For: North Herts District Council

Review of Addendum Viability Appraisal

Land East Rhee Spring
& Orwell View
Royston Road
Baldock
SG7 6TD

May 2023
(DSP22253Y)

Dixon Searle Partnership
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DixonSearle Partnership

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1. Notes and Limitations

1.1.1. The following does not provide formal valuation advice. This review and its findings are intended purely for the purposes of providing North Hertfordshire District Council (NHDC) with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

1.1.2. This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.

1.1.3. We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material.

1.1.4. So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. Therefore, we suggest that the Council and prospective / current or subsequent planning applicant may wish to consider this aspect together. DSP confirms that we are content for our review information, as contained within this report, to be used as may be considered appropriate by the Council (we assume with the applicant's agreement if necessary). In looking at 'Accountability', since July 2018 (para. 021 revised in May 2019), the published national Planning Practice Guidance (PPG) on viability says on this; *'Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'*

1.1.5. Dixon Searle Partnership conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have been and are involved in the review of other planning stage proposals within the NHDC area, in addition to strategic level (development plan/planning policy) projects.

1.1.6. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. This is kept under review. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by North Herts District Council (NHDC) to carry out an independent review of the 'Addendum Viability Appraisal' (AVA) dated March 2023 and supplied to the Council on behalf of the applicant by Turner Morum LLP (TM). This is in relation to the proposed development of Land East of Rhee Spring, Royston Road, Baldock, SG7 6TD, and the AVA has been submitted in support of a planning application (reference 21/01882/FP) which seeks permission for *"42 dwellings, access, parking, landscaping and associated works, including provision of an electrical sub-station (as amended by plans and documents received 23.08.22 and 29.09.2022)"*.

2.1.2 The AVA provides an update to the previous viability assessment of February 2022.

2.1.3 The history of viability review relating to this site is as follows:

- Turner Morum (TM) submitted a viability statement on behalf of the applicant in February 2022.

- DSP reviewed this in May 2022 (report reference DSP22253X). Some of the build costs (abnormal costs) were assessed on behalf of the Council by cost consultants Martin Warren Associates (MWA) who considered the costs to be overestimated. DSP applied MWA's view on build costs for the abnormal costs. The applicant's costs were based on BCIS and DSP increased the submitted costs in line with inflation (taking a balanced view, increasing base build costs by £573,922, and also updating sales values to the date of the appraisal at the time of the original review). The Benchmark Land Value (BLV), although towards the upper end of the range we would consider acceptable, was accepted as part of the overall view on viability. Even taking this view on costs, we concluded that the scheme would support a policy compliant level of affordable housing (AH) provision (which in this case would be 40% AH; 17 units, with a tenure split of 11 units of Affordable Rent and 6 units of shared ownership).

- TM responded in June 2022, disagreeing with some of the conclusions, particularly the cost of abnormal works but adopted the higher position on base build costs put forward by DSP (as above). TM also sought to add other including items DSP had identified that would normally be adopted within a development appraisal but had not been by TM, i.e. biodiversity and site access works. Regarding abnormal costs, TM referenced tenders for schemes as evidence of the abnormals costs however these were not related to the subject site and therefore not relevant. DSP noted that viability should not focus on the specific developer and also queried the 'hybrid approach' of looking at BCIS for some of the build costs but tendered prices for other parts. MWA also reviewed the TM rebuttal and concluded that they stood by their original estimate.

- There was disagreement on the assumption for GDV, with DSP maintaining a view that an average sales value across the scheme of £471/ft² was reasonable. Further sensitivity testing was also carried out assuming a sales rate of £455/ft² (as submitted by TM). Our review of the TM rebuttal continued to indicate that with the DSP view of sales values (and increased costs for biodiversity etc.) the scheme would continue to support a policy compliant provision of AH. DSP also tested the submitted £455/ft² sales values and concluded that with this assumption the scheme would support provision of 15 affordable homes (based on a broadly policy compliant tenure mix, i.e. 10 Affordable Rent and 5 shared ownership). DSP also noted the difference that a relatively small movement in assumptions could make on this scheme.

- A further response was received from TM in September 2022, changing the approach to costs by providing a new cost plan (showing higher costs than previously indicated) and an updated appraisal/rebuttal statement. However the Council then advised DSP not to carry out a further review at that point because there were likely to be reductions in the (non AH) S106 contributions required which would mean that the applicant could afford to provide AH.

2.1.4 This current review is based on a latest assessment from TM, an 'addendum viability report' (AVR) dated 10 March 2023 which uses the cost plan from September 2022 but applying an uplift for inflation between September 2022 and March 2023.

2.1.5 In presenting their viability position, the applicant has supplied to the Council the aforementioned AVR together with the following attached to it as appendices:

- Appraisal summaries (40% AH and 100% MH)
- List of build costs

- S106 contributions calculation

2.1.6 DSP has also had sight of the documents contained within the Council's online planning application file – for scheme proposals context.

2.1.7 We have considered the assumptions individually listed within the AVR and provided our commentary based on those. This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to generate land value) associated with that aspect of the overall proposals.

2.1.8 For general background, a viable development could be regarded as a development scheme able to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e. existing use value) for the landowner and a market risk adjusted return to the developer in delivering that project. The Government's Planning Practice Guidance (PPG) on Viability sets out the main principles for carrying out a viability assessment. It states:

'*Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return…Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making…In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission*[1]*'.*

2.1.9 Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing use value plus a premium (referred to as a benchmark land value (BLV)

[1] Paragraph: 010 Reference ID: 10-010-20180724

in this case) then we usually have a positive viability scenario – i.e. the scheme is much more likely to proceed (on the basis that a reasonable developer profit margin is also reached).

2.1.10 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) of the site and assesses the level of additional residual potentially available in excess of that after allowing for a fixed developer's profit. Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable financial contribution for affordable housing.

2.1.11 As previously, the AVR has considered a policy compliant scheme and a 100% market scheme (nil affordable housing), and as assessed concludes that both scheme iterations have a significant deficit against the stated benchmark land value. We will focus initially on the nil affordable housing appraisal as a basis for carrying out our review; if our review concludes that there is any surplus available for the provision of affordable housing we will consider the viability of the policy compliant scheme and/or assess the proportion of affordable housing that can viably be provided.

2.1.12 The proposal as presented (with nil affordable housing) produces a (negative) residual land value of -£211,521 after allowing for a developer's profit of 20% of GDV (£3,855,534) which when compared to the assumed BLV of £925,000 indicates a deficit of -£1,136,521.

2.1.13 The 'actual profit' in the nil affordable housing appraisal, taking into account the stated deficit, equates to £3,141,785, or 14.1% of GDV.

2.1.14 This review does not seek to pre-determine any Council positions and merely sets out our opinion on the submitted viability assumptions and outcomes in order to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.

2.1.15 DSP's remit is to review the submitted information to assess whether the stated viability scope available to support planning obligations (for affordable housing and/or other matters) is the most that can reasonably be expected at the time of the assessment. Our brief does not go as far as confirming what should be the outcome where schemes are stated or verified as being non-viable per se, based on a viability submission or any subsequent review. It is for the applicant to decide whether there is sufficient justification to pursue a scheme, financially. While an absence of (or insufficient level of) planning obligations will be a material consideration, we are not aware that proof of positive viability is in itself a criterion for acceptable development under current national policy. The Council may wish to consider these matters further, however.

2.1.16 Accordingly, NHDC requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views – information all provided below.

2.1.17 We have based our review on the submitted AVA and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any) utilising in this case the supplied appraisal basis as a starting point.

2.1.18 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has a great many years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 19 years or so.

2.1.19 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of NHDC - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.

2.1.20 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g. sales value estimates) or any key cost estimates (e.g. build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

3.1.1 The following commentary reviews the applicant's submitted viability assumptions as explained within the AVA.

3.1.2 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures provided, as below, and reviewed the impact of trial changes to particular submitted assumptions.

3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether or not the presented result is approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

3.1.4 Should there be changes to the scheme proposals this would obviously impact on the appraisal outputs.

3.2 Benchmark Land Value

3.2.1 In all appraisals of this type, the base value (value of the site or premises – usually in existing use) is one of the key ingredients of scheme viability. A view needs to be taken on land value so that it is sufficient to secure the release of the site for the scheme (sale by the landowner) but is not assumed at such a level that restricts the financial capacity of the scheme to deliver suitable profits (for risk reward), cover all development costs (including any abnormals) and provide for planning obligations as a part of creating sustainable development. This can be a difficult balance to reach, both in terms of developers' dealings with landowners, and Councils' assessments of what a scheme has the capacity to bear.

3.2.2 As noted in our previous report, the PPG is clear that the only acceptable approach to defining a benchmark land value for the purposes of a viability assessment, is the EUV+; or, exceptionally, AUV.

3.2.3 In this case, the submitted BLV is £925,000, equating to £202,000 per acre for the 4.57acre site (£500,000 per hectare) which has been based on assumptions used in DSP's Local Plan Viability Study that discussed a range of £370,000 to £500,000 per hectare for greenfield BLVs. As noted in our original report, the submitted BLV is at the upper end of values usually seen for this type of site. TM have not commented on this. As part of our overall view of viability we have not adjusted the submitted BLV.

3.3 Acquisition Costs

3.3.1 Acquisition costs are stated in the VA to have been applied at a total of 1.5% which is a typical allowance to cover agent's and legal fees, as well as SDLT (stamp duty land tax) at 5%. The overall acquisition costs allowed for in the appraisal are within the typical range.

SDLT	5.00%	(£46,250)
Legals	1.50%	(£13,875)

3.4 Gross Development Value

3.4.1 The submitted GDV (based on a 100% market housing scheme) is £19,278,000 (£459/ft² average) based on an uplift of 0.8% to TM's previously suggested figure of £455/ft², which was put forward as a compromise position as part of viability negotiations.

3.4.2 Given the amount of time that has passed since the original viability review, and the time since the previous negotiations, and noting the relative stagnation of the property market generally, we have conducted fresh research using Land Registry data and property websites, to assess how any change in the market has affected Baldock.

3.4.3 The proposed housing mix is as follows:

									private parking	
plot	**type**	**frontage**	**config**	**area (sqmJ**	**area[sq ft]**	**garden [sqm]**	**beds**	**people**	**garage**	**off-street**
1	HA	Narrow	Semi	70.0	753	79.7	2	3	0	2
2	HA	Narrow	Semi	70.0	753	81.7	2	3	0	2
5	HA	Narrow	Semi	70.0	753	102.1	2	3	0	2
6	HA	Narrow	Semi	70.0	753	106.1	2	3	0	2
12	HA	Narrow	Semi	70.0	753	66.8	2	3	0	2
13	HA	Narrow	Semi	70.0	753	66.2	2	3	0	2
10	HC	Narrow	Detached	80.0	861	88.4	2	4	0	2
16	HC	Narrow	Semi	80.0	861	89.3	2	4	0	2
17	HC	Narrow	Semi	80.0	861	89.3	2	4	0	2
18	HC	Narrow	Detached	80.0	861	84.1	2	4	0	2
23	HC	Narrow	Semi	80.0	861	105.3	2	4	0	2
24	HC	Narrow	Semi	80.0	861	105.3	2	4	0	2
25	HC	Narrow	Detached	80.0	861	106.7	2	4	0	2
27	HC	Narrow	Detached	80.0	861	124.3	2	4	0	2
3	HD	Narrow	Semi	94.0	1012	86.1	3	5	0	2
4	HD	Narrow	Semi	94.0	1012	91.7	3	5	0	2
7	HD	Narrow	Detached	94.0	1012	101.1	3	5	0	2
8	HD	Narrow	Semi	94.0	1012	98.4	3	5	0	2
9	HD	Narrow	Semi	94.0	1012	100.7	3	5	0	2
20	HE	Narrow	Semi	95.0	1023	88.8	3	5	0	2
21	HE	Narrow	Semi	95.0	1023	78.2	3	5	0	2
22	HE	Narrow	Detached	95.0	1023	107.5	3	5	0	2
26	HE	Narrow	Detached	95.0	1023	93.1	3	5	0	2
32	HE	Narrow	Detached	95.0	1023	98.4	3	5	0	2
37	HE	Narrow	Semi	95.0	1023	85	3	5	0	2
38	HE	Narrow	Semi	95.0	1023	85	3	5	0	2
39	HE	Narrow	Semi	95.0	1023	93.4	3	5	0	2
40	HE	Narrow	Semi	95.0	1023	98.1	3	5	0	2
14	HG	Wide	Semi	98.0	1055	139.6	3	5	0	2
15	HG	Wide	Semi	98.0	1055	123.6	3	5	0	2
19	HG	Wide	Detached	98.0	1055	183.6	3	5	0	2
28	HG	Wide	Semi	98.0	1055	144.6	3	5	0	2
29	HG	Wide	Semi	98.0	1055	143.1	3	5	0	2
33	HG	Wide	Semi	98.0	1055	155.9	3	5	0	2
34	HG	Wide	Semi	98.0	1055	120.7	3	5	0	2
11	HK	Narrow	Detached	119.0	1281	127.1	4	6	1	1
30	HK	Narrow	Semi	119.0	1281	105	4	6	1	1
31	HK	Narrow	Semi	119.0	1281	105	4	6	1	1
35	HK	Narrow	Semi	119.0	1281	124	4	6	1	2
36	HK	Narrow	Semi	119.0	1281	124	4	6	1	2
41	HK	Narrow	Semi	119.0	1281	93.3	4	6	1	1
42	HK	Narrow	Semi	119.0	1281	93.3	4	6	1	1
				3904.0	**42023**		**119**	**197**	**7**	**79**
									86	

Site plan (Source: planning application documents, planning portal)

Land Registry new build sales data

3.4.4 There are relatively few sales of new build properties in the immediate vicinity of the site. We have therefore reviewed all new build sales within a 9 mile radius of the site, over the past two years. This indicates an average sales value (adjusted for HPI) of £453/ft² for detached houses (see Appendix 1) and an average of £462/ft² for semi-detached houses (see Appendix 2).

Resales - detached

3.4.5 We have also reviewed resale properties and note the recent sale of 4 Saddlers Close, SG7 6EF, 1.3 miles from the site. This modern-built detached property of 1,108 ft² sold for £580,000 (£523/ft²) in February 2023, which suggests potentially higher values for the proposed new build detached properties of a similar size – however (based on previous appraisal assumptions, with inflation applied) the proposed 1,054 ft² detached properties are valued at £499,000 (473/ft²) and the 119 m² property at £576,000 (£450/ft²).

3.4.6 However we note also the sale of 39 Roman Lane, SG7 6PN, also a detached property of modern construction (123ft²), located 0.8 miles from the site, which sold for £550,000 in November 2022 (412/ft²) which when allowing for the premium attached to new build suggests similar values to the submitted £576,000 (£459/ft²).

3.4.7 There have been various other recent resales of detached properties, however most of these are much larger properties and not directly comparable to the proposed dwellings.

Resales – semi-detached

3.4.8 There have been 19 sales of semi-detached properties in the SG7 postcode area since October 2022, with an average achieved sales value of £434/ft² (adjusted for HPI).

3.4.9 A 775 ft² semi-detached house at 2 Rivett Close, 0.2 miles from the site, sold for £380,000 in January 2023. Taking into account the premium attached to new build, the proposed 753 ft² properties can be expected to achieve a slightly higher value of say £400,000 (531/ft²).

2 Rivett Close (Image source: Google Streetview)

3.4.10 24 Eisenberg Close, also very close to the site, is a 786 ft² semi-detached house which sold in November 2022 for £435,000, indicating a value of £547/ft² (adjusted for HPI) which again suggests values of £400k+ for the smaller new build semi-detached properties.

3.4.11 Reviewing all of the above, although the £459/ft² assumed by TM is within the broad range indicated by the data, taking account of recent sales in the immediate area and the premium attached to new build we consider the following values to be achievable, leading to a slightly higher average of £469/ft² - as follows:

Schedule of accomm - DSP values

plot	type	frontage	config	area (sqmJ	area[sq ft]	garden [sqm]	beds	people	private parking		Unit Value	£psf
									garage	off-street		
1	HA	Narrow	Semi	70.0	753	79.7	2	3	0	2	£ 400,000	£ 531
2	HA	Narrow	Semi	70.0	753	81.7	2	3	0	2	£ 400,000	£ 531
5	HA	Narrow	Semi	70.0	753	102.1	2	3	0	2	£ 400,000	£ 531
6	HA	Narrow	Semi	70.0	753	106.1	2	3	0	2	£ 400,000	£ 531
12	HA	Narrow	Semi	70.0	753	66.8	2	3	0	2	£ 400,000	£ 531
13	HA	Narrow	Semi	70.0	753	66.2	2	3	0	2	£ 400,000	£ 531
10	HC	Narrow	Detached	80.0	861	88.4	2	4	0	2	£ 420,000	£ 488
16	HC	Narrow	Semi	80.0	861	89.3	2	4	0	2	£ 415,000	£ 482
17	HC	Narrow	Semi	80.0	861	89.3	2	4	0	2	£ 415,000	£ 482
18	HC	Narrow	Detached	80.0	861	84.1	2	4	0	2	£ 420,000	£ 488
23	HC	Narrow	Semi	80.0	861	105.3	2	4	0	2	£ 415,000	£ 482
24	HC	Narrow	Semi	80.0	861	105.3	2	4	0	2	£ 415,000	£ 482
25	HC	Narrow	Detached	80.0	861	106.7	2	4	0	2	£ 420,000	£ 488
27	HC	Narrow	Detached	80.0	861	124.3	2	4	0	2	£ 420,000	£ 488
3	HD	Narrow	Semi	94.0	1012	86.1	3	5	0	2	£ 450,000	£ 445
4	HD	Narrow	Semi	94.0	1012	91.7	3	5	0	2	£ 450,000	£ 445
7	HD	Narrow	Detached	94.0	1012	101.1	3	5	0	2	£ 480,000	£ 474
8	HD	Narrow	Semi	94.0	1012	98.4	3	5	0	2	£ 460,000	£ 455
9	HD	Narrow	Semi	94.0	1012	100.7	3	5	0	2	£ 460,000	£ 455
20	HE	Narrow	Semi	95.0	1023	88.8	3	5	0	2	£ 465,000	£ 455
21	HE	Narrow	Semi	95.0	1023	78.2	3	5	0	2	£ 465,000	£ 455
22	HE	Narrow	Detached	95.0	1023	107.5	3	5	0	2	£ 490,000	£ 479
26	HE	Narrow	Detached	95.0	1023	93.1	3	5	0	2	£ 490,000	£ 479
32	HE	Narrow	Detached	95.0	1023	98.4	3	5	0	2	£ 490,000	£ 479
37	HE	Narrow	Semi	95.0	1023	85	3	5	0	2	£ 475,000	£ 464
38	HE	Narrow	Semi	95.0	1023	85	3	5	0	2	£ 475,000	£ 464
39	HE	Narrow	Semi	95.0	1023	93.4	3	5	0	2	£ 475,000	£ 464
40	HE	Narrow	Semi	95.0	1023	98.1	3	5	0	2	£ 475,000	£ 464
14	HG	Wide	Semi	98.0	1055	139.6	3	5	0	2	£ 485,000	£ 460
15	HG	Wide	Semi	98.0	1055	123.6	3	5	0	2	£ 485,000	£ 460
19	HG	Wide	Detached	98.0	1055	183.6	3	5	0	2	£ 500,000	£ 474
28	HG	Wide	Semi	98.0	1055	144.6	3	5	0	2	£ 485,000	£ 460
29	HG	Wide	Semi	98.0	1055	143.1	3	5	0	2	£ 485,000	£ 460
33	HG	Wide	Semi	98.0	1055	155.9	3	5	0	2	£ 485,000	£ 460
34	HG	Wide	Semi	98.0	1055	120.7	3	5	0	2	£ 485,000	£ 460
11	HK	Narrow	Detached	119.0	1281	127.1	4	6	1	1	£ 585,000	£ 457
30	HK	Narrow	Semi	119.0	1281	105	4	6	1	1	£ 565,000	£ 441
31	HK	Narrow	Semi	119.0	1281	105	4	6	1	1	£ 565,000	£ 441
35	HK	Narrow	Semi	119.0	1281	124	4	6	1	2	£ 565,000	£ 441
36	HK	Narrow	Semi	119.0	1281	124	4	6	1	2	£ 565,000	£ 441
41	HK	Narrow	Semi	119.0	1281	93.3	4	6	1	1	£ 560,000	£ 437
42	HK	Narrow	Semi	119.0	1281	93.3	4	6	1	1	£ 560,000	£ 437
				3904.0	**42023**		**119**	**197**	**7**	**79**	**£19,715,000**	**£ 469**
									86			

3.4.12 The above adjustments add £426,443 to the assumed GDV.

3.4.13 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability. Whilst the opposite could also occur (the sales values could fall relative to the assumptions made), that is the developer's (applicant's) risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

3.5 Affordable housing values

3.5.1 In the policy compliant 40% AH appraisal, the tenure split has been assumed to be 11 units of Affordable Rent and 6 units of shared ownership. Values have been assumed at 65% of market value for shared ownership units, and 45% of the submitted market value for Affordable Rent. These are fairly typical assumptions, and result in values within the expected range.

3.6 Development Timings

3.6.1 The development timings are the same as in the previous viability assessment, as follows:

- Lead-in – 3 months
- Construction – 12 months

3.6.2 Sales timings for the 100% market appraisal include 4 sales in the 3 months before the end of the construction period, 8 sales in the first month following construction end, and the remainder spread over a further 6 months.

3.6.3 Affordable housing, where included, is assumed to be disposed of via a 'golden brick' payment with a 40% payment 6 months into construction and the remainder on completion. We have applied the same payment timings in our appraisal.

3.6.4 Overall, we consider the stated timing assumptions to be not unreasonable.

3.7 Cost Assumptions

3.7.1 TM have based the appraisal build costs on a cost plan from CS2 consultants, and have added the following abnormal costs to CS2's assessed costs.

Abnormals - Construction

Items	Total
S278 works	£232,689
Bio-diversity off-set	£80,760
Legals for S278	£10,000
Legals for new substation	£10,000
TOTAL	**£333,449**
OHP @ 15% - S278 Works Only	£34,903
Prelims @ 6% - S278 Works Only	£16,056
Total Abnormal Costs	**£384,407**

3.7.2 On behalf of NHDC, DSP commissioned MWA surveyors to undertake a review of the CS2 cost plan.

3.7.3 MWA's report is attached as Appendix 3. In summary, based on present day costs, MWA's estimate exceeded CS2's by 4.17% (£490,393) and MWA have stated that they consider the submitted costs to be not unreasonable.

3.7.4 Details of the abnormal costs (S278 works and Biodiversity offset) set out above have not been provided, however we note that even if all of these are removed from the appraisal and we apply MWA's cost estimate, the overall cost remains at a similar level. On that basis, we consider the submitted build costs to be suitable at this time.

3.8 Professional Fees

3.8.1 Professional fees have been included at 10% on base build and external/landscaping costs (i.e. total build costs excluding abnormal costs) which is within the range typically seen. We have applied the same percentage allowance.

3.9 Contingency

3.9.1 TM have included a contingency allowance of 5% on base build and external/landscaping costs (i.e. total build costs excluding abnormal costs) which is a fairly typical assumption and is considered not unreasonable.

3.10 Agent's, Marketing & Legal Fees

3.10.1 The AVA appraisal includes marketing fees of 3.0% GDV, and legal costs relating to disposal of market units are assumed at £750 per unit. Overall these costs are within the range typically seen therefore we consider the overall allowances to be not unreasonable.

3.10.2 Transaction costs for the affordable housing where included have been assumed at 0.5% of affordable GDV. This is considered reasonable.

3.11 Development Finance

3.11.1 Finance costs have been included using a rate of 7.5% including all fees. This has increased from the previous appraisal (in which 6.5% was assumed). However, this is as expected, reflecting the recent increases in lending costs.

3.5.1 The market on finance costs is further evolving at this time. Despite recent increases in the Bank of England base rate[2], we are continuing to see a range of interest rates assumed within submissions, most frequently at 6.0 – 8.0% inclusive of all fees. We also note some much lower rates being put forward; and being offered by lenders, however often as part of more complex arrangements rather than the 100% debt finance assumed here, and with a range of fees and conditions adding to the overall cost.

3.5.2 Overall, we consider the updated assumption of a 7.5% interest rate to be suitable at present but reserve the right to revisit this assumption if necessary.

3.12 S106 / Planning Obligations

3.12.1 The previously submitted appraisals included £1,378,917 in section 106 costs. However, the AVR states that S106 costs have now reduced by £800,000 and the latest contributions

[2] It should be noted that lenders do not typically adjust their rates directly in relation to changes in the base rate, and those that do will not necessarily pass on the full increase to borrowers; a range of pricing methods is taken into account including lenders' need to remain competitive.

(subject to indexation) are £127,000 (HCC), £62,000 (NHS) and £157,000 (NHDC) plus a highways contribution of £306,032. This leads to a total of £651,674.

3.12.2 We note the following requirements submitted by HCC in a letter dated 25 January 2023, which confirm the HCC amount included by TM:

Source: Planning application documents (planning portal)

Childcare Service towards the expansion of Merry Go Round Under 5s in Baldock or its future re-provision (£34,632 index linked to BCIS 1Q2022)

Special Educational Needs and Disabilities (SEND) towards the new East Severe Learning difficulty school (£59,043 index linked to BCIS 1Q2022)

Library Service towards increasing the capacity of Baldock Library or its future re-provision (£4,389 index linked to BCIS 1Q2022)

Youth Service towards increasing the capacity of youth facilities in Letchworth or its future re-provision (£7,589 index linked to BCIS 1Q2022)

Waste Service Transfer Station towards the new North Transfer Station at Baldock or provision to serve the development (£7,212 index linked to BCIS 3Q2022)

Waste Service Recycling Centre towards increasing capacity at Letchworth Recycling Centre or provision to serve the development (£7,644 index linked to BCIS 1Q2022)

Monitoring Fees – HCC will charge monitoring fees. These will be based on the number of triggers within each legal agreement with each distinct trigger point attracting a charge of £340 (adjusted for inflation against RPI July 2021). For further information on monitoring fees please see section 5.5 of the Guide to Developer Infrastructure Contributions.

3.12.3 We recommend the Council verifies the remaining S106 allowances or provides an alternative that can be reflected in the appraisal.

3.12.4 It should be noted that any change in the chargeable sums would have an impact on the overall viability of the scheme as viewed through the appraisals. In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

3.13 Developer's Risk Reward – Profit

3.13.1 In this case, the level of profit has been included as a fixed input at 20% of gross development value (GDV) for market housing, and 6% for affordable housing where included. As noted earlier in our report, the presented position indicates an 'actual profit', taking into account the stated deficit, of 17.6% of GDV based on a 100% market housing scheme.

3.13.2 The Planning Practice Guidance (PPG) on Viability states: '*Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan*'. It goes on to state: '*For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types*[3]'.

3.13.3 We do not agree that the 20% GDV assumption for market sale housing as submitted here, and regularly submitted in such cases, is necessarily a given – a fixed scenario, particularly if this is on the basis of a blended profit including affordable housing. As part of seeking to find a different balance between on the one hand the acknowledged commercial drivers and landowner positions and on the other the community needs side, some flexibility ought to be possible. For the purposes of our appraisal, we have considered a developer return of 17.5% GDV on market housing (and 6% on affordable housing) within our trial appraisal. This leads to a reduction in the profit allowance of £493,000 in the 100% market housing appraisal based on our assumed values (or a reduction of £482,000 based on TM's assumed values).

[3] https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment - Paragraph: 018 Reference ID: 10-018-20190509

4. Recommendations / Summary

4.1.1 The overall approach to assessing the viability of the proposed development appears to be appropriate in our opinion.

4.1.2 We also consider the majority of the submitted assumptions to be suitable. We consider that slightly higher sales values could be achieved, given the premium attached to new build – this results in an addition of £426,443 to the GDV (see 3.4, above).

4.1.3 The updated build cost estimate has been reviewed by MWA surveyors, who concluded that the submitted costs from CS2 consultants were underestimated by £490,393 based on present day values.

4.1.4 Various abnormal costs have also been included which total £384,407. We have not been able to verify these, however bearing in mind MWA's estimate and comments we consider that the overall costs (base build and abnormals) applied in TM's appraisal can be considered suitable.

4.1.5 Profit (see 3.13, above) – we do not agree that the 20% GDV assumption for market sale housing is necessarily required. Applying a lower a profit level of 17.5% GDV for market sale housing reduces the cost allowances by c. £490,000.

4.1.6 Benchmark Land Value (BLV) – see 3.2, above. The submitted BLV is £925,000, equating to £500,000 per hectare, which is at the upper end of greenfield BLVs and typically assumed for small sites in paddock use. At this stage we have not adjusted the submitted BLV but note that any reduction in BLV would improve the viability position and will reserve our position on this.

Overall viability position

4.1.7 Reviewing the above, we note that the adjustments/areas queried above are not sufficient to overcome the deficit within the 100% market housing appraisal of -£1,136,521. Therefore, 'stepping back' and considering the overall viability position, including a suitable benchmark land value and profit, we consider that the scheme without any affordable housing is likely to reach a reasonable/proceedable level of profit, but at this point in time does not indicate any scope above that to provide any contribution to affordable housing.

4.1.8 This differs from the conclusions of our previous review, primarily because in the interim period build costs have continued to rise whereas sales values have remained roughly the same. In addition, as TM have noted, there is less certainty at this point of time regarding the potential rate of sales, particularly if the higher values which we have considered above are to be achieved.

4.1.9 Overall, therefore, it would appear that the proposed scheme would be unlikely to support the provision of affordable housing based on the current costs and values as submitted and reviewed. We note however that (as has been demonstrated by the changing positions throughout the process of viability review) relatively small changes in value/cost assumptions can result in a significant swing in the viability position. The site is a relatively straightforward greenfield site which despite some abnormal costs (piled foundations and S278 works) ordinarily could be expected to support a contribution to affordable housing. If a more positive view is taken on values, and a 17.5% profit allowance is applied, the scheme comes close to generating a surplus – and as noted above the assumed BLV is at the upper end of the range seen. On this basis, whilst we agree that at present day values the scheme is not showing a surplus for affordable housing, the viability is marginal and we recommend including a mechanism for viability review at a later stage when actual values and costs are known, so that the Council can capture any improvement in the values/cost relationship (up to the level of policy compliance).

4.1.10 As additional information for the Council, it should also be noted that Paragraph 65 of the revised NPPF and recent Appeal precedent indicates that that major developments (i.e. of 10+ dwellings) are expected to provide at least 10% of the proposed homes as 'affordable home ownership' units. The Council may wish to consider the implications for this scheme / application.

4.1.11 We need to be clear our review is based on current day costs and values assumptions as described within our review based on the current scheme(s) as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.

4.1.12 No viability appraisal or review can accurately reflect costs and values until a scheme is built and sold - this is the nature of the viability review process. In this sense, the applicant and their agents are in a similar position to us in estimating positions – it is not an exact science by any means, and we find that opinions will usually vary.

4.1.13 As regards the wider context including the current economic situation, in accordance with the relevant viability guidance our review is based on current day costs and values – a current view is appropriate for this purpose of assessing a base position. Whilst in the short term we may with more time see further evidence of negative influences on viability, it is also possible that we may see some balance for example in terms of continued market resilience, more settled development cost levels, Government interventions or other factors. We have recently seen the first month-on-month falls in house prices (overall) for some time - although the very latest indications are of a small increase in house prices compared with the previous months (as part of the typical spring boost effect, albeit reduced this year). The RICS guidance notes that *'Development risk'* reflects: *'The risk associated with carrying out, implementing and completing a development, including site assembly, planning, construction, post-construction letting and sales'. 'The return for the risk is included in the developer return and the PPG makes it clear that it is the developer's job to mitigate this risk, not plan makers and decision takers.'* This is all part of the usual development process. Furthermore, in reflecting the PPG the RICS guidance notes: *'PPG paragraphs 007 and 009 reflect on the impact of market cyclicality during the life of the plan. Paragraph 007 gives market downturns as one example of the justification for a site-specific FVA, but it is restricted to 'a recession or similar significant economic change'. This implies the exclusion of normal market cyclicality, which is embedded in the level of developer return.'*

4.1.14 DSP will be happy to advise further as required.

Review report ends

May 2023

Appendix 1 – sales of new build detached properties (2 years)

Appendix 2 – sales of new build semi-detached properties (2 years)

Appendix 3 – Cost report from MWA surveyors