Independent Viability Experts

FAO Mr Craig Miles
Principal Planning Officer
Gedling Borough Council

Sent by email only

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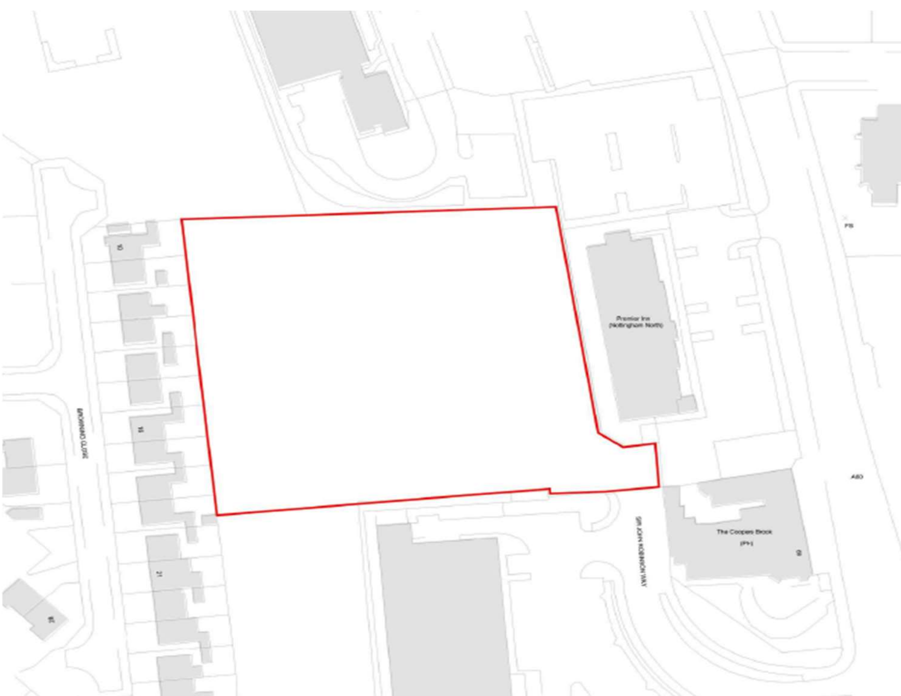
Our ref: DN-0945
Your ref: 2023/0701
Date: 12th January 2024

Dear Mr Miles,

PROPERTY ADDRESS: **Site of Daybrook Laundry, Mansfield Road, Daybrook**
INSTRUCTING BODY: **Gedling Borough Council**
APPLICANT: **McCarthy Stone Retirement Lifestyle Ltd.**



Further to your instruction and our Terms of Engagement dated 13th December 2023 we are pleased to report as follows.

1. Property Overview

1.1. The property is located in Daybrook, a suburb of the larger market town of Arnold, which is located on the north eastern edge of the Greater Nottingham conurbation, around 3.5 miles north of Nottingham City Centre. Main road access to the area is via the A60 (Mansfield Road) trunk road, which runs to the east of the subject site, connecting Nottingham in the south to Mansfield in the north. The nearest connection to the strategic road network is at junction 26 of the M1, 4 miles to the west. The nearest rail connection is at Bulwell station, less than 2.5 miles to the west, with local services available. Nottingham station, 3.5 miles to the south, has local, regional and national services available. The nearest NET tram stop is also at Bulwell station.

1.2. More specifically, the property is situated to the north of the western section of Sir John Robinson Way, a cul de sac off Mansfield Road serving an Aldi supermarket and the subject site. The Aldi supermarket is to the south, a Premier Inn budget hotel to the east, the curtilages of dwellings on Browning Close to the west and industrial premises/open space to the north. Access is available from Sir John Robinson Way. The immediate area is characterised by a mixture of social/ex-social housing (to the west) with mainly commercial uses to the north, south and east. A range of amenities is available within this area, including 2 supermarkets, a medical centre, a retail park, church, pub and bowls club.

1.3. The subject site previously accommodated part of a laundry/dry cleaning operation, which was demolished more than 10 years ago. It mainly comprises an area raised around 5 metres above the ground level of the access, with a smaller area at ground level, consisting of a (previous building) ground floor slab and tarmac hardstanding. The elevated area (which is also retained along the north and south boundaries) partly comprises a lower floor of the cleared laundry building and a wall which retains the higher ground. The raised area has become overgrown with scrubby vegetation.

1.4. The subject site is roughly rectangular in shape and according to the Alder King ("AK") "Financial Viability Assessment" dated September 2023 extends to 0.58 Ha (1.44 acres) on a gross basis.

1.5. In terms of planning history, a previous application for residential permission in 2008 was allowed on appeal, but this was time limited, and although an extension of time for submission of reserved matters (up to 3 years) was granted in 2011, this has lapsed.

1.6. The current application (ref 2023**/0701**) is for:

> *"Erection of a 51 no. apartment retirement living development (Use Class C3), landscaping, car parking and all associated works"*

1.7. This is proposed to be delivered as a single retirement living scheme configured as a 3 storey 'L' shaped block, containing 36 x 1 bed apartments and 15 x 2 bed apartments, together with residents' lounge, external shared gardens and 20 car park spaces. Access will be from a single point on Sir John Robinson Way.

1.8. According to the AK Financial Viability Assessment dated September 2023, the proposed accommodation can be summarised as follows:

Type	Total units	Av Size (sq m)	Total size (sq m)
1 Bed RL Apartments	36	42.98	1,547
2 Bed RL Apartments	15	61.11	917
Total	**51**		**2,464**

2. Scope of Assessment and General Assumptions

2.1. On behalf of the applicant, AK have presented their "Financial Viability Assessment" dated September 2023. In it, they consider a single (non-target policy compliant) appraisal scenario, with no affordable housing or other developer contributions. This returns a negative residual land value and AK state that their appraisal "It is clear that the proposed scheme is unable to provide any Sec.106 obligations and remain viable."

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 planning policy 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 or advisors in relation to any other 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. 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 on the relevant planning applications.

2.9. 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.

2.10. We have assessed the viability of the scheme as at 12th January 2024.

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 "Assessing viability in planning under the National Planning Policy Framework 2019 for England (Guidance Note 1st Edition, March 2021), 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 ARGUS Developer. This is an industry approved cash-flow model, designed specifically residual appraisals. 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. AK assessment

3.1. As stated above, AK have appraised a single scenario based on 100% market value housing with no affordable housing or other developer contributions. This returns a negative residual land value of (minus) -£215,064. As this is below their separately assessed benchmark land value of £577,500 this scenario is deemed to be unviable even before any planning policy contributions are factored in.

3.2. AK carry out sensitivity analysis on this outcome, reviewing the impact of changes in costs and values in 2.5% intervals. They conclude that, in the light of this and other relevant data, ... the assumptions made within this FVA are appropriately balanced."

3.3. To summarise AK's appraisal, we have focused on their single scenario. We have categorised the costs provided under what we consider to be the most common sections of a viability appraisal. 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.	Av £ per sqm	Total
1b retirement flats	36	£4,537	£7,020,000
2b retirement flats	15	£4,255	£3,900,000
Totals	**51**	**£4,432**	**£10,920,000**

Gross Development Cost (Outgoings)

Type	Rate	Total
Apartments	£1,633 per sqm (3,244 sq m GIA)	£5,297,017
Part L&O Building Reg changes	51 @ £3,000	£153,000
External works	9.72% of build cost	£529,702
Contingency	3.34% of above build costs	£199,945
Abnormal costs	Various (£462,096 per acre)	£685,104
Professional fees	8.92% of build costs	£533,186
Marketing & sales	5% of GDV	£546,000
Sales legal fee	£650 per unit	£33,150
Empty Property Costs		£279,589
Finance	7% debit, 1% credit	£694,372
Developer's profit	20% of GDV	£2,184,000
Total		**£11,135,065**

3.4. Based on the above assumptions, the scheme returns a negative residual land value of - (minus) £215,064. Separately, AK identify a benchmark land value of £577,500. As the residual land value is below the benchmark land value, the scheme is deemed to be unviable, even before any planning policies are factored into the assessment.

4. CP Viability's appraisal

Gross Development Value (Revenue)

4.1. We have based our assessment of value for the completed dwellings on the mix detailed above (see 1.8).

4.2. AK's average sales values can be summarised as follows:

1 bed flat	42.98 sq m	£195,000 (£4,537 per sq m)
2 bed flat	61.11 sq m	£260,000 (£4,255 per sq m)

4.3. To arrive at their adopted values AK, consider the following:

- Rightmove data for the NG5 postcode area (in adopting the Retirement House Group methodology to arrive at the sales values of the proposed retirement apartments). This takes the average value of a semi-detached housing in the immediate area and prices a 1 bed Retirement apartment at 75% of the value and a 2 bed Retirement apartment at 100% of the value.

4.4. In terms of evidence, this is limited for recently built retirement apartment schemes within the immediate Daybrook/Arnold area (and no direct transactional evidence is shown on the Land Registry since Jan 2020 for retirement apartments). Given the lack of transactional evidence in the immediate locality we have subsequently widened our research and considered current asking prices. We note the following:

- **Catherine Place, Scalford Rd, Melton Mowbray**: around 18 miles south east of the subject site within the distinct market town of Melton Mowbray. This is a new build 3 storey McCarthy & Stone retirement apartment scheme with the majority of the development now sold out. This therefore provides an example of a new build McCarthy & Stone scheme, however it is within a very different setting so is of limited assistance. There is currently a 2 bed apartment of 77.48 sq m available for sale at £299,995 (£3,872 per sq m). There is also a 1 bed apartment of 52.77 sq m available as 50% shared ownership at a value of £117,500, which equates to a market value of £235,000 (£4,453 per sq m).

- **Gilbert lodge, 2 Wilmot Lane, Beeston NG9**: around 6 miles south west of the subject site. This is a town, albeit within close proximity to Nottingham city. In this sense, this is a similar location to Arnold, where the subject site is adjacent to, as this is also a distinct town albeit this merges with the Nottingham City urban sprawl. In terms of how this location compares in value terms to Daybrook / Arnold, we note that AK identify a semi-detached average value of £219,390 for postcode NG5 (in which the subject site is located). We have adopted the same approach for 'NG9' in which Gilbert Lodge is located and note the following:

House Prices in NG9

Properties in NG9 had an overall average price of £276,031 over the last year.

The majority of sales in NG9 during the last year were semi-detached properties, selling for an average price of £259,862. Detached properties sold for an average of £381,232, with terraced properties fetching £211,369.

Overall, sold prices in NG9 over the last year were 3% down on the previous year and 3% up on the 2021 peak of £266,874.

The average is therefore £259,862, which is around 18.5% higher than Daybrook/Arnold in which the subject site is located. We would therefore expect a discount at the subject site compared to the values shown at Gilbert Lodge.

In terms of the development itself, this is a new build 4 storey Churchill Retirement apartment scheme with the majority of the development now sold out. We undertook a viability review of this site in 2021, on behalf of Broxtowe Borough Council. There is currently a 2 bed apartment of 78.77 sq m available for sale at £394,950 (£5,014 per sq m). There is also a 1 bed apartment of 53.82 sq m available at £264,950 (£4,923 per sq m). Applying say a bullish 15% discount, as discussed above, this would give an equivalent value of £4,262 per sq m for the 2 bed and £4,185 per sq m for the 1 bed. Within this context, AK's adopted rate at the subject scheme of £4,255 per sq m for the 2 bed and £4,537 per sq m for the 1 bed does not appear to be underplayed.

4.5. Having considered the above, and accepting that there is limited direct comparable evidence available, we see no tangible evidence to justify a departure from the values put forward by AK in their assessment. We have subsequently applied the same to our modelling.

Build costs

4.6. For construction costs, AK apply the following:

-	New build apartments	£1,633 per sq m (£5,297,017)
-	Part L/F Building Regs	£3,000 per unit
-	External works	9.72% of above combined costs
-	Contingency	3.34% of above combined costs
-	Abnormal works	£685,104 (£462,096 per acre)
	Total	**£6,864,768**

4.7. By way of evidence, AK refer to the Build Cost Information Service ("BCIS") database, which is regularly used in the industry to estimate construction costs. AK apply the default median rate, rebased to Gedling, for "Supported Housing – 3 storey".

4.8. We agree that it is appropriate to benchmark these costs against the BCIS (which is an approach which has been approved through numerous planning appeals regarding retirement apartment schemes in recent years). Please note, the BCIS rates include preliminaries and a contractor's overhead, but they exclude external works and contingency (and therefore these need to be allowed for separately).

4.9. We have checked the latest BCIS figures and consider the 'default' rebasing for the Gedling data to be appropriate. The 3 storey supported housing figure supports AK's suggested rate of £1,633 per sq m as being reasonable.

4.10. Please note that changes to Part L of the Building Regulations came into full effect from June 2023. These changes require that CO2 emissions are reduced by 31% for dwellings, with a new emphasis on low carbon heating systems. These are an interim step towards the Future Homes Standard which will come into force from 2025. To reflect these requirements AK have allowed an additional £3,000 per dwelling.

4.11. Firstly, we agree that it is necessary to make an additional allowance for these forthcoming changes. The BCIS data is based on contracted schemes (i.e. it is based on actual tendered contract sums submitted to the BCIS by developers / house builders). As this inherently 'looks backwards' it does not (currently) reflect these recent regulations changes. In other words, the costs of the Part L changes are not yet reflected in the BCIS data, so it is necessary to make an additional allowance at the current time when applying the BCIS figures. Secondly, in terms of the level of the Part L allowance, we have received submissions on other cases where in excess of £5,000 per dwelling has been deemed appropriate by developers / house builders, which has largely been based on a study undertaken in 2019. However, we have rejected this level of allowance for a number of reasons, and instead pushed for an allowance of around £3,000 dwelling. In this regard, AK's allowance is broadly in line with our own expectations and is therefore deemed appropriate for the purposes of the viability testing.

4.12. The external cost allowance equates to 10% of the BCIS rate (or 9.72% is the Part L changes are also factored into the calculation). By way of evidence, we have reviewed other retirement apartment schemes we have appraised in recent years and identified the external costs put forward / agreed in those assessments. We note the following from the last 2 years:

Local Authority	Date of appraisal	Units	Externals (% of build cost)
Wirral Borough Council	Mar-22	37	8.00%
Wirral Borough Council	Feb-22	38	8.00%
South Kesteven DC	Oct-22	41	10.00%
Oldham Borough Council	Jul-22	51	5.00%
Wakefield District Council	Jul-22	58	7.77%
Peterborough City Council	Jul-23	60	10.00%
West Lancashire Borough Council	Jul-22	67	9.19%
			8.28%

4.13. External costs therefore vary from site to site and will depend on factors such as the length of the access road, the amount of parking provision, landscaping etc. Also, please note, we did not agree to some of these allowances in our review. For example, in the Peterborough case, owing to the limited access road and landscaping we inputted 8% in our modelling.

4.14. We have subsequently revisited the site plans of the attached to see how they compare to the external space proposed at the subject scheme. In the Wirral example of 37 units at 8% there is a similar number of parking spaces, however the access road appears shorter and there is less landscaping. The other 8% example in the Wirral (38 dwellings) has only a short access road and limited landscaping. This is also the case for the Oldham example at 5%. At the West Lancashire example, there is a long access road, but relatively limited landscaping. In the South Kesteven example, the access road is significantly longer than normal.

4.15. In terms of the subject site, the access road is fairly average when compared to the other schemes listed above, as is the proportion of car parking spaces. The landscaping is arguably above average when compared to the other schemes. In light of this, we do not consider an 8% allowance is appropriate, as this would not cover the above average landscaping works needed here. However, equally we find 10% too high, as for the only 2 cases identified at 10% one had an extremely long access road and the other was rejected in our review. On balance, we subsequently conclude that a 9% figure is broadly reasonable for the purposes of the modelling.

4.16. In terms of contingency, we would stress that this is ultimately a figure which may never be realised by a developer (and there is a line of argument to say that a contingency should not be allowed in viability testing for this reason, as essentially 'risk' is reflected already in developer profit). In other words, this is a cost which may never be drawn upon by the developer in which case this simply becomes an additional profit, potentially at the expense of planning policy requirements. However, and notwithstanding this, it is common practice to apply contingencies to viability modelling (as well as this approach being approved through the viability guidance) therefore we are of the view that it is appropriate to make some allowance for contingency in the appraisal, albeit not overstating this given the pressures on Councils to deliver planning policies. We are subsequently of the view that a figure of 3% reflects a reasonable balance between the need to include some level of contingency but also the Council's need to deliver planning policies. We have applied this to our appraisal.

4.17. With regard to abnormal costs, AK have included the following:

Site clearance and demolition	£195,220
Cut & fill - excavation	£77,609
Cut & fill - disposal	£361,025
Retaining wall	£51,250

4.18. This amounts to a total of £685,104 (£462,096 per acre).

4.19. We would stress that we are not Quantity Surveyors and are unable to provide a detailed review of these abnormal costings without third party input (which would have time / cost implications). However, to some degree the impact of abnormal costs can be offset in the land price (at least when determining viability). The Planning Practice Guidance ('PPG') on viability makes it clear that abnormal costs must be factored into the assessment of land value, with the implication being the higher the abnormal costs the greater the downward pressure on land value.

4.20. In practical terms, it is not the case that if abnormal costs go up by £100,000 per acre the land value will always decrease by £100,000 per acre, as the land value still has to be at a sufficient level to incentivise a landowner to release the site for development. For example, if a site has an existing use value as an agricultural field at £10,000 per acre and, after abnormal costs are deducted, a residential scheme can only deliver a land value of £15,000 per acre then this would not represent a sufficient incentive for a landowner to release the site for development. There still has to be some sort of suitable premium above the existing use value. However, it is reasonable that the burden of the higher abnormal costs on a development should not fall solely on the Council through a reduction in their planning policies. The principle that the land value must bear the most significant proportion of any abnormal costs is a sound one.

4.21. In short, changes in abnormal costs are of course significant. However, when assessing viability, they should be balanced against land value (which can serve to dampen the effect of abnormal costs on the overall viability outcome).

4.22. Having considered these factors, for the purposes of the modelling we have run our appraisal on the basis of abnormal costs of £685,104, albeit on the basis that this is balanced with an appropriate level for the benchmark land value, as per the requirements of the Planning Practice Guidance.

Professional fees

4.23. AK's professional fees equate to 8.92% of their combined block costs and externals costs.

4.24. By way of evidence, we have again reviewed the other retirement apartment schemes referred to above in para 4.12 and note the following:

Local Authority	Date of appraisal	Units	Prof fees (applied to build)
Wirral Borough Council	Mar-22	37	8.30%
Wirral Borough Council	Feb-22	38	10.00%
South Kesteven DC	Oct-22	41	11.03%
Oldham Borough Council	Jul-22	51	8.02%
Wakefield District Council	Jul-22	58	8.00%
Peterborough City Council	Jul-23	60	9.77%
West Lancashire Borough Council	Jul-22	67	8.08%
			9.03%

4.25. Within the context of the above, AK's allowance (which is equivalent to 8.98% of our adjusted costs) is broadly reasonable. We have adopted the same in our appraisal.

Marketing / legal costs

4.26. AK have allowed 5% of revenue to cover marketing / sales fees, plus legal fees equivalent to around £650 per dwelling.

4.27. Based on other schemes we have appraised, we acknowledge that the marketing cost allowance is typically significantly higher than a non-retirement equivalent scheme (which would usually be 3% or lower dependent on the size of the scheme). However, as a principle, it has been accepted through various planning appeals that the costs associated with selling a retirement apartment are more significant owing to:

- The market is restricted, with typical purchaser's being in excess of 70 and widowed.
- Sales need to include family members, not just purchasers.
- Direct, targeted marketing is required for likely purchasers in the area.
- A sales office and several show apartments have to be maintained throughout the disposal process.
- Development costs are committed and incurred prior to any sale.

4.28. Whilst, in our view, some of the principles outlined above are also true of non-retirement apartments, it is accepted that this has been 'tried and tested' in an appeal setting.

4.29. This is also replicated in the cases discussed above in para 4.12, which show the following:

Local Authority	Date of appraisal	Units	Marketing
Wirral Borough Council	Mar-22	37	5.00%
Wirral Borough Council	Feb-22	38	5.00%
South Kesteven DC	Oct-22	41	5.00%
Oldham Borough Council	Jul-22	51	5.00%
Wakefield District Council	Jul-22	58	5.00%
Peterborough City Council	Jul-23	60	5.00%
West Lancashire Borough Council	Jul-22	67	5.00%

4.30. Within this context, AK's adopted costs are deemed to be reasonable and have been accepted in our report.

4.31. AK have also made an allowance for empty property costs, which is an allowance which has been accepted through appeal decisions and other retirement living schemes. This recognises that when a scheme reaches practical completion not all of the apartments will be sold straight away, however all apartments will attract Council Tax payments, there will be a shortfall in service charge income and also some electricity charges. The overall allowance applied by AK in their appraisal is £279,589.

4.32. To arrive at this Empty Property Cost, AK make the following assumptions:

- Council Tax 1 bed apartment £167.84 per calendar month.
- Council Tax 2 bed apartment £188.82 per calendar month.
- Service Charge 1 bed apartment £212.03 per calendar month.
- Service Charge 2 bed apartment £317.92 per calendar month.
- 11 units sold at practical completion
- 15 units sold in Months 1 – 12
- 15 units sold in Months 13 – 24
- 10 units sold in Months 25 – 36

4.33. We would comment on their approach as follows:

- We agree with the service charge inputs, the Council Tax allowances and the utilities.

- We also agree with 11 dwellings sold as at completion, which is just over 20%.

- However, for the first 12 months we would expect a high disposal rate, at 2 per calendar month, dropping to 1 per calendar month thereafter.

- In this regard, we note that AK's cash flow does not account for 'whole units' instead it shows decimal units. This is not reflective of reality, as clearly part of a dwelling cannot be sold. For this reason, we propose to apply full unit sales, at 2 per calendar month for the first 12 months and then 1 per calendar month thereafter.

4.34. We have run our own cash flow (see Appendix 1). Adopting our approach this results in a disposal period of 30 months. The model shows an Empty property Cost calculation of £214,921. We have applied this to our appraisal.

Finance

4.35. AK have adopted a debit rate of 7% and a credit rate of 1% for finance costs in their assessment. This is considered to be reasonable and has been accepted in our appraisal.

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

Developer's profit

4.37. AK consider a developer profit of 20% on revenue to be appropriate for the modelling.

4.38. 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.

4.39. In our experience 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. This range is also referred to in the Planning Practice Guidance on viability.

4.40. For other retirement apartment schemes we have appraised (involving McCarthy & Stone and Churchill Retirement Living) the assessor typically argues for a 20% profit, referencing numerous appeal decisions where 20% has been deemed acceptable by the Planning Inspectorate. AK refer to this in their report regarding the subject property.

4.41. However, and whilst notwithstanding this, we have reservations as to whether this appropriately reflects the intention of viability testing. The Planning Practice Guidance: Viability indicates that developer profit is a reflection of risk. As risk fluctuates from site to site it should follow that the level of profit should also fluctuate dependent on that level of risk.

4.42. According to AK's appraisal, with no planning policies applied and assuming their benchmark land value of £577,500 (see below), the best that the scheme can generate as a return is circa 12.74% on revenue, not 20%. The fact that the applicant is willing / able to still bring this forward suggests that retirement apartment providers are willing to bring forward sites at a level of return below 20%, dependent on the risk associated with each scheme.

4.43. To understand this further we have reviewed the other retirement apartment schemes we have been involved with and note a similar trend, whereby the 'target' profit is 20% on revenue, but often the actual profit shown in the appraisal put forward by the retirement apartment operator (once all the planning policies are removed) is lower. It is therefore disingenuous for AK to state that the profit has to be fixed at 20% on revenue in order for the scheme to be delivered, as this is not reflective of reality.

4.44. That said, we were previously involved with a Retirement operator scheme in West Bridgford, Nottingham which ultimately went to appeal (ref APP/P3040/W/19/3229412). As part of the appeal submissions made by the appellant, a letter was provided by HSBC which stated that "…it would be highly unlikely that we would fund an individual site on a sub 20% (profit on GDV [Gross Development Value]) basis unless there was a material risk mitigation aspect such as a larger pre-sales dimension". On the basis of this evidence, the Inspector concluded that a 20% developer profit was appropriate to apply to the viability modelling.

4.45. We are also aware of 2 recent planning appeal decisions, as follows:

- **17 & 19 Holly Road South, Wilmslow (appeal ref 3317173).** Appeal decision 11th Sept 2023. This relates to a Churchill Living retirement scheme for 34 retirement apartments. Viability was originally a reason for refusal; however the viability position was ultimately agreed prior to the Inquiry. As part of the agreement, a profit equivalent to 20% on revenue was applied to the modelling.

- **35 Oakfield, Sale (appeal ref 3325034).** Appeal decision 8th December 2023. This relates to a McCarthy and Stone retirement scheme for 25 retirement apartments. The appellant suggested a developer profit of 20% on revenue. The Council's advisor suggested 18.5% on revenue. In their decision the Inspector concluded that "I therefore agree with the Appellant that a profit of 20% of gross development value should apply".

4.46. However, this raises a query at the subject scheme. As stated above, AK's own appraisal, once all planning policies are removed and a land value of £577,500 is applied (see below section on Benchmark Land Value), demonstrates that the maximum profit that can be achieved at the subject scheme is under 20% on revenue at 12.74% on revenue. If funders truly require a minimum of 20% profit, as per the HSBC evidence used at the aforementioned appeal, then it follows that either:

(i) The scheme cannot be delivered as a funder would not lend on this scheme because it does not reach the requisite level of profit, or

(ii) The appraisals submitted to the funders include different appraisal assumptions, which result in a higher developer profit of at least 20% on revenue.

4.47. Our own professional view is that it is incorrect that developer profit is fixed at 20% on all retirement apartment schemes (which is the view of the applicant). Profit is directly linked to risk, therefore fixing the profit at 20% on revenue ignores the requirements of the guidance for profit to be site specific and also ignores the reality of other schemes being assessed by retirement apartment developers where lower profit margins than 20% are deemed acceptable in certain cases.

4.48. However, we do acknowledge that the 20% profit figure has been agreed previously at numerous planning appeal decisions (and as shown above some recent decisions). From our own experience of attending appeals in connection with this type of scheme, we would stress that Planning Inspectors are mindful of this type of precedent.

4.49. In light of this, for the purposes of our review, and given the precedents set at appeal, we have applied a 20% on revenue profit margin in our appraisal. However, this is in the context of the benchmark land value discussions below.

Benchmark land value

4.50. 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.

4.51. 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.

4.52. Viability assessors are provided some guidance through the National Planning Policy Framework ('NPPF') and Planning Practice Guidance ('PPG'), as published on 24th July 2018 (and updated in May/September 2019). One area which the PPG deals with is in relation to assessing BLV, stating the following:

4.52.1. 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.

4.52.2. The EUV should disregard any hope value.

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

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

4.52.5. 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.

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

4.52.7. 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.

4.53. 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.

4.54. To arrive at their benchmark land value, AK refer to the existing use value and look to apply a premium uplift. AK adopt an existing use value of £525,000 (which is informed by a third-party valuation report undertaken by Matthews & Goodman dated 7th Oct 2022) and to this apply a 10% uplift to arrive at a benchmark land value of £577,500.

4.55. Firstly, we have reviewed AK's adopted existing use value, which as indicated above is based on a valuation undertaken by Matthews & Goodman ("M&G"). M&G's valuation considers 2 scenarios, the first establishing the market value of the site based on development potential, stated as being £580,000, and the other being a special assumption that there is no development potential (i.e. existing use value only) which is given as £525,000. Wee would comment on their approach as follows:

- To establish the market value, M&G run a residual appraisal based on the residential development potential of the site (which they anticipate would attract the highest value for the site). M&G assume a residential scheme of 14 dwellings. However, we consider their approach to be flawed because the allowances for abnormal works are underplayed. In the viability assessment of the subject scheme (i.e. retirement apartments), AK allow £685,104 for abnormal / site infrastructure costs. This includes site clearance and demolition, cut and fill excavation, cut and fill disposal and retaining walls. We would expect these same costs to apply to a residential development of 14 houses. However, in M&G's residual appraisal they only allow £257,950 for infrastructure costs. There is subsequently a shortfall in the abnormal costs of £427,154. If the correct level of abnormal costs are applied to M&G's model this would result in a residual value of £152,846.

- As for M&G's stated 'existing use value' figure of £525,000 this is based on 4 commercial land sales in Sutton in Ashfield, Chesterfield and Mansfield (showing values at £110,000 per acre, £261,000 per acre, £299,000 per acre and £465,000 per acre). M&G ultimately apply a rate of circa £350,000 per acre to arrive at a figure of £525,000. However, 3 of the 4 sites (bar the £299,000 per acre site in Chesterfield) were cleared sites. At the subject scheme, there is an associated cost of £195,220 for clearing the site. This therefore needs to be deducted from the gross price. In our view, a value of £350,000 per acre is acceptable for the subject site, however the deduction for clearance works needs to be applied. This reduces the figure to (rounded) £330,000. Furthermore, in our view, this is not an 'existing use value' as a planning consent would be required for a commercial development. This is instead an 'alternative use value'. As per the guidance, where this is established there is no requirements for a premium uplift.

4.56. In short, we consider AK's benchmark land value to be overstated. In our view, based on the alternative use value of the property (for a commercial use) we consider a value of £330,000 to be appropriate for the viability modelling.

5. Appraisal results and conclusions

5.1. Please see attached our viability appraisal. With a fixed developer profit of 20% on revenue, and nil planning policy contributions, the scheme returns a negative residual land value of (minus) -£102,992. As this is below the benchmark land value of £330,000 the scheme is therefore deemed to be unviable even before any planning policy contributions are factored in.

5.2. For illustrative purposes, this outcome is despite the following adjustments in our appraisal:

Input	AK appraisal	CPV appraisal
Externals	£529,702	£490,502
Contingency	£199,945	£178,216
Empty Property Costs	£279,589	£214,921
Benchmark land value	£577,500	£330,000

5.3. As per the RICS requirements we have also run sensitivity testing, considering the impact that stepped increases and decreases on sales values and construction costs (at 2.5% intervals) would have on the viability outcome:

Sales: Rate /m²					
Construction: Rate /m²	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
-5.000% 1,551.35 /m²	20.00% £172,833	20.00% (£519)	20.00% (£168,071)	20.00% (£335,623)	20.00% (£503,176)
-2.500% 1,592.18 /m²	20.00% £312,143	20.00% £137,859	20.00% (£34,186)	20.00% (£201,738)	20.00% (£369,290)
0.000% 1,633.00 /m²	20.00% £452,111	20.00% £277,085	20.00% £102,992	20.00% (£67,853)	20.00% (£235,405)
+2.500% 1,673.83 /m²	20.00% £592,340	20.00% £416,842	20.00% £242,028	20.00% £68,124	20.00% (£101,520)
+5.000% 1,714.65 /m²	20.00% £732,959	20.00% £556,845	20.00% £381,580	20.00% £206,970	20.00% £33,348

5.4. By way of explanation, if the sales values were increased by 5% and construction costs remained the same the residual land value would increase to £235,405. However, as this is still below the benchmark land value of £330,000 this scenario would remain unviable.

5.5. In summary, and even with adjustments in our appraisal, we agree with the applicant that the scheme is unable to support any planning policy contributions.

5.6. 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.

Yours sincerely

David Newham MRICS
Director
CP Viability Ltd