Ravenshead NG15 9HN**
**INSTRUCTING BODY:** **Gedling Borough Council**
**APPLICANT:** **L, E & W Nightingale**




Further to your instructions and our terms of engagement dated 4 January 2021, we are pleased to report as follows.

## 1. Property Overview

1.1. The site is located to the north of Kighill Lane, just to the south of the built-up area of Ravenshead village, which itself lies about 4 miles to the south of Mansfield and 4 miles to the north east of Hucknall. Nottingham is situated just less than 9.5 miles to the south. The A60 Mansfield to Nottingham trunk road is a quarter of a mile to the west of the site where Kighill Lane joins it. The nearest connection to the strategic road network is Junction 27 of the M1, circa 4.75 miles to the west. Ravenshead offers a mix of amenities and local facilities including a Post Office, library, pubs, Sainsburys Local and other retail stores, most of the latter being located in Milton Court, a 1960/1970s shopping precinct, about three quarters of a mile to the north of the subject site. The nearest rail connection is at Newstead, 2.75 miles to the west.

1.2. More specifically, the subject site is located close to the junction of Kighill Lane and Longdale Lane, slightly separated from the edge of the settlement by agricultural fields and other undeveloped land. Kighill Lane itself is characterised by mainly large detached dwellings of varying ages and styles but higher quality. To the north is an area of woodland and a field; to the east is a further area of undeveloped land adjoining Longdale Lane; to the west is a 2 storey, recently built large detached dwelling (16 Kighill Lane itself) and to the south is the frontage with Kighill Lane. Access to the site is via Kighill Lane (although there is no physically formed access into the site currently).

1.3. The site itself consists of an area of undeveloped grassland. The site is generally flat, apart from a slight slope from south west to north east in the northern part of the site. Although a footpath is shown crossing the northern part of the site diagonally from the eastern boundary to the north west corner on some maps, this is not a public footpath and the Ordnance Survey map shows the footpath running around the edge of the site.

1.4. The site is rectangular and, according to the applicant's Viability Appraisal dated 23rd November 2020, extends to circa 0.39 Ha (0.97 acre), on a gross basis.

1.5. Recent / ongoing new build activity in the locality includes:

- Dukeries Homes Berkley Grange scheme (at 22 Kighill Lane) of 6 detached (3 and 4 bed) 2 storey houses and bungalows, on the same side of Kighill Lane, only 90 yards to the south west of the subject site. (Ongoing)

- 16 Kighill Lane itself, a 5 bed 2 storey dwelling built by DDM Homes and occupied with no public sale recorded.

1.6. Other relatively recent developments have all mainly taken place over 5 years ago.

1.7. In terms of relevant planning background, the subject site forms one of a series of allocated sites, all adjoining one another, in the Council's Part 2 Local Plan housing allocation, with the subject site forming part of site X5 as identified within Policy LPD67. The two developments noted above also form part of this allocation.

1.8. As a result of separate landholdings and piecemeal submission of applications for different parts of site X5, the Council considers that the proposed scheme is still liable for an affordable housing and other developer contributions.

1.9. In terms of past applications relating to the subject site we note the following:

- *2019/1187 Erection of up to 8 dwellings with (private) accesses and garaging.* This was refused by Gedling Borough Council on 23 October 2020 on several grounds, including the development's "...cramped, over intensive and contrived..." nature and the lack of a viability assessment to support the scheme's inability to support the "...required contributions...". This is now the subject of an appeal which challenges (amongst other items) the Council's requirement for the site to be considered alongside adjacent plots (within site X5) in terms of developer contributions.

1.10. The current application (2020/1108) is for:

*"Erection of up to 7 dwellings with (private) accesses and garaging"*

1.11. According to the Viability Appraisal dated 23rd November 2020 prepared and submitted by the applicant (in support of the planning application and a proposed change in policy), the scheme will comprise the following schedule of accommodation:

| Type | Beds | Units | Sq ft | Total sq ft |
|---|---|---|---|---|
| Plots 1 to 3 - 2s detached | 4 | 3 | 3,154 | 9,462 |
| Plots 4 to 7 - 2s detached | 4 | 4 | 2,928 | 11,712 |
| | | **7** | | **21,174** |

## 2. Scope of Assessment and General Assumptions

2.1. The applicant has submitted a Financial Appraisal dated 23rd November 2020. The applicant has indicated that their adopted assumptions builds on a previous viability undertaken by Freeths in December 2018, which was submitted in connection with a nearby 6 dwelling scheme at 22 Kighill Lane (planning ref 2018/1186). Based on their report and its accompanying appraisal, the applicant concludes that "...demands for both Section 106 together with affordable housing cannot be reasonably justified on economic/viability grounds."

2.2. We have been instructed to provide an independent viability assessment of the scheme, with a view to advising the Council as to the appropriate level of affordable housing and S106 contributions that the scheme can viably deliver.

2.3. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that in completing this instruction CP Viability Ltd have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

2.4. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that prior to accepting this instruction we undertook a conflict of interest check. It is stressed that as an organisation we only provide independent viability reviews upon the instruction of Local Authorities and therefore can guarantee that we have not provided viability advice on behalf of the applicant for this scheme. Within this context and having undertaken a review we are unaware of any conflict of interest that prevents CP Viability from undertaking this instruction. If, at a later date, a conflict is identified we will notify all parties to discuss how this should be managed.

2.5. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that the fee agreed to undertake this review is a fixed rate (covering the elements set out in our fee quote / terms of engagement) and is not performance related or a contingent fee.

2.6. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that CP Viability Ltd is not currently providing ongoing advice to Gedling Borough Council in area-wide financial viability assessments to help formulate policy.

2.7. As stated within the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) it is now a mandatory requirement to provide sensitivity analysis of the viability results. This is to demonstrate to the applicant and decision maker the impact that changes to inputs have on the viability outcome and also to help the assessor reach an informed conclusion. We have subsequently undertaken sensitivity testing as part of this review.

2.8. We have assessed the viability of the scheme as at 11th January 2021.

2.9. This assessment does not provide a critique of the proposed development design (i.e. we have not commented on the efficiency of design, density etc). Our role is limited to testing the viability of the proposals as detailed in the relevant planning application.

2.10. We have relied on the information provided to us by the instructing body and the applicant and in particular information publicly available through the Council's planning portal website.

2.11. We have not met either of the Instructing Body or the applicant and subsequently have not partaken in any negotiations regarding the scheme.

2.12. In accordance with the RICS Guidance on Viability (Guidance Note 1, 2012), our appraisal assumes a hypothetical landowner and a hypothetical developer. The intention of a viability assessment is therefore to identify the approach a 'typical' or 'average' developer / landowner would take to delivering the site for development. A viability assessment does not therefore seek to reflect the specific circumstances of any particular body (whether landowner or developer).

2.13. In undertaking our appraisals, we have utilised the ARGUS Developer toolkit. This is an industry approved cash-flow model, designed specifically for residual appraisals and has also been used the applicant is preparing their own appraisal.

2.14. This report reflects the independent views of CP Viability, based on the research undertaken, the evidence identified and the experience of the analysing surveyor.

## 3. The Applicant's appraisal – summary

3.1. As stated in 2.1 above, the applicant's assessment is based on providing a 7 dwelling scheme of 4 bedroom detached houses, for which they consider 3 scenarios, namely:

- Scenario 1 – non-target policy compliant, with 100% market value for sale dwellings and no S.106 or affordable housing contributions. This delivers a residual rate of return on revenue of 18.71%. A variation (1A) shows that the scenario could support "requested" contributions to education and open space amounting to £61,490, as well as CIL at £192,471.

- Scenario 2 - target policy compliant, with (circa) 30% affordable housing (2 dwellings) and all "requested" contributions to education and open space amounting to £61,490, as well as CIL at £192,471. This delivers a residual rate of return of 0.49%.

- Scenario 3 – identical to Scenario 2, but presented showing the residual appraisal target as the land value rather than the rate of return on revenue. This shows a negative residual land value of -£509,500.

3.2. The applicant's planning consultant, Aspbury, subsequently conclude in their covering email dated 25th November 2020 that the scheme "...remains viable at 17.47% if agreement were to be reached that contributions towards education and open space were to be justified by the council or potentially offered by the applicant."

3.3. For the purposes of this section we have focused on Scenario 2 (i.e. a policy compliant scheme).

3.4. In looking to summarise the applicant's assumptions we have categorised the costs provided under what we consider to be the most common sections of a viability appraisal. For example, all costs which we believe relate to the basic construction of a dwelling (including a contractor's margin or developer's overhead) have been allocated under "Plot construction". Likewise, those costs which are considered to relate to typical external works, such as highways, drainage, general services etc are allocated under "Externals / infrastructure". Any unusual costs are referred to as "Abnormals", and so on. This categorisation approach allows us to undertake a comparison between the subject scheme and other developments we have assessed.

Gross Development Value (Revenue)

| Type | No. | Average £ per sq ft | Total |
|---|---|---|---|
| Plots 1 & 2 - 4 bed detached | 2 | £246 | £1,550,000 |
| Plots 5 to 7 - 4 bed detached | 3 | £242 | £2,125,000 |
| Plot 3 - 4 bed detached (affordable) | 1 | £103 | £350,000 |
| Plot 4 - 4 bed detached (affordable) | 1 | £103 | £275,000 |
| **Total** | **7** | | **£4,300,000** |

Gross Development Cost (Outgoings)

| Type | Notes | Total |
|---|---|---|
| Estate housing | £158 psf (inc externals) | £3,343,900 |
| Contingency | 2.5% of build costs | £83,598 |
| Professional fees | 6% of build costs | £200,634 |
| S.106 costs | Education/open space | £61,500 |
| CIL | 1,967 sq m @ £97.85 per sq m | £192,471 |
| Sales & marketing | 2.0% of revenue | £73,500 |
| Sales legal fee | £500 per unit | £3,500 |
| Finance | | £117,926 |
| Land value | £206,477 per gross acre | £200,000 |
| Acquisition costs | SDLT/legal | £2,000 |
| **Total** | | **£4,279,028** |

3.5. Based on the applicant's appraisal assumptions, the scheme delivers a residual rate of return on revenue of 0.49% (blended). On that basis, the scheme is therefore shown to be unviable.

3.6. The applicant then considers an alternative scenario (Scenario 1a) which excludes the affordable housing provision and concludes that the removal of the affordable housing provision will enable the scheme to deliver a residual rate of return on revenue of 17.47% together with all other assumed planning policy contributions/CIL.

3.7. However, please note that since the submission of their original appraisal on 23rd November 2020 the applicant has received further evidence on the sales values (from a key comparable at 22 Kighill Lane, close to the subject property) which points to the values adopted by the applicant as being too high. This would have a negative impact on the scheme viability, compared to that shown in the applicant's appraisal above. This updated evidence has been submitted to us / the Council via email on 12th January 2021. This is considered in more detail below in Section 4.

## 4. CP Viability's appraisal

<u>Gross Development Value (Revenue)</u>

4.1. We have based our assessment of value for the completed dwellings on the mix detailed above (see 1.11).

4.2. As stated above, in their appraisal the applicant assumes an average value equivalent to £246 per sq ft (£775,000) for the larger detached dwellings and £242 per sq ft (£708,333) for the smaller detached dwellings. Their adopted values have been assessed by referring to the District Valuer Services report on the scheme at 22 Kighill Lane and applying an indexation factor from the Nationwide for the East Midlands of 5.68% (Q4 2018 to Q3 2020). The applicant's overall adopted sales revenue (assuming no affordable housing) total £5,125,000 (equivalent to £242.04 per sq ft).

4.3. However, since completing their original viability assessment on 23rd November 2020, the applicant has been provided with actual sales evidence achieved at 22 Kighill Lane (known as 'Berkley Grange' and being brought forward by Dukeries Homes). This scheme is very similar to the subject scheme and is therefore considered to be the strongest comparable evidence currently available. The current status of the scheme, as per the sales information identified, is as follows:

- Plot 1: 3 bed bungalow (1,226 sq ft GIA) sold £410,000 (£334 psf)
- Plot 2: 3 bed bungalow (1,226 sq ft GIA) sold £399,950 (£326 psf)
- Plot 3: 4 bed detached (3,091 sq ft GIA) asking price £725,000 (£234.55 psf)
- Plot 4: 4 bed detached (2,948 sq ft GIA) asking price £649,950 (£220 psf)
- Plot 5: 4 bed detached (2,240 sq ft GIA) under offer at £519,950 (£232 psf)
- Plot 6: 4 bed detached (2,950 sq ft GIA) under offer at £649,950 (£220 psf)

4.4. The most comparable dwellings to the subject property are Plots 3, 4 and 6 (each being very similar to what is being proposed at the subject site).

4.5. As this is considered to be strong evidence of the market for this type of product in this location we accept that the values applied to the subject scheme should be in keeping with those at 22 Kighill Lane. In light of this, for the 4 bed detached dwelling of 3,154 sq ft we consider a rate of £235 per sq ft to be appropriate (equivalent to £741,190). For the 4 bed detached of 2,928 sq ft a rate of £220 per sq ft is deemed reasonable (equivalent to £644,160 per dwelling).

4.6. For affordable rented dwellings, the applicant has applied a discount to market value consistent with their interpretation of the figures in the DVS report referred to in 4.2 above, adopting an average figure of £103 per sq ft for the 2 units. This is considered to be reasonable and therefore we have adopted the same in our appraisal.

Build costs

4.7. For the basic construction costs the applicant has adopted a rate of £157.92 per sq ft, which is understood to cover external works. The applicant states that the costs compare favourably to the increase in build costs since Q4 2018 reported by the Build Cost Information Service ("BCIS"). An additional allowance is made for contingency equivalent to 2.5% of these construction costs.

4.8. BCIS is a database regularly used in the construction industry. Like all databases the BCIS does have its limitations, however the majority of the data relates to schemes of 20 dwellings or less (i.e. a similar scale to the subject property). For this reason, the BCIS is considered to be a reasonable point of comparison for the construction costs.

4.9. However, please note that the BCIS data includes plot construction costs, preliminaries and contractor's margin, however it does not include external costs, abnormals and contingency (and therefore these items need to be allowed for separately).

4.10. We have reviewed the relevant BCIS data (rebased to Gedling), which shows the following:

- New build Estate housing detached Median £1,390 per sq m (£129.13 per sq ft)

4.11. Using the applicant's construction cost of £157.92 per sq ft this would equate to an external cost equivalent to 22.29% above the BCIS rate. In our experience, we typically see external costs in the region of 15% on the BCIS rate. Within this context the applicant's construction cost allowance appears high.

4.12. Having considered the above, for the purposes of our review we have applied the BCIS median rate of £129.13 per sq ft, plus an additional allowance of 15% to cover external works.

4.13. In terms of the contingency allowance, the applicant's rate (which is equivalent to 2.5% of the construction costs) is considered to be in line with expectations for a scheme of this nature. We have subsequently adopted the same in our appraisal.

Professional fees

4.14. Based on the proposed scheme the applicant's allowance for professional fees is equivalent to 6% of build costs. This is also considered to be in line with expectations for a scheme of this nature. We have subsequently adopted the same in our appraisal.

S106 / Other Council Policy Requirements

4.15. We understand there is a policy requirement for 30% of the dwellings to be provided as on-site affordable units, which is this case equates to 2 dwellings.

4.16. As well as the 30% affordable housing requirement, we understand from the applicant's assessment that there is a requirement for contributions to education (£23,875) and public open space (£37,625), totalling £61,500.

4.17. The subject property is also subject to a Community Infrastructure Levy ('CIL'). The subject property falls in "Residential Zone 3". According to the Council's webpage on its CIL charges the current rate, including inflation, equates to £97.85 per sq m. Applied to the overall scheme (which totals 1,967 sq m) this equates to a total CIL charge of £192,471. We have applied this to our appraisal.

Marketing / legal costs

4.18. For marketing the applicant has allowed the equivalent of 2% of revenue for sales and marketing and a fixed rate of £500 per dwelling for the sales legal fees. These are considered to be reasonable costs for a scheme of this size and nature in this location, and we have adopted the same in our appraisal.

Finance

4.19. The applicant has allowed for finance costs totalling £117,926, although it is not specifically stated what percentage rate has been used. However, assuming that the rate follows the DVS report referred to in 4.2, this would be a debit rate of 6.5%. This is considered to be in line with our expectations and has been accepted in our report.

4.20. To calculate the finance we have inputted our appraisal data into ARGUS Developer, an industry approved discounted cash flow model.

Developer's profit

4.21. For a scheme of this size and nature we believe it is appropriate to apply a profit margin expressed as a percentage of the revenue.

4.22. The applicant has indicated that they consider a developer profit of circa 17.5% on revenue to be viable.

4.23. In our experience, and for a scheme of this size, profit margins fluctuate depending on the nature of the scheme and the type of developer implementing the project. However, and only as a broad guide, we tend to see profit margins in the region of 15% to 20% of revenue for market value dwellings. This is supported by the Planning Practice Guidance on viability ('PPG'), which refers to a range of 15% to 20% on revenue (albeit within the context of plan wide viability testing).

4.24. However, for affordable dwellings the risk is considered to be reduced when compared to a market value sale. This is because a market value dwelling is sold speculatively in the market place, whereas an affordable dwelling is typically 'presold' and transferred upon completion of the construction works. To reflect this reduced risk a lower developer profit is typically applied (for a small scheme we have seen this in the region of 8% on revenue).

4.25. In the District Valuer Berkley Grange viability assessment a developer profit equivalent to 17.5% on revenue was accepted as being viable.

4.26. In light of the above we are of the view that a developer profit equivalent to 17.5% on revenue is reasonable for the market value dwellings. However, for any affordable units a reduced profit of 8% on revenue is considered to be appropriate.

4.27. That said, and given the RICS' mandatory requirement for sensitivity testing, we have also run a Scenario 2 at 15% profit, reflecting the minimum requirement as set out in the guidance.

Benchmark land value

4.28. The Benchmark Land Value ("BLV") attempts to identify the minimum price that a hypothetical landowner would accept in the prevalent market conditions to release the land for development. Whilst a relatively straight forward concept in reality this is open to interpretation and is generally one of the most debated elements of a viability appraisal. It is also often confused with market value, however the guidance stresses that this is a distinct concept and therefore is different to market value assessments.

4.29. The standard approach is to run an initial appraisal based on all of the above fixed inputs to arrive at a site value for the site. In accordance with the RICS guidance, this residual site value can then be compared to the "benchmark land value" (which is the minimum price that a hypothetical landowner would accept and a hypothetical developer would pay for the scheme to be delivered). If the residual site value is above this "benchmark" then the scheme is viable. If the residual site value falls below this figure then the scheme is deemed to be unviable.

4.30. Viability assessors are provided some guidance through the National Planning Policy Framework ('NPPF') and Planning Practice Guidance ('PPG'), as published on 24th July 2018. One area which the PPG deals with is in relation to assessing BLV, stating the following:

4.30.1. To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.

4.30.2. The EUV should disregard any hope value.

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

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

4.30.5. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

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

4.30.7. Alternative Use Value of the land may be informative in establishing benchmark land value. However, these should be limited to those uses which have an existing implementable permission for that use. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.

4.31. In other words, the Council should not subsidise (through a loss of planning policy contributions) any overbid made when acquiring the site. Any overbid (or indeed underbid) for a site should therefore be disregarded when considering the BLV. As part of the process of reviewing viability it is down to the assessor to determine whether a price paid is an appropriate figure (or not) to use as a BLV.

4.32. In their assessment, the applicant has included a land value of £200,000, which is the figure adopted by DVS in their report on 22 Kighill Lane for a site of 0.33 Ha (0.82 acres).

4.33. Given the size of the parcel this is considered to be a reasonable allowance for the benchmark land value. We have subsequently adopted the same in our appraisal.

## 5. Appraisal results and conclusions

5.1. As stated above, we have run 2 scenarios as follows:

Scenario 1 - developer profit on market value 17.5% on revenue
Scenario 2 - developer profit on market value 15% on revenue

5.2. Please see attached our Scenario 1. We have run an initial appraisal based on a policy compliant scheme (which includes the education contribution £23,875, open space £37,625, CIL £192,471 and 2 onsite affordable dwelling 28.57%). This returns a residual land value below the benchmark land value and therefore can be regarded as being unviable. We have subsequently removed the affordable housing provision to see how this impacts on the viability outcome. Please see attached our appraisal. This shows that with the education contribution £23,875, open space £37,625, CIL £192,471 and nil onsite affordable dwellings the residual land value is £79,057. As this is below the benchmark land value of £200,000 this scenario is technically unviable.

5.3. Please see attached our Scenario 2. We have again run an initial appraisal based on a policy compliant scheme (which includes the education contribution £23,875, open space £37,625, CIL £192,471 and 2 onsite affordable dwelling 28.57%). This returns a residual land value below the benchmark land value and therefore can be regarded as being unviable. We have subsequently removed the affordable housing provision to see how this impacts on the viability outcome. Please see attached our appraisal. This shows that with the education contribution £23,875, open space £37,625, CIL £192,471 and nil onsite affordable dwellings the residual land value is £188,997. This is only slightly below the benchmark land value of £200,000 so this scenario can be regarded as being marginally viable.

5.4. Based on our appraisal testing we agree that the scheme is unable to viably support any affordable housing.

5.5. In terms of the S106 contributions, the testing shows that the education and open space (as well as CIL) can be provided is the applicant is willing to accept a profit in line with the bottom end of the range (i.e. 15%) as set out in the Planning Practice Guidance on viability.

5.6. Having considered all of the above, we therefore conclude that the applicant's offer to provide the education and open space (as well as CIL), but no affordable housing, is justifiable based on the viability testing. We would therefore recommend acceptance.

5.7. Our conclusions remain valid for 6 months beyond the date of this report. If the implementation of the scheme is delayed beyond this time-frame then market conditions may have changed sufficiently for our conclusions on viability to be adjusted. Under this scenario we would strongly recommend the scheme is re-appraised.

Yours sincerely

[redacted]