



Independent Viability Experts

Gedling Borough Council
Sent by email only

Our ref: DN-0966
Your ref: 2021/0072
Date: 14th March 2024

Dear Sir / Madam

PROPERTY ADDRESS: Land to the west of Mansfield Road Redhill Nottinghamshire
INSTRUCTING BODY: Gedling Borough Council
APPLICANT: Barwood Homes Ltd

Summary document of the viability review process.

1. Background

- 1.1. We are advised that the site extends to 6.79 Ha (16.78 acres) on a gross basis with a net developable area of 3.92 Ha (9.69 acres). The current planning application under reference **2021/0072** comprises: *“Proposal for 157 dwellings with associated landscaping, public open space, highways and infrastructure on land west of the A60 Redhill, Nottingham”*
- 1.2. Acting on behalf of the applicant, Turner Morum (“TM”) submitted a viability review in Aug 2022. At that time, TM concluded that the scheme “...only becomes viable when the affordable housing provision is reduced to 0%”.
- 1.3. Acting upon the instruction of the Council we undertook an independent viability assessment of the scheme in Mar 2023. We concluded that the scheme could viably deliver 30% onsite affordable housing, plus S106 costs totalling £727,632. We reached a different outcome to TM owing to the following adjustments:

Input	TM appraisal	CPV appraisal
Plot costs – housing	£126.92 psf	£114.73 psf
Plot costs - flats	£169.44 psf	£114.73 psf
Total scheme contingency	£1,139,209	£829,094
Total scheme professional fees	£2,145,682	£1,450,914
Marketing / disposal	3.25% on revenue	2.5% on revenue
Finance	6.5% debit	7.5% debit / 2% credit
Developer profit (on revenue)	20% MV / 6% AH	18.5% MV / 6% AH

- 1.4. On 26th May 2023 TM raised a number of challenges to our viability review. Following our initial review, we noted that the overall square footage of the proposed development was different to TM’s original assessment (originally this totalled 144,000 sq ft, whereas in TM’s latest appraisal it totalled 145,809 sq ft). We subsequently requested further information from the applicant / TM in order to enable us to provide further comments to the Council (including confirmation of the schedule of accommodation to be provided on site).
- 1.5. Following receipt of additional information, on 29th June 2023 we submitted an updated appraisal, which was based on the latest ‘Revision E’ mix. This totalled 144,318 sq ft. This included the following appraisal assumptions:
- Total gross development value came to £38,660,467 (with a market value average of £291 per sq ft)
 - Plot costs £118.62 per sq ft
 - Externals £3,998,136
 - Contingency £860,840 (3.30% of above)
 - Abnormals / site specific infrastructure totalling £4,968,984

- Professional fees 7% of standard plot costs / externals
 - S106 £864,000
 - Marketing / disposal 2.5% on revenue
 - Debit interest 7.5%
 - Developer profit: 18.5% on market value, 15% First Homes, 6% affordable
 - Benchmark land value £1,258,357
- 1.6. Based on the above assumptions, we concluded that the viability pressure had increased significantly. With 15% onsite affordable housing (plus 15% 'non S106' affordable units) the residual land value was £955,090. This was shortfall of £303,267 from the benchmark land value and therefore unviable.
- 1.7. However, we noted that a key driver in this outcome was the increase in abnormals / site specific infrastructure costs associated with the site (which had increased from the original testing). We therefore indicated to the Council that it would be prudent to seek specialist advice on these costs.
- 1.8. On 29th Jun 2023 the Council indicated that they were looking to engage a third-party Quantity Surveyor to review the abnormal / site specific infrastructure costs used in TM's appraisal (which had increased from £4,678,733 in Aug 22 to £5,217,931 in Jun 23). Bentley Project Management ("BPM") were subsequently instructed to undertake the review on behalf of the Council.
- 1.9. In Jan 2024 the final agreed abnormal / site specific infrastructure costs between the applicant's cost advisors (Cora) and BPM were circulated. The agreed figures can be summarised as follows:

Site clearance	16,125	
Earthworks	750,242	
Foul sewer	5,470	
Surface water sewer	201,894	
S278	825,962	
LEAP	50,000	
Piling foundations	138,000	
HA Extras	32,250	
Part L increases	864,006	
Plot turfing to rear	35,350	
Landscaping	33,119	
Retaining walls	1,318,349	
Sub station	50,000	Total
Contingency	216,227	4,536,994

1.10. This therefore shows a reduction in the total costs from £4,968,984 (TM's Jun 23) to £4,536,944. In light of the agreed position on the abnormals / site specific infrastructure costs, both ourselves and TM have been instructed to provide an updated viability appraisal to reflect these costs.

2. TM's updated appraisal – summary

2.1. TM have considered 3 scenarios:

- Scenario 1. 25% affordable housing (10% s106 and 15% non-s106)
- Scenario 2. 10% s106 affordable housing with a contribution of £566,000
- Scenario 3. 16% s106 affordable housing, with no additionality.

2.2. Scenario 3 (which TM deem to be viable) can be summarised as follows:

Gross Development Value (Revenue)

Type	No.	Average £ per sq ft	Total
Market housing	121	£291	£36,495,015
Affordable housing (Affordable rent)	9	£146	£1,591,932
Affordable housing (First Homes)	14	£204	£1,635,780
Total	144		£39,722,727

Gross Development Cost (Outgoings)

Type	Notes	Total
Standard build costs	Plot costs / externals (142,423 sq ft GIA)	£21,814,125
Abnormals	Inc Part L costs	£4,536,994
Professional fees	7.00% of build costs	£1,478,208
S106 contributions		£957,384
Sales & marketing	2.50% of GDV	£952,174
Legals	£800 per unit	£85,600
Finance		£1,410,741
Developer profit	18.5% on MV, 15% FH, 6% on AH	£7,086,562
Acquisition costs	Legals, agent SDLT	£105,371
Total		£38,427,159

- 2.3. Based on TM's assumptions above, the scheme generates a residual land value of £1,295,569. As this is above their benchmark land value of £1,258,357 this is deemed to be viable.

3. CP Viability's comments and updated appraisal

Gross Development Value (Revenue)

- 3.1. The values used in TM's latest appraisal are deemed to be in line with our expectations and subsequently have been accepted in our appraisal.

Build costs

- 3.2. In their June 23 appraisal, based on a scheme totalling 145,809 sq ft, TM allowed 'standard' build costs (plot costs, plot externals, estate roads, drainage, services etc) and contingency of £21,363,615 (£146.52 per sq ft). This was said to be underpinned by the BCIS lower quartile rate.
- 3.3. In our June 23 appraisal we used the BCIS lower quartile (£118.62 per sq ft), plus the externals rate of £3,998,136 and contingency of £846,585 (which was 3.3% of the standard plot costs and the abnormal / site specific infrastructure). For clarity, our June 23 costs can be regarded as being exclusive of Part L Building Regulations costs (as the BCIS rates do not yet reflect these now mandatory costs).
- 3.4. In their Feb 24 updated modelling, TM adopt a 'standard' build cost (including plot costs, externals and contingency) of £21,814,125. This is said to be underpinned by the BCIS lower quartile rate.
- 3.5. We have revisited the BCIS lower quartile rate as at June 23 (when the values were established) and note the following:

£/M2 STUDY

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

Last updated: 17-Jun-2023 07:37

Rebased to Gedling (98; sample 13)

MAXIMUM AGE OF RESULTS: DEFAULT PERIOD

Building function (Maximum age of projects)	£/m ² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
810, Housing, mixed developments (15)	1,466	795	1,276	1,422	1,606	3,622	1275
810,1 Estate housing							
Generally (15)	1,461	708	1,245	1,404	1,600	5,067	1428

- 3.6. The relevant rate is therefore £1,276 per sq m or £118.54 per sq ft. As indicated above, as this is a BCIS rate this currently excludes any allowance Part L changes (which came into mandatory effect in July 2023 but have yet to significantly infiltrate the BCIS rates). To this we have added the externals (£3,998,136) and also contingency (at a rate of 3.3%). This gives a total of £21,813,953. This is therefore close enough to TM's total of £21,814,125 to be agreeable.

Professional fees

- 3.7. TM's allowance is circa 7% of the standard build costs (i.e. when measured against standard build costs only, excluding the abnormal / site specific infrastructure). This is in keeping with our previous modelling and is therefore accepted.

S106 / Other Council Policy Requirements

3.8. The Council has advised that the following S106 contributions now apply to the subject scheme:

- NHS	£78,030
- Bus passes	£35,000
- Bus stop infrastructure	£40,100
- Secondary education	£603,842
- Post 16 education	£105,016
- Special education	£90,322
- Libraries	£5,074
Total	£957,384

3.9. We have applied this to our appraisal.

Sales and Marketing / Legal costs

3.10. In their latest appraisal TM adopt circa 2.5% on revenue plus £800 per unit for legals. This is in keeping with our previous modelling and is therefore accepted.

Finance

3.11. Given further increases in the Bank of England base rate since June 23 we consider 8.25% to be a reasonable allowance at the current time. To calculate the finance, we have inputted our appraisal data into the ARGUS Development Appraisal Toolkit, which is an industry approved discounted cash flow model (appended to this report).

Developer's profit

3.12. TM's appraisal assumes a 18.5% on revenue profit for the market value dwellings, 15% on revenue for First Homes and reduced to 6% for the affordable. This is in keeping with our previous modelling and is therefore accepted.

Benchmark land value

3.13. In their original Aug 22 assessment, TM adopted a benchmark land value of £1,937,264 (equivalent to £115,464 per gross acre or £200,000 per net acre). TM suggest that this was the rate used in the Phase 1 testing (which we were not party to).

3.14. In our initial assessment in Mar 23 we followed the requirements of the Planning Practice Guidance: Viability and first considered the existing use value of the site. As undeveloped fields we considered an average rate of £10,000 per acre to be realistic here. At a benchmark land value of £115,464 per acre, TM's allowance therefore reflected a circa 11.5 times the existing use value premium.

3.15. In terms of whether this premium uplift was reasonable or not, we stressed that the guidance is silent. However, we indicated that we are now assisted by various planning appeal decisions, including:

- Land off Holts Lane, Poulton-le-Fylde (ref 3241233).
- Land at Warburton Lane, Trafford (ref 3243720).
- Land at Forest Heights, Forge Weir View, Halton (ref 3285794).

3.16. Specifically, these cases set the following parameters:

- Warburton Lane, Trafford appeal from Jan 2021 (ref 3243720) solidified the key viability principle that there is a relationship between the level of abnormal costs and the corresponding benchmark land value (on the basis that as abnormals increase the benchmark land value decreases and vice versa). In this decision the Inspector agreed with the Council that a 10 times multiple of the existing use value was appropriate. In that particular case the abnormal costs were in excess of £400,000 per net acre (around £350,000 per gross acre).
 - Halton Heights, Forge Weir View involving Wrenman Homes and Lancaster City Council (ref 3285794) dated 29th July 2022. The Inspector accepts an existing use value of £10,000 per acre and a premium uplift of 15 times this amount to arrive at the benchmark land value. At that scheme, the abnormal costs equated to £164,544 per net acre. The guidance states that the higher the abnormal costs, the lower the benchmark land value (as the existing use value is fixed the only way this can be accounted for is by reducing the premium uplift).
- 3.17. In other words, where abnormals are in excess of £400,000 per net acre the premium uplift should be 10 (or lower). With reduced abnormals around £165,000 per net acre the premium uplift can increase to circa 15 times the existing use value.
- 3.18. In the case of the subject site, the revised abnormal / site infrastructure costs are £4,536,994 (or £468,392 per net acre). However, this includes the Part L costs, which are not strictly abnormal works as these are now mandatory. If these are excluded, the costs reduce to £3,672,988 (£379,193 per net acre). The costs are therefore more aligned with the Warburton Lane case referred to above. In this context, we consider a 10 times premium uplift to be reasonable here. This therefore equates to a benchmark land value of £1,677,809. We deem this to be appropriate for the testing.

4. Appraisal results, conclusions and further considerations

- 4.1. We have initially run a full policy compliant scheme (30% on-site affordable housing plus S106 costs totalling £957,384). However, this generates a residual land value below the benchmark land value and is therefore deemed to be unviable. On a 'trial and error' basis we have subsequently reduced the affordable housing to see at what point (if any) the scheme reaches the viability threshold.
- 4.2. Please see attached our appraisal. The scheme generates a residual land value of £1,697,066 (i.e. viable as this is just above the benchmark land value of £1,677,809) with the following affordable housing applied (totalling 22 units, which is equivalent to 15.28%).

AFFORDABLE RENT

Flat	1	2	604	1,208
House	2	5	793	3,965
House	3	1	941	941
Sub totals		8	5.56%	6,114

FIRST HOMES

			70.00%	
House	2	5	793	3,965
House	3	7	941	6,587
House	3	2	1,308	2,616
Sub totals		14	9.72%	13,168

- 4.3. Based on this modelling, we therefore agree that the scheme cannot viably support the 30% affordable housing provision (including the non-S106 affordable units). However, our updated modelling suggests that 15% is viable (which is effectively in line with TM's latest Scenario 3 appraisal).

4.4. Furthermore, we understand that the Council has now requested a bungalow as part of the affordable housing. The proposed adjustment to the affordable housing mix would be as follows:

15 First Homes - 2 x 1 bed and 13 x 2 bed (including the bungalow)

6 Affordable rented units – 3 x 3 bed and 3 x 2 bed.

4.5. The Council has questioned whether a change to the above mix would change the viability outcome of the scheme. Having considered this, we can confirm that the proposed adjustment in the affordable housing mix to 15 x First Homes (including 1 bungalow) and 6 x Affordable Housing (so 21 units in total) would not change the outcome i.e. this is viable.

4.6. 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.