S106 MANAGEMENT

Financial Viability Appraisal

Regarding the development at:

The Phoenix, Shelford Road, Gedling, NG4 4HU

4th December 2020

Contents

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Introduction

S106 Management is instructed by Hockley Developments (Shelford Road) Ltd to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing and S106 contributions that should be expected from a proposed development at The Phoenix, Shelford Road, Gedling, NG4 4HU.

The site currently accommodates 45 Shelford Road, a commercial premises which was most recently used as a public house and functions centre. The GIA of the premises is 459m2, while the total site area is 2,600m2.

The development (ref 2020/0954) proposes to demolish the existing building, clear the site and erect a three-storey residential apartment block, containing 26 units. In total the project will provide 1,345m2 of residential accommodation with associated amenity space and parking.

Gedling Borough Council seeks an Affordable Housing contribution in accordance with Policy LPD 36 (adopted July 2018).

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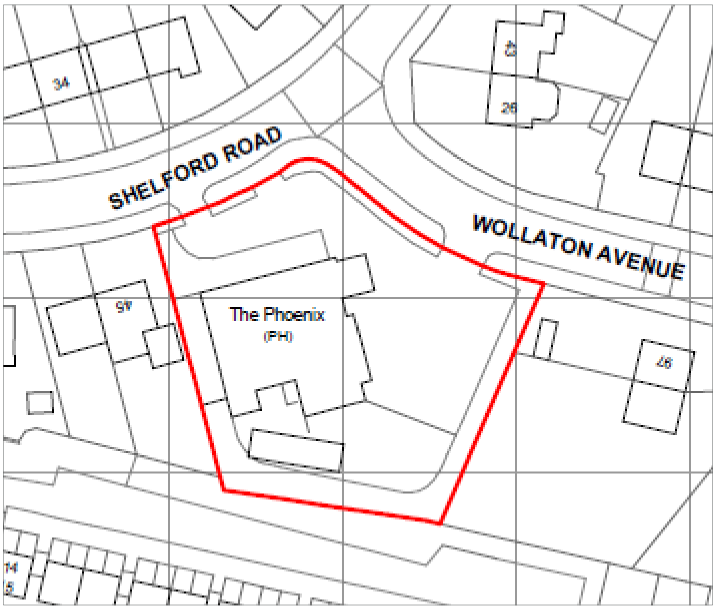
Location Plan



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S106 Management

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

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

S106 Management have worked with over 600 clients on more than 800 developments, facilitating over 4,500 homes across 124 LPAs. Our viability reports have been successfully used at pre-application discussions with Planning Officers and Affordable Housing Officers, supporting planning applications, written appeals, and planning appeal hearings.

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Planning Policy

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

Therefore, our starting point is LPD 36 of the Gedling Borough Council Local Plan (adopted July 2018):

Policy LPD 36 - Affordable Housing

Planning permission will be granted for new residential development on sites of 15 dwellings or more subject to the provision of affordable housing depending on the location of the sub-market, as identified on the plan attached at Appendix C. The following percentage targets will be sought in the sub-market through negotiation:

a. Colwick / Netherfield: 10%
b. Newstead: 10%
c. Arnold / Bestwood: 20%
d. Calverton: 20%
e. Carlton: 20%
f. Arnold / Mapperley: 30%
g. Bestwood St Albans: 30%
h. Gedling Rural North: 30%
i. Gedling Rural South: 30%

In other areas, the appropriate percentage will be determined having regard to the affordable housing requirement for adjacent sub-markets and evidence of viability.

We have had sight of correspondence from Mr Nigel Bryan (Principal Planning Officer), which requests 20% (5 units) to be provided on site. The purpose of this FVA is to determine whether such a contribution is financially viable.

Further advice is provided by the 'Gedling Borough Council Local Plan Viability Study' (March 2016) (hereafter referred to as the CIL Study) and detail from that document is used where possible to corroborate the assumptions set out later in our report.

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

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National Guidance

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

Paragraph 57 of the NPPF is of relevance:

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

The recommended approach referred to above is set out in the NPGV (https://www.gov.uk/guidance/viability). Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.

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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Vacant Building Credit

The 2019 NPPF establishes Vacant Building Credit (VBC) in Para. 63:

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

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

Existing vacant floor area:	**459m^2**
Proposed floor area:	**1,690m^2**

The existing vacant floor space is equivalent to 27.15% of the proposed development, thus the maximum amount of Affordable Housing that could be provided, irrespective of the financial viability addressed in this report, is 5.6 units.

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Viability

The relevance of viability is accepted in Policy LPD 36 **para 11.2.6** which states:

> 11.2.6 It is acknowledged that in some cases, the provision of the 10%, 20% or 30% of the dwellings provided for affordable housing may make the development unviable. Where this is the case, the Supplementary Planning Document confirms that a lower requirement may be justified provided there is sufficient evidence which takes account of all potential contributions from grant funding sources and a viability assessment has been undertaken by the Council which demonstrates this. Where the developer is disputing the methodology of the viability study, they must provide a full financial appraisal of the scheme and allow the appraisal to be verified, at their expense, by an independent agent chosen by the Council.

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

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

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

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

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

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Spreadsheet Inputs

Proposed Development (input sheet 1)

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

unit	area m2	type
GF		
1	47.10	1-bed
2	44.90	1-bed
3	48.60	1-bed
4	46.10	1-bed
5	42.80	1-bed
6	52.00	2-bed
7	58.60	2-bed
8	49.50	1-bed
9	63.00	2-bed
FF		
10	59.20	2-bed
11	48.10	1-bed
12	48.60	1-bed
13	46.10	1-bed
14	42.60	1-bed
15	42.60	1-bed
16	41.60	1-bed
17	64.50	2-bed
18	50.00	1-bed
19	58.70	2-bed

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SF		
20	60.60	2-bed
21	57.00	2-bed
22	54.30	2-bed
23	47.00	1-bed
24	59.50	2-bed
25	50.00	1-bed
26	62.40	2-bed
Total area	**1345.40**	
Avg unit area	**51.74**	

Affordable Housing Values (input sheet 2)

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

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Open Market Housing Values (input sheet 2)

The Zoopla data for the NG4 Postcode is set out below:

Property type	Avg. current value	Avg. £ per sq. ft.	Avg. # beds	Avg. £ paid (last 12m)
Detached	£277,727	£205	3.4	£251,743
Semi-detached	£179,917	£177	3.0	£165,735
Terraced	£137,371	£153	2.5	£132,784
Flats	£110,079	£150	1.9	£111,610

The Zoopla data suggests that the flats would achieve in the region of £1,614/m^2.

We have compared this data to relevant 'sold' transactions extrapolated from Rightmove (see **Schedule 3**) which occurred in the last 2 years, within ¼ mile of our client's proposed scheme:

Sold flats within 1/4 mile last 2 years

Address	Type	Sale Date	Area m2	£/m2	Price
12 Chesterfield Court, Gedling, Nottingham, Nottinghamshire NG4 4GR	2-bedroom maisonette	08.07.2020	46	£1,739.13	£80,000
9, Chesterfield Court, Gedling, Nottingham, Nottinghamshire NG4 4GR	Mid-floor flat in need of modernisation	03.07.2020	47	£1,276.60	£60,000
15 Beckett Court, Gedling, Nottingham, Nottinghamshire NG4 4GS	Top-floor flat, parking & garage	03.07.2020	45	£1,944.44	£87,500

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3 Beckett Court, Gedling, Nottingham, Nottinghamshire NG4 4GS	2-bedroom ground-floor flat	17.10.2019	42	£1,857.14	£78,000
32 Beckett Court, Gedling, Nottingham, Nottinghamshire NG4 4GS	2-bedroom flat in need of modernisation throughout	04.09.2019	47	£1,382.98	£65,000
28 Rutland Road, Gedling, Nottingham, Nottinghamshire NG4 4JQ	2-bedroom maisonette, own rear garden	18.04.2019	53	£1,885.85	£99,950
56 Rutland Road, Gedling, Nottingham, Nottinghamshire NG4 4JQ	3-bedroom maisonette, garden, detached garage	27.03.2019	88.5	£1,401.13	£124,000
8 Beckett Court, Gedling, Nottingham, Nottinghamshire NG4 4GS	2-bedroom flat in need of modernisation in areas	29.01.2019	44	£1,681.82	£74,000
11 Chesterfield Court, Gedling, Nottingham, Nottinghamshire NG4 4GR	2-bedroom maisonette	11.01.2019	41.2	£1,893.20	£78,000
			Average £/m2 value	£1,645.25	

The average £/m2 value from Rightmove is in line with that proposed by Zoopla.

There is also evidence of the often-seen inverse correlation between £/m² values and unit area meaning that we would expect the smaller flats to achieve higher £/m² values than the larger.

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In addition to examining the 'sold' data above, we have also looked at flats currently for sale in the surrounding area located within 1 mile of the subject site:

Flats for sale + 1 mile

Address	Type	Sale Date	Area m2	£/m2	Price
West View Court, St Austin's Drive, Carlton, Nottingham	2-bedroom ground-floor maisonette, garage in communal block	Sold STC	51.2	£2,148.44	£110,000
College Road, Mapperley, Nottingham, Nottinghamshire, NG3	2-bedroom flat in modern estate, allocated parking - approx. area	Offers in Region of	46	£2,826.09	£130,000
Braunton Crescent, Mapperley, Nottinghamshire. NG3 5SZ	2-bedroom ground-floor flat situated in a new development, allocated parking	Guide Price	67	£1,940.30	£130,000
Beckett Court, Gedling, Nottingham	2-bedroom first-floor flat for investors only, sold with tenants in situ	Sold STC	43.8	£1,939.50	£84,950
Foxhill Road, Carlton, Nottingham	2-bedroom, first-floor maisonette, garden, access to parking area	Sold STC	51.8	£2,027.03	£105,000
College Road, Mapperley, Nottingham	2-bedroom flat in modern pur-pose-built block, parking	For Sale	68	£1,838.24	£125,000
Valley Court, Carlton, Nottingham	2-bedroom first-floor flat, balcony, parking to the rear	Sold STC	47.2	£2,012.71	£95,000
Beckett Court, Gedling, Nottingham NG4	2-bedroom flat with enclosed rear garden, single garage & parking - approx. area	For Sale	52	£1,730.77	£90,000
College Road, Mapperley, Nottingham-shire, NG3 6FD	2-bedroom modern flat in recent development	Guide Price	70	£1,857.14	£130,000
			average £/m2 value	£2,011.97	

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Furthermore we have examined new build units which are currently on the market. Due to a lack of directly analogous data we have extended the search radius to 3 miles, which reduced the comparability of the properties:

New build flats for sale + 3 miles

Address	Type	Sale Date	Area m2	£/m2	Price
River Crescent, Waterside Way, Nottingham	Large 3-bedroom modern apartment in award winning development, balcony, underground parking & resident only facilities	For Sale	140.3	£3,385.60	£475,000
Ebury Road, Carrington	2-bedroom new flat in converted property, private rear garden, allocated parking - approx. area	For Sale	52	£2,306.73	£119,950
Sherwood Heights	1-bedroom luxury apartment, private balcony & terrace, allocated parking	Guide Price	57	£2,210.53	£126,000
Ebury Road, Carrington	1-bedroom new flat in converted property, allocated parking - approx. area	Offers over	42	£2,380.95	£100,000
1 Bedroom Penthouse	1-bedroom penthouse apartment in brand new development, private balcony, parking	Sold STC	57	£4,385.96	£250,000
Alexandra Street, Carrington	2-bedroom flat in newly developed apartment block, allocated parking	Sold STC	52	£2,211.54	£115,000
Vivian Avenue, Nottingham, Nottinghamshire, NG5	2-bedroom luxury apartment in recently developed & converted period property	Offers over	66	£2,272.73	£150,000
			average £/m2 value	£2,865.00	

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Further, it should be noted that the properties at River Crescent and '1-bedroom penthouse' noted above are not directly comparable in terms of characteristics and therefore can be considered outliers.

Average asking prices are inflated when compared to both achieved values and the data set supplied by Zoopla. It is reasonable to suggest that asking prices will not be achieved, due to current stagnation in the market, evidenced by significant downward trending in 2020, with the average value of flats falling -7.99% in the last 12 months.

On a macro level the UK has now entered a recession and it should also be stressed that at the time of writing this report it is considered entirely probable that, following the end of current economic stimulus, which is artificially inflating demand, property prices may decline by perhaps as much as 10 -15%. Land registry data documents a decline of 14.4% following the 2008 sub-prime crisis, a similar outcome is to be expected; graph on the next page.

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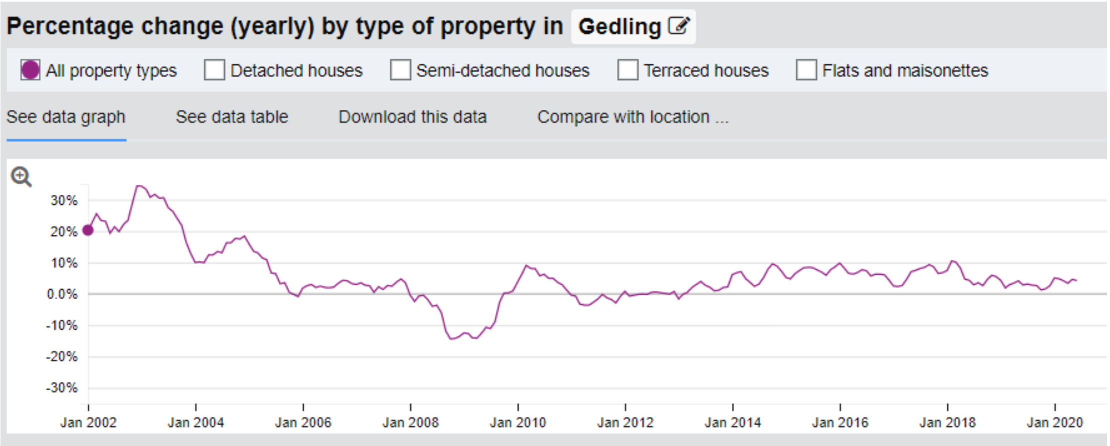
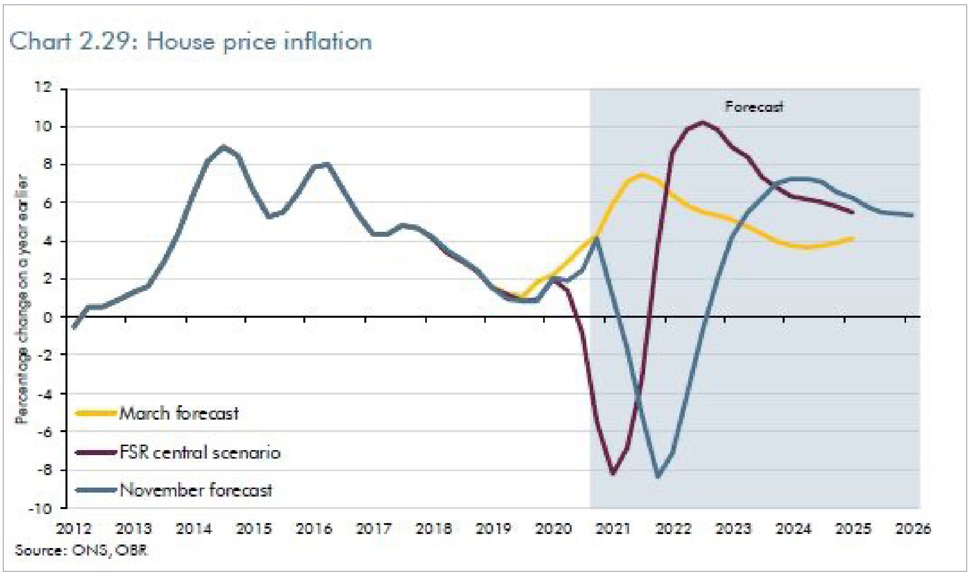


Recent OBR forecasts suggest a 8% contraction in the housing market in 2021/22:



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The above notwithstanding, we have valued the smallest units at £135,000 (£3,176/m2) and adjusted the values of the larger flats, thus following the inverse correlation referred to previously:

unit	area m2	type	£/m2 value	PRICE
GF				
1	47.10	1-bed	£2,866	£135,000
2	44.90	1-bed	£3,007	£135,000
3	48.60	1-bed	£2,778	£135,000
4	46.10	1-bed	£2,928	£135,000
5	42.80	1-bed	£3,154	£135,000
6	52.00	2-bed	£2,885	£150,000
7	58.60	2-bed	£2,730	£160,000
8	49.50	1-bed	£2,828	£140,000
9	63.00	2-bed	£2,540	£160,000
FF				
10	59.20	2-bed	£2,618	£155,000
11	48.10	1-bed	£2,807	£135,000
12	48.60	1-bed	£2,757	£134,000
13	46.10	1-bed	£2,928	£135,000
14	42.60	1-bed	£3,169	£135,000
15	42.60	1-bed	£3,169	£135,000
16	41.60	1-bed	£3,245	£135,000
17	64.50	2-bed	£2,481	£160,000
18	50.00	1-bed	£2,800	£140,000
19	58.70	2-bed	£2,641	£155,000
SF				
20	60.60	2-bed	£2,558	£155,000
21	57.00	2-bed	£2,719	£155,000
22	54.30	2-bed	£2,762	£150,000
23	47.00	1-bed	£2,872	£135,000

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24	59.50	2-bed	£2,605	£155,000
25	50.00	1-bed	£2,800	£140,000
26	62.40	2-bed	£2,564	£160,000
total area	1345.40		£2,790.24	£3,754,000

For clarity, we have run the appraisal with the average £/m² value, which is £2,790.2/m2; this produces a GDV of £3.74m.

The figures above represent the top end of what could be achieved in today's market, clearly if the knock-on effect of the current pandemic is as negative as many forecasts suggest, similar levels will not be achieved.

The capital value of the Freehold Ground Rents from the project is included at zero because legislation is proposed to limit annual rents to a peppercorn. See House of Commons Briefing Paper 8047 – December 2019.

Timing (input sheet 2)

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

Construction is projected over an 18-month period with sales expected between months 16 and 24.

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

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Construction Costs (input sheet 2)

We refer to the BCIS data, as shown below:

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.
Last updated: 10-Oct-2020 00:48

Maximum age of results: Default period

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
816. Flats (apartments)							
Generally (15)	1,480	734	1,231	1,403	1,666	5,123	903
1-2 storey (15)	1,403	859	1,194	1,340	1,557	2,541	215
3-5 storey (15)	1,456	734	1,225	1,400	1,646	3,089	587
6 storey or above (15)	1,787	1,074	1,444	1,673	1,926	5,123	98

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

The above notwithstanding, we have adopted the median quartile figure for projects of this type (£1,403/m2). This sum appears modest when one considers both the current inflation in the industry, and the high spec finish that will be required to achieve the exit values proposed previously.

The GIA of the flats (1,345m2), represents 79.6% of the total GIA of the building (1,690.1m2), with the additional space allowing for all communal areas; the HCEAT has been run with a corresponding correction factor.

The BCIS makes no allowance for external works and associated infrastructure which are addressed subsequently in our analysis.

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Fees (input sheet 2)

10% for fees is the default value of the HCEAT Spreadsheet and is the commonly accepted industry standard allowance.

Contingency (input sheet 2)

5% for contingencies is the default value of the HCEAT Spreadsheet and is the commonly accepted industry standard allowance.

Section 106 Payments (input sheet 2)

Gedling adopted their CIL Charging Schedule in July 2015 and apply rates based on a zonal strategy. The subject site falls within zone 1, where no charge currently applies for residential development. Therefore, no allowance has been made in our calculations.

CIL Rate

The rate at which CIL will be charged shall be:

Development Type			
Residential	Zone 1 £0/sqm	Zone 2 £45/sqm	Zone 3 £70/sqm
Commercial	Borough wide		
Retail A1, A2, A3, A4, A5	£60/sqm		
All other uses	£0/sqm		

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In the aforementioned correspondence from the case officer, the following requests have been made for additional S106 payments:

education	£47,750
primary care trust	£14,088
	£61,838

It is clear from the conclusions of this report that the above are unaffordable to the project, thus have not been included in our modelling.

Abnormal Development Costs (input sheet 2)

As mentioned previously, the BCIS data only allows for the costs of constructing the envelope of the proposed dwellings; external and abnormal costs are summarised by the table below:

work required	quantity	cost per unit	total cost
demolition	1	£15,000	£15,000
Incoming services	26	£6,000	£156,000
NHBC or similar	26	£2,500	£65,000
bin stores	20	£400	£8,000
cycle stores	26	£100	£2,600
topsoil and levelling	20	£13	£260
planting / turfing	27	£16	£432
brick paving to driveways etc	300	£120	£36,000
paving slabs for patios / paths	45	£80	£3,600
timber fencing	60	£90	£5,400
drainage connection to main road	1	£7,000	£7,000
		total cost	£299,292

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The HCEAT has been run with the corresponding figure, under the heading 'Site Abnormals.'

Site Acquisition Costs (input sheet 2)

The EUV of the site, as explained subsequently in our reporting, is £260,000; we make no allowance for acquisition costs as this is below the current SDLT threshold.

Finance Costs (input sheet 2)

Typically, banks are prepared to lend only the building cost (£2.37m) of this type of development; their arrangement fee will be 1% and the spreadsheet carries an input of £23,700.

While base rates are at a historic low level, cost of funding expressed as a percentage above LIBOR is at historically high figures, therefore an interest figure of 7% is used in the spreadsheet.

The spreadsheet includes misc. lending fees of £20,000; made up from the bank surveyor's initial valuation fee of £10,000, monitoring fees while the project progresses of £5,000, and £5,000 in other bank fees.

Marketing Costs (input sheet 2)

The HCEAT spreadsheet has default values of 6% for marketing and £600 per unit for legal fees; as a compromise, we have adopted a marketing cost of 2% and legal fees of £1,000 per unit.

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Developer Profit (input sheet 2)

The NPGV contains the following advice at paragraph 18:

> ***How should a return to developers be defined for the purpose of viability assessment?***
>
> *'Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.*
>
> *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.'*

Paragraph 008 of the NPGV provides further guidance:

> ***'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.'***

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We have referred to the Gedling BC Local Plan Viability Assessment, produced by the council in 2016, which, at Para. 4.30 identifies a developer profit of 20% of GDV; the HCEAT appraisal has been run accordingly.

> 4.30 Developer's 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 assumed lending conditions of the financial institutions, a 20% return on GDV is used in the residential viability appraisals to reflect speculative risk on the market housing units. However it must be acknowledged that affordable housing does not carry the same speculative risk as it effectively pre-sold. There is significant evidence of this 'split profit' approach being accepted as a legitimate approach in Whole Plan Viability and Community Infrastructure Levy Examinations and Affordable Housing Sec 106 BC Appeals.

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Benchmark Value

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

> *'Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).*
>
> *Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'*

The site currently accommodates 45 Shelford Road, a commercial premises which was most recently used as a public house and functions centre. The GIA of the premises is 459m2, while the total site area is 2,600m2.

We have sought advice from John Carter MRICS to determine an EUV of the site:

> 'I have been asked to produce a benchmark valuation for the Phoenix public house at Shelford Road, Gedling, Nottingham NG4 4HU.
>
> The premises comprise of a public house and function rooms on the ground floor together with a three-bedroom residential apartment for the use of the manager on the upper floors. The total floor area extends to some 5,000 ft.
>
> The Rateable Value of the premises is at the sum of £18,750 per annum.
>
> The property is currently vacant and has not been occupied for some time. I have considered various comparable premises in the area and compared the Rateable Value to the amount of rental or capital sum that is being achieved in each case. I have spoken to a representative from James A. Baker who specialise in the sale of pub premises and who believes that an appropriate rental for this property would be in the region of £20,000 p.a. Furthermore, examples of recent sales and rentals include the Famous Corner Pin in Long Eaton NG10 1JL which is under offer of £18,000 per annum having a rateable value of £21,500. The Travellers Rest in Belper is also under

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offer at £165,000 as compared to the Rateable Value of £8,200.

In this particular instance I have used the Rateable Value as a basis for the valuation of this pub in the absence of any details of previous lettings. I have capitalised at a yield of 8.5% which produces an EUV of £260,000.

The public house sits in a residential road and would lend itself to an appropriate change of use. In these circumstances, I have added a premium of 25% to the EUV to arrive at a benchmark value of £325,000.

My opinion of the benchmark value is £325,000.'

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

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

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

Mr Carter's advice is inclusive of a premium; thus no additional allowance has been made this is inclusive of a landowner premium in accordance with the RICS guidance.

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

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

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

In this case it is not appropriate to consider the AUV of the site.

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

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HCEAT Spreadsheet Conclusions (spreadsheet summary)

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

Sales	**£3,754,000**
Less Costs	
Construction Costs	£2,371,352
Other Site Costs	£666,852
Marketing	£101,080
Finance Costs	£201,546
Developer Profit	£750,800
Residual Site Value	**-£337,630**

To determine the viability of the provision of Affordable Housing, the Benchmark Value of the site as stated above (**£325,000**), is deducted from the Residual Value calculated by the HCEAT spreadsheet. If the result is negative, as it is in this case (**-£662,630**), the development cannot viably provide a contribution towards Affordable Housing.

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Conclusion

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

Spreadsheet Residual Value	**-£337,630**
Plus Spreadsheet Developer profit	**£750,800**
Less Benchmark Value	**£325,000**
Actual Profit	**£88,170**

This presents a return of 2.3% which is clearly significantly lower than the 20% identified previously.

Any contribution towards Affordable Housing would further reduce this level.

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

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