

For: Havant Borough Council
Review of Applicant Submitted
Viability Position

Southleigh Park House

Havant

Hampshire

PO9 2PE

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(DSP22403Z)

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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 Havant Borough Council (HBC) 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 Havant area as well as strategic level/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 Havant Borough Council (HBC) to carry out an independent review of the 'Economic Viability Assessment Update' (EVAU) dated 6 October and supplied to the Council by Sturt and Company Ltd (SCL) on behalf of the applicant. This is in relation to the proposed development of the site at Southleigh Park House, Havant, PO9 2PE.
- 2.1.2 DSP previously reviewed a Reserved Matters application (reference APP/21/01451) for 90 units on the site, consisting of 70 new build residential units and 20 units via refurbishment/alteration of existing buildings (13 dwellings in the main house and 7 in other Listed Buildings). Some of the matters discussed in the current report have been discussed in more detail in our previous report, reference DSP22403V. The previous report concluded that the 90-unit scheme would not support a contribution to affordable housing if the submitted Benchmark Land Value (BLV) was accepted. There was, however, some uncertainty around the BLV and DSP recommended that the Council seek an assessment of the site's current value rather than referring to a previous valuation which dated back some years and pre-dated the current NPPF/PPG; noting that if a substantially lower BLV were to be assumed, there could potentially be some surplus available for affordable housing. The EVAU being reviewed here provides an updated assessment of BLV, which we will review in section 3.2, below.
- 2.1.3 The current proposals (ref APP/23/00822) are for a scheme of significantly reduced size, now 61 units in total.
- 2.1.4 The site size is stated on the planning application form to be 3.1 hectares (7.66 acres).
- 2.1.5 The Council's adopted affordable housing policy (Policy CS9) of their Core Strategy requires affordable housing in accordance with the following:
- 'Planning permission will be granted for housing proposals that will:
Deliver on average 30-40% affordable housing on sites of 15 dwellings (gross) or more'.*
- 2.1.6 In this instance, therefore, between 18 and 24 affordable units would be required.
- 2.1.7 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Economic Viability Assessment Update' (EVAU) and Appendices including a printed summary of the submitted financial appraisal, a report on Benchmark

Land Value including site photographs and photographs of the buildings (interior and exterior), and a site plan.

- 2.1.8 DSP has also had sight of the documents contained within the Council's online planning application files.
- 2.1.9 We have considered the assumptions individually listed within the EVAU 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 residential viability assumptions and therefore the outcomes (scope to generate land value) associated with that aspect of the overall proposals.
- 2.1.10 Where relevant, SCL have referred to DSP's previous report and previous discussions. As part of the previous review, detailed scrutiny of the submitted build costs was undertaken by MWA surveyors, and the current submission refers to rates/sums discussed and agreed in 2022 as a result of this process.
- 2.1.11 For general background, a viable development may be regarded as one which has the ability 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 permission¹ .

- 2.1.12 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) 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).
- 2.1.13 The submitted development appraisal has been run in a way which assesses the level of additional residual land value available after allowing for a fixed developer's profit of 17.5% GDV (£4,497,500). This is then compared to a Benchmark Land Value (BLV), in this case assumed at £4,980,000. Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable contribution for affordable housing.
- 2.1.14 The submitted appraisal assumes nil affordable housing, and as presented generates a negative residual value (before any BLV is taken into account) of -£555,000. Therefore after allowing for the stated BLV of £4,980,000 the viability appraisal indicates a deficit of -£5,535,000.
- 2.1.15 Taking the above deficit into account, the profit indicated by the submitted appraisal results is negative.
- 2.1.16 SCL do not offer any commentary on whether, given these results, the scheme is proceedable.
- 2.1.17 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

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

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.

- 2.1.18 Accordingly, Havant Borough Council 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.
- 2.1.19 We have based our review on the submitted EVAU 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.
- 2.1.20 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has 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 20 years or so.
- 2.1.21 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of HBC - 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.
- 2.1.22 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 EVAU.
- 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 outcome 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 relative to the details now under review, 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 – e.g. 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 The RICS (Royal Institution of Chartered Surveyors) has issued a guidance note² effective from 1st July 2021 and which replaces a previous (RICS 2012) guidance note³. The 2021 RICS guidance has an emphasis which reflects the Planning Practice Guidance (PPG) on Viability as noted below, and the PPG will remain the primary source of guidance in this field – viability in planning.

3.2.3 The 2021 RICS guidance states that:

‘The BLV should not be expected to equate to market value. [...] The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers’ contributions can be assessed. It should be set at a level that provides the minimum return at which a reasonable landowner would be willing to sell’

3.2.4 It goes on to state:

‘The BLV is a benchmark value against which the developer contributions can be assessed. Once those contributions have been set, land markets should take the level of policy requirements into account, just as all markets should take all relevant factors that affect value into account. PPG paragraph 013 states that ‘Landowners and site purchasers should consider policy requirements when agreeing land transactions. This means that the actual price paid for a site cannot be used to reduce developer contributions.’

3.2.5 The latest PPG on viability and the NPPF (most recently updated in July 2021) very clearly advise that land value should be based on the value of the existing use plus an appropriate level of premium or uplift to incentivise release of the land for development from its existing use. With regard to how land value should be defined for the purpose of viability assessment it states: ‘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.’

3.2.6 The PPG defines existing use value as: *‘the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not*

² https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/assessing-financial-viability_final.pdf

³ https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/financial-viability-in-planning-1st_edition-rics.pdf

the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.⁴

3.2.7 It states that a Benchmark Land Value should:

- *'be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. 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 for 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 time⁵.'*

3.2.8 The guidance further states that: *'Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.'* It goes on to state: *'Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to*

⁴ Paragraph: 015 Reference ID: 10-015-20190509

⁵ Paragraph: 014 Reference ID: 10-014-20190509

emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement⁶.)'

3.2.9 With regard to assuming an alternative use value to determine BLV the guidance states: *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted⁷.'*

3.2.10 It is therefore 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.

3.2.11 The applicant originally submitted a BLV of £4.3 million for the site, based on a valuation agreed by the District Valuer in their assessment of 2017. The applicant maintains that this is a suitable BLV, and has previously stated that 'the purchase of the site was predicted on this BMLV being fixed and this matter was discussed in detail and agreed by the LPA'. We cannot comment on the terms of purchase however we note that the S106 agreement contains the following definition and we understand that the Council's view is that this implies an up to date valuation should be undertaken based on the site in its current use and condition.

⁶ Paragraph: 014 Reference ID: 10-014-20190509

⁷ Paragraph: 017 Reference ID: 10-017-20190509

Definition from S106 agreement

“Benchmark Land Value” means the aggregate of:

- a) The Existing Use Value, which is the value of the Land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses; and*
- b) The Premium, which is a premium (not exceeding 20% of the gross development value of the Land) for the landowner as seller;*

and such Benchmark Land Value shall be determined in accordance with the PPG viability.’

3.2.12 The EVAU provides this valuation, as Appendix B to the submitted report.

3.2.13 The valuation includes photographs of the interior of the buildings, which were not available to DSP at the previous review point, and we note that despite having been vacant for many years, the buildings appear to have been well-maintained and are in reasonable condition, therefore as assumed within the EVAU appear to be lettable with relatively little works cost (if indeed there is demand for this use here).

3.2.14 The existing use valuation considers the costs necessary to make the properties lettable, and provides a thorough analysis of sales comparables, to arrive at an existing use value of £3.5 million for the existing buildings (to which a premium of £700,000 has been applied – as per the typical and suitable ‘EUV plus’ general principles – and which we note represents 16.35% of the land value and therefore does not conflict with the definition of ‘premium’ in the S106 agreement, noted in 3.2.11, above).

3.2.15 A further £778,521 has been added to the BLV on the basis that there is further land that could be developed for commercial use (this is an Alternative Use Value applied to that part of the site – and again assumes that there would be demand for additional commercial units on site). An overall BLV of £4.3 million + £700k premium has therefore been put forward, resulting in the assumed BLV of nearly £5 million in total.

3.2.16 We have some concerns about the BLV valuation – primarily due to the previous statements that the premises is obsolete or similar and that there is no demand from potential occupiers due to the location, distance from amenities and public transport, size of accommodation and inefficiency of occupying Listed Buildings as well as high running and maintenance costs of the buildings and site. In this context the valuation of the offices in their existing use (and of the potential to expand that use) appears excessive. We will therefore consider the level of BLV further in reaching our conclusions, below, having assessed the values and costs of the proposed 61-unit scheme and therefore reached a conclusion on the likely maximum land value that will be generated by the current proposals.

3.3 Acquisition Costs

3.3.1 Acquisition costs of 1.75% have been included, applied to the residualised value. These consist of 1% agents' fees and 0.75% legal fees. An allowance for Stamp Duty has been applied to the residual value.. The SDLT amount does not exceed the amount indicated by the HMRC calculator based on the appraisal RLV.

3.3.2 The acquisition costs have been assumed at an appropriate level in our view.

3.4 Gross Development Value (GDV) – market housing

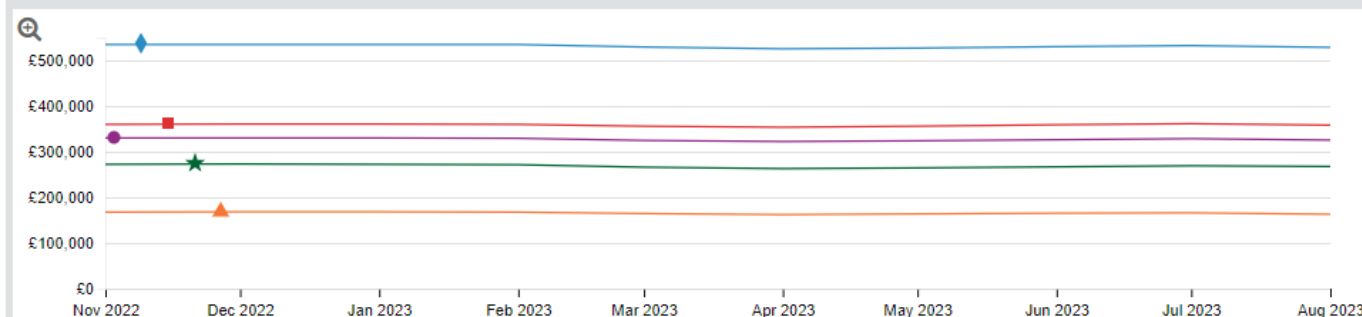
3.4.1 The submitted values average £441/ft² (based on the updated scheme mix) which is slightly higher than the values previously tested by DSP. S&C note that sales values have not increased significantly since the previous review point (November 2022) and we agree with this general observation. Based on the most recent set of data from Land Registry (August 2023), house prices in Havant have fallen by a small amount since November 2022. At the time of writing reports from Halifax indicate that the past three months have seen price rises – overall this indicates that prices will be broadly at the same level of the previous review.

3.4.2 The movements in the Land Registry House Price Index for the Havant since the original review point of July 2021 are shown below.

Average price by type of property in Havant

☒ All property types
 ☒ Detached houses
 ☒ Semi-detached houses
 ☒ Terraced houses
 ☒ Flats and maisonettes

[See data graph](#)
[See data table](#)
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Average house prices - Havant (Land Registry)

Type	July 2021	Most recent data point of Aug 2023	% Change
HPI All	£329,689	£325,485	-1.3%
HPI Detached	£534,467	£528,279	-1.2%
HPI Semi det	£359,664	£358,438	-0.3%
HPI Terraced	£272,234	£267,936	-1.6%
HPI Flats	£167,607	£163,161	-2.7%

3.4.3 As well as referring to previous research and evidence around sales values, we carried out an updated review of recent sales of both new build and resale housing in the area, as well as advertised prices, summarised below.

New build sales – Land Registry sold data

3.4.4 We have reviewed sales of new build properties within 3.5 miles of the site over the past 24 months, as recorded on the Land Registry. The average sales value updated by HPI to reflect latest available market movements results in an average of £426/ft². This is very similar to the figure indicated in November 2022 of £422/ft².

3.4.5 There was insufficient data on sales of flats locally. We note the following average sales values for houses:

- Terraced £437/ft²
- Semi-detached £449/ft²
- Detached £402/ft²

3.4.6 The Land Registry data for resales indicates the following (based on a search of a 3 mile radius over the past three months):

- Terraced £298/ft²
- Semi-detached £321/ft²
- Detached £389/ft²
- Flats £271/ft²

3.4.7 We note that values for terraced and semi-detached new build properties are significantly above the local resale average. This is likely due to a proportion of the resale stock in the immediate area being older, former Council properties.

3.4.8 We have also reviewed properties advertised for sale on Rightmove locally. The average values are summarised below:

New build – advertised prices (within 5 miles of site)

- Terraced – insufficient data
- Semi-detached £418/ft²
- Detached £509/ft²
- Flats £467/ft²

Resale – advertised prices (within 5 miles of site)

- Terraced £266/ft²
- Semi-detached £380/ft²
- Detached £408/ft²
- Flats £323/ft²

3.4.9 We have also reviewed properties advertised on developer websites, for which the floor areas were not available – however we note that the assumed pricing is in line with properties advertised in Southbourne and Bedhampton. Although some higher prices are seen locally, these properties are located closer to Emsworth in areas with better access to amenities and where the tone of values is higher. The range of prices seen advertised currently for new build houses in the Havant generally is from £365,000 to £580,000 for semi-detached and detached 3-bed houses, and from £430,000 to £580,000 for semi-detached and detached 4-bed houses. The assumed average values for 3 and 4 beds are between £430,000 and £570,000.

3.4.10 Overall, the £441/ft² assumption appears to be a fairly positive view of the potential sales values at today's prices and taking into account the particular location. This is consistent with the relatively high build cost put forward (with base build costs at the BCIS Upper Quartile level – discussed in 3.6, below) which we consider are suitable due to the design, the conversion of existing buildings (some listed) and the specification necessary to support the assumed values.

3.4.11 We consider the submitted sales values to be at a suitable level – nonetheless, to fully 'stress-test' the viability position we will consider the potential effect of changes of +/- 10% in sales values and build costs.

Ground Rents

3.4.12 Ground rents have not been included for the apartments. The Leasehold Reform (Ground Rent) Act 2022 came into force on 30th June 2022 and restricts ground rents on the grant of new leases to a peppercorn. Therefore we agree that it does not appear appropriate to include a capital contribution within the appraisal. It might also be possible for the Council to include a restriction on the charging of ground rents within any S106 agreement should it feel this is necessary.

3.5 Cost Assumptions - Construction Costs & Fees – Private Residential

3.5.1 The assumed build costs have been benchmarked against the rates suggested by MWA surveyors, adjusted for the current scheme proposal, and include base build costs at the BCIS Upper Quartile level for the relevant property types (as assumed by DSP in our previous review, including applying the lower BCIS rates for refurbishment where relevant). The BCIS rates at the time of the EVAU appraisal were as follows:

Refurbishment/conversion - Flats	£2,027/m ²
Refurbishment/conversion - Houses	£1,706/m ²
New build - Flats	£2,049/m ²
New build – Semi-detached	£1,759/m ²
New build – Detached	£2,300/m ²

3.5.2 We consider the upper quartile base build rate to be appropriate, reflecting the proposed design and the specification necessary to support the submitted values. The submitted

external works cost are also considered suitable, with reference to costs previously submitted and reviewed by MWA surveyors.

- 3.5.3 The EVAU sets out the abnormal works costs, again with reference to MWA's previously estimated costs, has applied increased drainage costs due to the need for attenuation identified in the drainage report, and for a foul water pumping station (for which £119,886 has been added).
- 3.5.4 We have compared the previously agreed overall costs with the currently proposed costs. On a per unit basis the submitted overall build costs are c. 7.6% above the level previously arrived at. This is broadly consistent with expected parameters; the BCIS All-in Tender Price Index has increased by 5.6% over the intervening period. It is also not unexpected that the costs per plot have increased given the lower number of units sharing the cost of certain site works requirements which remain the same.
- 3.5.5 As noted above, we will consider the potential effect of changes of +/- 10% in the assumed build costs.
- 3.5.6 In terms of the general outlook on build costs we note that build cost inflation has eased, in particular with regard to the cost of materials. At the time of writing, BCIS reports that labour costs are rising, although expected to peak early this year – the overall outlook for build costs currently being of a more stable period ahead.
- 3.5.7 Professional fees have been included in the submitted appraisals at 8% which is within usual parameters and not considered excessive; and was agreed in the previous review.
- 3.5.8 Contingency has been included at 5% of works cost for new build housing and 10% of works cost for the refurbishment elements, both of which are considered to be not unreasonable.

3.6 Development Timings/Project Timescales

- 3.6.1 As previously, the development timings applied in the submitted appraisal include a 4-month lead-in and a 22-month construction period with sales revenue spread over a period of 10 months, beginning at month 18.

3.6.2 Overall the timescales are within expected parameters and the sales timings are considered suitable for a scheme of this size.

3.7 CIL / Planning Obligations

3.7.1 Havant Borough Council charges a Community Infrastructure Levy (CIL) on new development. The EVAU has assumed a total CIL liability of £542,563 based on an indexed rate of £126.72/m² on the assumed relevant floor area (assuming 100% market housing).

3.7.2 HBC has since confirmed that the CIL liability for the proposed scheme is £331,331 (based on 2024 CIL rates) – this therefore represents a saving of £211,232 on the submitted costs.

3.7.3 We note also that this sum would be reduced in a policy compliant appraisal or an appraisal with a lower proportion of market housing.

3.7.4 Other s106/infrastructure costs have been included as follows:

- £157,500 in nitrates mitigation costs
- £108,522 in S106 costs

The Council will need to verify these amounts.

Security costs

3.7.5 Allowances have also been made for the following items, which are holding costs and as such we do not consider to be suitable to include in viability assessment:

- Temporary Works and Security £376,000
- Void Costs £20,000

3.8 Development Finance

3.8.1 Finance costs have been included in the EVAU appraisal using a 8.25% interest rate assumption, based on 100% debt finance. Whilst, following recent increases in borrowing costs, we consider it suitable to apply a higher rate than the 6.5% assumption applied in 2022, we consider this to be higher than necessary (resulting in total finance costs of £1,882,155). However we note that applying a lower rate of 7.5%, which we consider suitable in the current market, would result in savings of a maximum of £200,000

(depending on the rate chosen). We will therefore consider the effect of this in our rounding up/conclusions.

3.9 Agent's, Marketing and legal costs

3.9.1 The development appraisal accompanying the EVAU assumes sales and marketing costs of 2.0%. Legal costs 0.33% GDV have also been assumed. These costs are within the range typically seen and considered reasonable.

3.10 Developer's Risk Reward – Profit

3.10.1 In this case, the level of profit has been included as a fixed input at 17.5% of gross development value (GDV) on market housing.

3.10.2 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 types⁸'*.

3.10.3 We consider that the assumption of 17.5% on market housing is an appropriately pitched level for these specific proposals and have not adjusted this assumption in our appraisal. The applicant team has not put forward an appraisal of the scheme including any affordable housing. If affordable housing were to be included (at a typical 6.0%) this would lead to a lower overall profit assumption at below the 17.5% level.

⁸ <https://www.gov.uk/guidance/viability#standardised-inputs-to-viability-assessment> - Paragraph: 018 Reference ID: 10-018-20190509

4. Findings Summary

- 4.2.1 The overall approach taken within the submitted EVAU to assessing the viability of the proposed development is considered appropriate in terms of general principles.
- 4.1.2 Similarly, we consider the majority of the submitted assumptions to be appropriate. There are some areas where we have a difference of opinion or where there is some uncertainty, and for the Council's information we have considered the impact of these on the viability position. The key areas of impact are as follows:

Finance costs

We consider the submitted 8.25% finance rate to be excessive, however we note that alternative assumptions on timings/finance are unlikely to affect (reduce) the overall costs by more than £200,000.

CIL costs

The Council has provided an updated calculation of the CIL liability for the proposed scheme, which represents a saving of £211,232 on the submitted costs.

Security costs

An additional allowance of £376k has been included for site security, and £20,000 in 'void costs'. These appear to be holding costs and are not appropriate for inclusion in viability assessment, in our view.

Benchmark Land Value

The EVAU contains a valuation of the site in its current use. We have some concerns about the BLV valuation, which assumes that there is demand for the buildings in their current use as well as demand for expansion of the current facilities. Previous statements regarding the site suggest that the premises is obsolete or similar and that there is no demand from potential occupiers.

Development Value and Build Costs

We consider the submitted sales values and development costs to be at a suitable level – nonetheless, to fully 'stress-test' the viability position and in light of the uncertainty regarding BLV we will consider the potential effect of changes of +/- 10% in sales values and build costs (noting also that we appear to be at a low point in the market and that

the relationship between values and costs is likely to improve in the short to medium term).

4.1.3 The position as submitted is that before consideration of any land value (BLV), the scheme, with nil affordable housing and a 17.5% GDV profit allowance, generates a negative residual value (-£555,000).

4.1.4 Considering the sensitivities as part of our review we note that:

- Adjustments to submitted scheme timings/finance costs could reduce development costs by c. £200,000
- Applying the £333,000 CIL calculation provided by HBC reduces the CIL/S106 costs by £211,000
- Removing the security/void costs reduces development costs by £396,000
- A decrease in the assumed build costs of 5% would place the costs approximately at the BCIS median level and would reduce the development cost by c. £750,000.
- An increase in sales values of 5% would increase the development value by c. £1 million (after applying suitable profit allowances)

4.1.5 Taking the above points cumulatively, which we consider represents a positive if not an optimistic position in the current market (as is relevant at the review point), and in the case of development values exceeding what is suggested by our updated review of comparable evidence, would move the position from the submitted -£555,000 deficit to a positive RLV of c. £2 million. Although representing a positive “swing” of up to around £2.6m, this is however still significantly below the submitted BLV, and as can be seen remains below even a notably lower BLV view.

4.1.6 Whilst we do not necessarily agree with the submitted BLV, a land value of £2 million does not in our view reach a suitable minimum BLV for the site based on its existing use value.

4.1.7 £2 million represents £644,000 per hectare based on the gross site area. With reference to the viability testing carried out by DSP for the Havant BC Local Plan in 2019, the range

of values considered for previously developed land was £500,000 to £1.5 million therefore this places the land value at the lower end of that assumed range, as one guide to this.

- 4.1.8 Overall, even based on a positive to optimistic sensitivity test we do not consider that the updated 61-unit scheme shows sufficient scope to provide a contribution to affordable housing whilst supporting a suitable benchmark land value.
- 4.1.9 We need to be clear that 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.
- 4.1.10 Of course, no viability report or assessment can accurately reflect costs and values until a scheme is built and sold – this is the nature of the viability process and the reason for local authorities needing to also consider later stage review mechanisms when significant developments fall short of policy provision. In this sense, the applicant and their agents are in a similar position to us in estimating positions at this stage – it is not an exact science by any means, and we find that opinions can vary.
- 4.1.11 As regards the wider context including the challenging 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. At present, house prices in the Havant do not appear to be increasing have recently fallen as per the national trend. The most recent (national) reporting, however, suggests that the situation is showing signs of improving somewhat; prices have increased in the most recent months⁹, partly as a result of mortgage rates beginning to ease. Knight Frank state in their most recent assessment of the housing market *‘We now expect UK mainstream prices to rise by 3% in 2024, which compares to a decline of 4% predicted in October. With low-level single-digit growth in subsequent years, we expect cumulative growth of 20.5% in the five years to 2028’*.
- 4.1.12 Regarding construction costs, the fairly weak sales market is mitigated to some extent by an apparent slowdown in build cost inflation, following a period of rapid increases in construction costs.

⁹ Halifax reported at the start of January that house prices had risen in the UK for the third consecutive month.

4.1.13 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*’ and that ‘*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 cyclicalities 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 cyclicalities, which is embedded in the level of developer return*’.

4.1.14 DSP will be happy to advise further if/as required by HBC.

Review report ends

January 2024