Independent Viability Experts

David Newham MRICS
Director
CP Viability Ltd

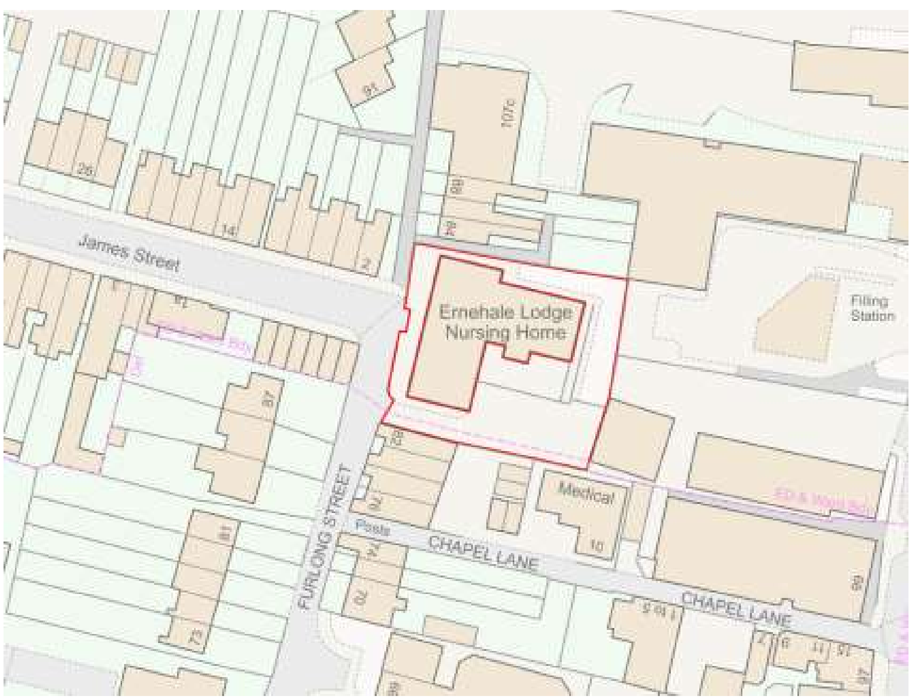
FAO Ms Claire Turton
Principal Planning Officer
Gedling Borough Council

Sent by email only

Our ref: DN-1041
Your ref: 2024/0381
Date: 31st July 2024

Dear Ms Turton,

PROPERTY ADDRESS: Ernehale Lodge Nursing Home 82A Furlong Street Arnold Nottinghamshire NG5 7BP
INSTRUCTING BODY: Gedling Borough Council
APPLICANT: Arnold Point Ltd



Further to your confirmation of instruction dated 18th July 2024, we are pleased to report as follows.

1. Property Overview

1.1. The subject property is located in the market town of Arnold, to the north eastern side of the Nottingham conurbation around 3.5 miles north east of Nottingham City centre. The main town centre is focused around Front Street and Market Place, which offers a variety of retailers and eateries / bars. Main road access is via the A60 (Mansfield Road) which runs north to south and is accessible just over 600m to the south west of the site, on Cross Street. Nottingham Railway Station is located approximately 4 miles to the south.

1.2. More specifically, the property fronts onto the 'T-Junction' of James Street and Furlong Street. This is in an established mixed use residential and commercial area, with an ASDA petrol station and a Halfords Autocentre immediately to the east and other industrial and commercial uses to the north. To the south is a doctor's surgery and medical centre, as well as 2 storey semi detached and terraced residential housing beyond that. There are traditional terraced dwellings to the west. There is also an ASDA supermarket around 100m to the south east.

1.3. The subject property comprises a two storey vacant building last used as a nursing home. An accessway runs between the building and 82 Furlong Street and providing access to a carparking area at the rear. A strip of scrub/grass land is located along the northern and eastern boundary separating the site from Halford car parking area and Asda petrol station.

1.4. The site is broadly rectangular with open boundaries and areas of tarmacking and scrub. The land slopes gently from west to east, with a fall of about 0.6m. According to the planning application form, the site has a gross area of 0.12 Ha (0.29 acres).

1.5. Previous planning applications in respect of the site include:

2023/0605 *"Change of use from care home (Class C2) to a 29-bedroom house in multiple occupation (Sui Generis), together with changes to windows and doors and associated development"* This was refused permission in February 2024.

1.6. The current application is for (**2024/0381)** "Change of Use from Nursing Home to 19 No. Dwellings with rear, side and roof extensions and façade alterations"

1.7. Based on the schedule of accommodation shown in the S106M "Financial Viability Appraisal" dated 31st May 2024, the proposed dwellings can be summarised as follows:

Name	Beds	Total units	Size per unit sq m	Total sq m
Apartment	1	4	37	148
Apartment	1	1	38	38
Apartment	1	1	38.40	38.40
Apartment	1	1	38.60	38.60
Apartment	1	2	41.40	82.80
Apartment	1	1	43	43
Apartment	1	1	44.50	44.50
Apartment	1	1	44.80	44.80
Apartment	1	1	45.50	45.50
Apartment	2	1	55.90	55.90
Apartment	2	1	59.50	59.50
Apartment	2	1	59.70	59.70
Apartment	2	1	62.10	62.10
Apartment	2	1	63.10	63.10
Apartment	2	1	71.20	71.20
		19		**895.10**

1.8. The scheme has a total gross internal floor area of 1,046 sq m. This is a gross to net ratio of around 86%.

2. Scope of Assessment and General Assumptions

2.1. Acting on behalf of the applicant, S106M have presented a "Financial Viability Appraisal" dated 31st May 2024 in which they consider a single scenario based on nil affordable housing. S106M conclude "…on a 100% open market basis, the benchmark land value exceeds the residual land value of the scheme."

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

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

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

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

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

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

2.8. We have assessed the viability of the scheme as at 31st July 2024.

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

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

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

2.12. In accordance with the RICS "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. We have also adhered to the requirements of the Planning Practice Guidance: Viability, first published in July 2018 and updated since.

2.14. In undertaking our appraisals, we have utilised an approved toolkit, designed specifically for residual appraisals.

2.15. 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. S106M's appraisal – summary

3.1. As stated above, S106M's single scenario appraisal does not include any affordable housing. S106M's appraisal generates a residual land value of £221,166. As this is below the benchmark land value of £620,000 this is deemed to be unviable.

3.2. To summarise S106M's appraisal, 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.	Average values	Total
Apartment 1 bed	13	£136,538 (£3,390 psm)	£1,775,000
Apartment 2 bed	6	£175,167 (£2,829 psm)	£1,051,000
Total	**19**		**£2,826,000**

Gross Development Cost (Outgoings)

Type	Rate	Total
Apartment construction	£1,376 per sq m of GIA (1,046 sq m)	£1,439,296
External works	10% of build costs	£143,930
Contingency	4.55% of build costs	£71,965
Additional costs	Biodiversity net gain	£10,795
Professional fees	9.55% of build costs	£151,126
Marketing and sales	3% of GDV	£84,780
Sales legal fees	£1,000 per dwelling	£19,000
Finance costs	8% debit	£103,815
Developer profit	20% of GDV	£565,200
Acquisition costs	Legals, agent, SDLT	£14,928
Total		**£2,604,835**

3.3. Based on the above, S106M's appraisal generates a residual land value of £221,166. This is below S106M's separately assessed benchmark land value of £620,000 therefore S106M conclude that the scheme is unviable, even before any affordable housing is factored in.

4. CP Viability's appraisal

Gross Development Value (Revenue)

4.1. S106M's adopted values equate to an average of £3,389 per sq m (ranging from £135,000 to £140,000), for 1-bedroom flats and £2,829 per sqm (ranging from £167,000 to £185,000) for 2-bedroom flats.

4.2. In terms of market evidence, S106M refer to the following:

- Land Registry Data for Gedling in respect of sold flats.
- Sold flats within 0.5 miles in the last 2-year period from Rightmove.
- New build and second-hand stock from Nimbus, of flats for sale within 1 mile.

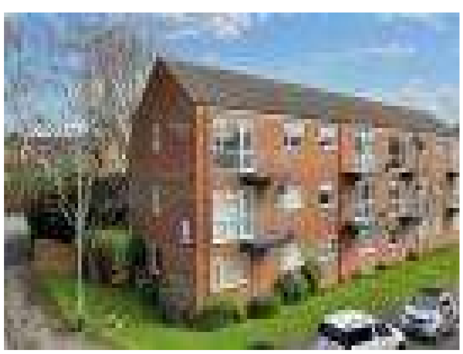
4.3. We have firstly considered Land Registry data over the last 2-year period for the postcode area 'NG5' within which the site is located. We note the following:

	Address		Pcode	Sq m	Price	£psm	Date	Type
4	ADAMS DRIVE	REDHILL	NG5 8PY	55	£157,995	£2,873	08/08/2022	Flat
3	NICHOLSON CLOSE	REDHILL	NG5 8RQ	55	£157,995	£2,873	13/10/2022	Flat
16	NICHOLSON CLOSE	REDHILL	NG5 8RQ	55	£157,995	£2,873	29/09/2022	Flat
20	NICHOLSON CLOSE	REDHILL	NG5 8RQ	55	£144,995	£2,636	16/12/2022	Flat
					£154,745	**£2,814**		
1	ADAMS DRIVE	REDHILL	NG5 8PY	68	£157,995	£2,323	03/03/2023	Flat
2	ADAMS DRIVE	REDHILL	NG5 8PY	68	£154,995	£2,279	29/07/2022	Flat
6	ADAMS DRIVE	REDHILL	NG5 8PY	68	£154,995	£2,279	08/08/2022	Flat
1	NICHOLSON CLOSE	REDHILL	NG5 8RQ	68	£160,995	£2,368	31/08/2022	Flat
14	NICHOLSON CLOSE	REDHILL	NG5 8RQ	68	£144,995	£2,132	09/12/2022	Flat
18	NICHOLSON CLOSE	REDHILL	NG5 8RQ	68	£157,995	£2,323	29/09/2022	Flat
					£155,328.33	**£2,284.24**		

4.4. This development (known as 'Eagles Edge') is situated to the northern edge of Redhill around 0.8 miles northwest of the subject site. The sales referred to above relate to Phase 1 (we have recently appraised Phase 2 of the scheme). According to the UK House Price Index, flat values across Gedling have been static since 2022. By way of comparison, flats of circa 55 sq m above show an average of £2,814 per sq m, whilst at the subject scheme S106M allow £2,987 psm for a flat of 55.90 sq m. For larger flats of circa 68 sq m the above shows an average of £2,284 psm, whereas S106M allow £2,598 psm for a 71 sq m flat. In this context, S106M's allowances appear broadly reasonable.

4.5. However, as the new build transactional evidence is limited, we have also researched new build apartments currently available for sale. Currently on Rightmove, though, there is only 1 x 1 bed new build flat being marketed for sale. This is at Spondon Street in Sherwood and is sold subject to contract at an asking price of £155,000. However, the size of the unit is unclear and this also benefits from a balcony, therefore this does not provided a 'like for like' comparison to the subject site. Limited conclusions can therefore be drawn from this evidence.

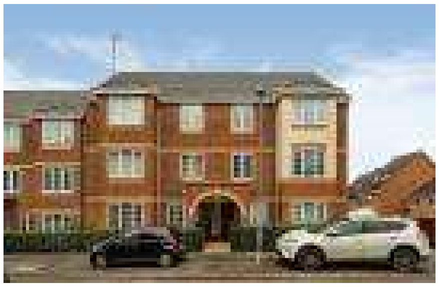
4.6. With limited new build evidence, we have subsequently turned to second hand sold apartments within a circa 1 mile radius of the subject site. We attempted to limit our results to similarly sized properties. We note the following:



Flat 1 Roxby House Derwent Crescent Arnold NG5 6TD

This 2 bed flat was sold for £76,000 in March 2024.

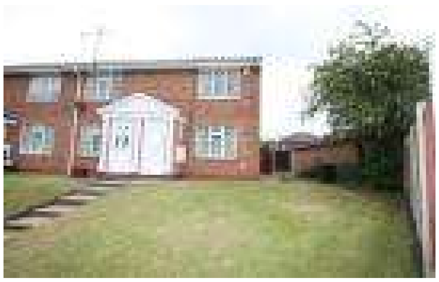
It has a floorspace of 69 sqm (£1,101 per sqm)



7 Kingswell Avenue Arnold NG5 6SY

This 2 bed flat sold for £135,000 in December 2023.

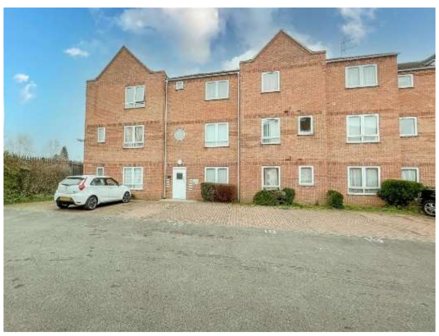
It has a floorspace of 62 sqm (£2,177 per sqm)



2 Larkspur Avenue Redhill NG5 8JU

This 2 bed flat sold for £111,000 in December 2032.

It has a floorspace of 56 sqm (£1,982 per sqm)



Flat 14 Furlong Court Furlong Street Arnold NG5 7AJ

This 2 bed flat sold for £118,000 in December 2023.

It has a floorspace of 49 sqm (£2,408 per sqm)

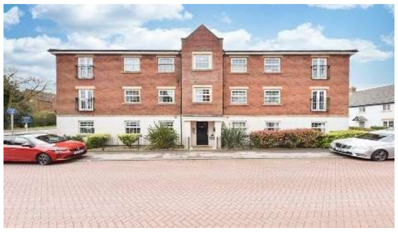
4.7. By way of additional evidence, we have also considered apartments currently for sale within a circa 1 radius of the subject site:

Nicholson Close, Redhill

2 bed apartment SSTC

Advertised for £160,995

Size unknown



Goddard Court, Mapperley Plains

2 bed apartment SSTC

Advertised for £160,000

68 sq m (£2,353 psm)

Mapperley Heights Plains Road

2 bed apartment

Advertised for £155,500

Size unknown

Kingswell Avenue Arnold

2 bed apartment

Advertised for £140,000

59 sqm (£2,373 psm)

Edison Way Arnold

2 bed Apartment

Advertised for £140,000

62 sqm (£2,258 psm)

Oxborough Road Arnold

1 bed apartment

Advertised for £90,000

45.3 sqm (£1,987 psm)

Edison Way Arnold

1 bed apartment

Advertised for £109,950

44 sqm (£2,499 psm)

4.8. In the context of the above evidence, S106M's average value allowances at the subject site appear broadly reasonable.

4.9. However, as a final indicator of value, we have also considered the rental potential of the flats. We have again researched the local market for 1 & 2 bed flats within Arnold. We note the following current availability:

- Stockdale Close: 1 bed let agreed at £525 pcm
- Edison Way: 1 bed asking rent £750 pcm
- Millbeck Apartments: 1 bed asking rent £750 pcm
- Front Street: 1 bed let agreed £650 pcm
- Dawley Court: 2 bed asking rent £950 pcm
- Furlong Court: 2 bed let agreed at £850 pcm
- Jasmin House: 2 bed let agreed £825 pcm
- Edison Way: 2 bed let agreed £825 pcm

4.10. For the 1 beds we have subsequently adopted a gross rental rate of £800 pcm, increased to £1,000 pcm for the 2 beds. We have then allowed an average of 20% as a gross to rent reduction, which gives a total net rental income of £157,440 per annum. To capitalise this, an investment yield is applied. In this case, and taking into account market conditions as well as the nature of the scheme, a 6% is deemed to be appropriate. This equates to an investment value of £2,624,000. Finally, with respect to purchaser's costs, a deduction of 5.8% is considered to be a reasonable allowance given the size and nature of the development. Adopting this approach, we have arrived at an investment value of £2,471,808. This is therefore below the value shown in S106M's appraisal of £2,826,000 (which is based on individual sales of the apartments).

4.11. Having considered all of the above we conclude that S016M's adopted values are appropriate for the purposes of the viability testing.

Build costs

4.12. S106M adopt the following construction costs:

- Flat construction	£1,376 per sq m
- Externals	10% of above
- Contingency	4.55% of above

4.13. To arrive at the plot costs, S106M have referred to the Build Cost Information Service ("BCIS") database, which is regularly used in the industry to establish construction costs. S106M apply the median quartile costs for the rehabilitation/conversion of 3-5 storey flatted projects.

4.14. For the purposes of our assessment, we consider it appropriate to review the BCIS data, which is a source of build costs regularly used in the construction industry (and a database supported by the Planning Practice Guidance on viability). The rates given can be adjusted to reflect different building types and also to reflect locational factors. The rates include preliminaries and contractor overheads, but exclude contingency and abnormals (which therefore have to be allowed for separately).

4.15. We have reviewed the latest BCIS rates (rebased to Nottinghamshire and the 'rehabilitation/conversion' rates) and note the following:

BCIS®

£/M2 STUDY

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

Last updated: 27-Jul-2024 07:23

Rebased to Nottinghamshire (100; sample 152)

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	
Rehabilitation/Conversion							
816. Flats (apartments)							
Generally (15)	1,856	400	1,072	1,453	1,929	6,438	77
1-2 storey (15)	2,467	790	1,203	1,522	2,963	6,438	16
3-5 storey (15)	1,571	400	1,068	1,366	1,745	5,960	46
6 storey or above (15)	2,156	628	1,005	1,463	3,287	5,396	14

4.16. As shown above, the median rate for 3-5 storey is currently £1,366 per sq m. We have subsequently applied this latest figure to our appraisal.

4.17. As for externals, S106M's allowance is equivalent to 10% of the BCIS rate. By way of evidence, we have reviewed the external costs put forward by applicants in their own viability assessments for other similar size apartment conversion schemes. We note the following:

Site Address	Local Authority	Date	Description	Units	Externals (% of build cost)
Beeston Lodge, 15-17 Meadow Rd, Beeston	Broxtowe BC	Apr-23	Conversion	14	0.00%
Knightsbridge Court, West Bars, Chesterfield	Chesterfield BC	Aug-20	Conversion	30	4.56%
Westbridge House, Holland St, Nottingham	Nottingham City	Jan-21	Conversion	27	6.57%
29 Addison Street, Nottingham NG1 4HN	Nottingham City	Jul-22	Conversion	29	5.00%
2 Bunny Lane, Keyworth, Rushcliffe	Rushcliffe BC	Oct-22	Conversion	26	0.00%
Millbeck House, Oakdale Road, Arnold	Gedling BC	Feb-20	Conversion	23	8.32%
90 - 92 Nottingham Road, Somercotes	Amber Valley	Nov-20	Conversion	20	6.04%
Crocus Mills, Crocus St, Nottingham	Nottingham City	May-21	Conversion	30	11.63%
Playworks, Alfred Street, Nottingham	Nottingham City	Feb-21	Conversion	16	6.61%
102 Palm Street, Nottingham NG7 7HS	Nottingham City	Apr-21	Conversion	15	5.08%
					5.38%

4.18. Having reviewed the plans we do not consider there to be any significant external works associated with the scheme, other than the parking areas, access and limited landscaping. We are of the view that a 7.5% allowance (which equates to £107,163) would be sufficient to cover these cost elements. We have subsequently adjusted our appraisal accordingly.

4.19. 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.

4.20. 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 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 in our appraisal.

4.21. As for other costs, S106M allow £10,795 for Biodiversity Net Gain. We have assumed this is a robust figure and has been calculated to reflect the national requirements and the specific circumstances of the site. We have therefore accepted this in our appraisal.

Professional fees

4.22. S106M's professional fees are equivalent to 9.84% of our adjusted BCIS rate / externals.

4.23. By way of evidence, we have again referred to the schemes discussed above in para 4.17. We note the following allowances put forward by applicants for professional fees:

Site Address	Local Authority	Date	Description	Units	Prof fees
Beeston Lodge, 15-17 Meadow Rd, Beeston	Broxtowe BC	Apr-23	Conversion	14	7.50%
Knightsbridge Court, West Bars, Chesterfield	Chesterfield BC	Aug-20	Conversion	30	8.89%
Westbridge House, Holland St, Nottingham	Nottingham City	Jan-21	Conversion	27	12.12%
29 Addison Street, Nottingham NG1 4HN	Nottingham City	Jul-22	Conversion	29	6.29%
2 Bunny Lane, Keyworth, Rushcliffe	Rushcliffe BC	Oct-22	Conversion	26	6.78%
Millbeck House, Oakdale Road, Arnold	Gedling BC	Feb-20	Conversion	23	13.18%
90 - 92 Nottingham Road, Somercotes	Amber Valley	Nov-20	Conversion	20	12.34%
Crocus Mills, Crocus St, Nottingham	Nottingham City	May-21	Conversion	30	7.46%
Playworks, Alfred Street, Nottingham	Nottingham City	Feb-21	Conversion	16	13.19%
102 Palm Street, Nottingham NG7 7HS	Nottingham City	Apr-21	Conversion	15	13.86%
					10.16%

4.24. S106M's allowance is therefore considered to be reasonable when compared to the other identified schemes. We have subsequently adopted the same in our appraisal.

Planning policies

4.25. The Council has advised that there is a 20% onsite affordable housing requirement in this location.

4.26. The Council has also indicated that there may be a Bus Stop contribution requirement, a library facilities contribution and potentially an education contribution. However, at this stage the Council is waiting for consultation responses and therefore the potential S106 requirements are not yet known.

4.27. We understand that the subject property is in an area which attracts a nil CIL charge.

<u>Marketing / legal costs</u>

4.28. To cover sales and marketing, S106M have allowed the equivalent of 3% of the revenue.

4.29. By way of evidence, we have again referred to the schemes discussed above in para 4.17. We note the following allowances put forward by applicants for marketing / disposal:

Site Address	Local Authority	Date	Description	Units	Marketing
Beeston Lodge, 15-17 Meadow Rd, Beeston	Broxtowe BC	Apr-23	Conversion	14	3.00%
Knightsbridge Court, West Bars, Chesterfield	Chesterfield BC	Aug-20	Conversion	30	1.34%
Westbridge House, Holland St, Nottingham	Nottingham City	Jan-21	Conversion	27	3.00%
29 Addison Street, Nottingham NG1 4HN	Nottingham City	Jul-22	Conversion	29	1.00%
2 Bunny Lane, Keyworth, Rushcliffe	Rushcliffe BC	Oct-22	Conversion	26	2.00%
Millbeck House, Oakdale Road, Arnold	Gedling BC	Feb-20	Conversion	23	3.13%
90 - 92 Nottingham Road, Somercotes	Amber Valley	Nov-20	Conversion	20	3.00%
Crocus Mills, Crocus St, Nottingham	Nottingham City	May-21	Conversion	30	1.00%
Playworks, Alfred Street, Nottingham	Nottingham City	Feb-21	Conversion	16	1.50%
102 Palm Street, Nottingham NG7 7HS	Nottingham City	Apr-21	Conversion	15	2.00%
					2.10%

4.30. Based on the above we therefore consider 2% to be appropriate, plus £1,000 per unit for legals.

Finance

4.31. In their appraisal, S106M adopt a debit interest charge of 8%. In light of recent increases in the Bank of England base rate this is considered to be reasonable and has been accepted in our appraisal.

4.32. To calculate the debit interest charges we have inputted our appraisal using ARGUS Developer. This is an industry leading toolkit designed specifically for preparing development appraisals.

Developer's profit

4.33. In their report, S106M adopt a return on revenue of 20%.

4.34. 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.

4.35. In our experience profit margins fluctuate depending on the nature of the scheme and the type of developer implementing the project. For a 'traditional' flat scheme (where apartments are sold individually), and only as a broad guide, we tend to see net profit margins in the region of 15% to 20% of revenue.

4.36. In this particular case, given the relatively small size of the scheme we consider a reduced profit of 15% on revenue to be appropriate.

Benchmark Land Value (‘BLV’)

4.37. 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.

4.38. 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.

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

4.39.1. 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.

4.39.2. The EUV should disregard any hope value.

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

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

4.39.5. 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.

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

4.39.7. 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.

4.40. 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.

4.41. S106M adopt a benchmark land value of £620,000, which is based on a 'Red Book' valuation (a valuation for secured lending purposes) completed by Allcott Associates LLP on 20th October 2023.

4.42. We would stress that Allcott's assessment seeks to identify the market value of the subject site. The viability guidance indicates that a benchmark land value is a different concept and that this can vary from market value. It is therefore important to review valuation reports of this nature before judging whether this can be taken as the benchmark land value or not.

4.43. We have subsequently reviewed Allcott's valuation report. We note that the valuation identified by Allcott is principally based on 5 "Care home sold comparables". They ultimately establish a rate per sq m of circa £925 and apply this to the gross internal area of 671 sq m to arrive at a market value of £620,000.

4.44. We have researched the 5 comparables referred to by Allcott to assess whether these were sold on the basis of a care home use or whether the underlying value was based on future development potential (i.e. hope value). This is important, because any 'hope value' for future development should be excluded when assessing benchmark land values. We would comment on each of the 5 comparables as follows:

- 1166 London Road, Alvaston, Derby: Allcott refer to a sale in June 2023 at £552,000. However, since this time, the property went into LPA Receivership and was sold via auction in March 2024 for £425,000. With a stated internal area of 576 sq m this is equivalent to £738 per sq m.

- Duncan Wood Lodge, Ollerton Rd, Worksop. This sold through auction as an investment in 2022.

- 17 Ashleigh Rd, Leicester the sales particulars referred to the development potential of the property. It is therefore unclear as to whether the price paid included hope value for future development.

- Park Lodge, 34 Sandy Lane, Romiley, Stockport the sales particulars referred to the development potential of the property. It is therefore unclear as to whether the price paid included hope value for future development.

- Evergreen Family Centre, Albany St, Ilkeston sold for £465,000, however since this time a planning application has been submitted for conversion to apartments. The price paid for the site therefore likely included hope value, which cannot be included when determining benchmark land value.

4.45. Having considered the above, our view is that the underlying existing use value (i.e. as a care home) would attract a lower value than the £925 per sq m figure adopted by Allcott. Using the London Road, Alvaston property as a key comparable we consider circa £750 per sq m would be appropriate at the subject property. This equates to an existing use value of £503,250. As per the requirements of the viability guidance it is then necessary to apply a premium uplift in order to arrive at the benchmark land value. In this case, we deem a circa 15% uplift to be appropriate, which gives a (rounded) benchmark land value of £580,000. We have subsequently applied this to our appraisal modelling.

5. Appraisal results and conclusions

5.1. We have initially run an appraisal based on nil affordable housing / planning policies contributions (if applicable). Please see attached our appraisal. This generates a modest residual land value of £394,400. As this is below our benchmark land value of £580,000 this fails to meet the viability threshold, even before any affordable housing / S106 payments are factored in.

5.2. Please note, this outcome is despite the following assumptions in our appraisal:

- Reducing the construction costs to £1,366 per sq m
- Reducing the externals to 5%
- Reducing the contingency to 3%
- Reducing the marketing / disposal to 2%
- Reducing the profit to 15% on revenue
- Reducing the benchmark land value to £580,000

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%
	2,999.33 /m²	3,078.26 /m²	3,157.19 /m²	3,236.12 /m²	3,315.05 /m²
-5.000% 1,297.70 /m²	15.00% (£365,938)	15.00% (£416,462)	15.00% (£466,986)	15.00% (£517,510)	15.00% (£568,033)
-2.500% 1,331.85 /m²	15.00% (£329,645)	15.00% (£380,169)	15.00% (£430,693)	15.00% (£481,217)	15.00% (£531,741)
0.000% 1,366.00 /m²	15.00% (£293,352)	15.00% (£343,876)	15.00% (£394,400)	15.00% (£444,924)	15.00% (£495,448)
+2.500% 1,400.15 /m²	15.00% (£257,059)	15.00% (£307,583)	15.00% (£358,107)	15.00% (£408,631)	15.00% (£459,155)
+5.000% 1,434.30 /m²	15.00% (£220,766)	15.00% (£271,290)	15.00% (£321,814)	15.00% (£372,338)	15.00% (£422,862)

5.4. By way of explanation, even if sales values were to increase by 5% (and construction costs reduced by 5%) the residual land value would only be £568,033. This would still be below the benchmark land value and therefore at best only marginally viable, in which case there would still be no surplus available to put towards planning policy requirements.

5.5. In summary, we agree with the applicant and consider there to be a good justification on this scheme for removing the affordable housing / S106 contributions in order to give the scheme the best chance of being delivered.

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 timeframe then market conditions may have changed sufficiently for our conclusions on viability to be adjusted. Under this scenario we would strongly recommend a re-appraisal.