

**For: Havant Borough Council
Review of Applicant Submitted
Viability Position**

**1 – 3 NORTH STREET ARCADE
Havant
PO9 1BX**

May 2020
(DSP20403R)

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Appendix I – DSP versions of applicant submitted appraisals



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.
- 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. It has not been specified whether the information supplied to DSP to inform and support this review process has been supplied by the prospective / current planning applicant on a private and confidential basis. 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 the 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 HBC 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 Havant Borough Council (HBC) to carry out an independent review of the 'Affordable Housing Viability Report' (AHVR) dated 14th March 2019 and supplied to the Council on behalf of the applicant by S106 Affordable Housing Ltd (S106AHL). This is in relation to the proposed redevelopment of 1-3 North Street Arcade, Havant, PO9 1BX.
- 2.1.2 The AHVR has been submitted in support of a full planning application (ref. 20/00251) which seeks permission for *'Construction of 30 No. one and two bedroom apartments in a part 2 and a half / part 4 storey extension fronting onto Prince George Street together with the provision of infill flexible use (Classes A1/A2/A3) town centre commercial units to North Street frontage following the demolition of existing 1 and 2 storey retail development to rear'*.
- 2.1.3 The site currently has nine retail units on the ground floor and some residential units above, fronting onto North Street, which do not form part of the current proposals.
- 2.1.4 The application was validated on 27 March 2020.
- 2.1.5 The site area is stated in the planning application to be 0.10 ha.
- 2.1.6 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'.
- 2.1.7 In this instance, therefore, between 9 and 12 affordable units would be required.
- 2.1.8 In presenting their viability position, the applicant has supplied to the Council the aforementioned AHVR together with appendices which include BCIS build cost data and market research regarding property values. In addition, printed and electronic copies of the submitted development appraisals carried out using the Homes England Development Appraisal Tool (DAT) have been submitted.

- 2.1.9 DSP has also had sight of the documents contained within the Council's online planning application file.
- 2.1.10 The site has an extant planning permission, granted in 2019 (ref: 18/00530) for 21 flats in a two-storey extension. A viability appraisal was submitted at the time and reviewed by DSP – we concluded that the scheme would not support the provision of affordable housing, and permission was granted for the 21 flats without any affordable housing. S106AHL have referred to DSP's review (reference DSP194030) in their viability report.
- 2.1.11 For general background, a viable development could be regarded as the ability of a development project 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 on Viability sets out the main principles for carrying out a viability assessment. It states:
- 2.1.12 *'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'.*
- 2.1.13 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).

- 2.1.14 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 value 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.
- 2.1.15 The AHVR states that when adopting a benchmark land value (BLV) of £660,000 the scheme without any affordable housing produces a deficit of -£541,957 when considering all costs including a developer's profit of 17.5% GDV on the market housing and 15% GDV on the commercial units. The AHVR concludes, therefore, that *'the development is unable to viably support any affordable housing provision.'* The AHVR goes on to state that the developer *'will need to take a commercial view on development profit to allow the scheme to come forward'*. A further appraisal which includes 10 affordable units has also been provided, which shows a further reduced viability position.
- 2.1.16 This review does not seek to pre-determine any Council positions, but 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. Our report deals only with viability matters, in accordance with our instructions.
- 2.1.17 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.
- 2.1.18 We have based our review on the submitted AHVR 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) using the submitted appraisal.
- 2.1.19 This assessment has been carried out by Dixon Searle Partnership, a consultancy who have over 40 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 assessing the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 17 years or so.

- 2.1.20 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of the Council - 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.
- 2.1.21 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 AHVR.
- 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 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 – 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 Guidance 'Financial viability in planning'¹ states that:

¹ RICS Professional Guidance Note – Financial viability in planning (August 2012)

'A viability appraisal is taken at a point in time, taking account of costs and values at that date. A site may be purchased some time before a viability assessment takes place and circumstances might change.'

This is part of the developer's risk. Land values can go up or down between the date of purchase and a viability assessment taking place; in a rising market developers benefit, in a falling market they may lose out.

A developer may make unreasonable/overoptimistic assumptions regarding the type and density of development or the extent of planning obligations, which means that it has overpaid for the site'.

- 3.2.3 The revisions to the Viability PPG² and the new NPPF (updated 19th February 2019 and further updated to May 2019 in other respects) now 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. In 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.'*
- 3.2.4 The guidance 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 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.'*

² Most recently updated 1 September 2019

3.2.5 It states that a Benchmark Land Value (BLV) 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 time.'*

3.2.6 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 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 agreement).'*

3.2.7 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 counted.'

- 3.2.8 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.
- 3.2.9 In this case, the benchmark is based on the investment value of the existing retail units. S106AHL quote our review from June 2019 where, for the purposes of our appraisal DSP adopted a BLV of £660,000 (based on the valuation provided, from Vail Williams, plus a 10% landowner's premium). S106AHL have adopted the £660,000 figure as the BLV for this appraisal.
- 3.2.10 We note that at the time there were discrepancies concerning the BLV, for example the valuation being stated to be based on market value and mentioning development potential, rather than existing use valuation. However, DSP agreed at the time that an EUV of £600,000 was probably not unreasonable.
- 3.2.11 We note that a marketing report from Holloway, Iliffe and Mitchell which accompanies the planning application suggests that there has been little success in marketing the properties in their existing condition. It is possible, therefore, that the EUV has decreased since the previous assessment. However, taking a balanced view of the viability assessment, any change in the market which reduces the EUV of the existing 9 no. units is likely to be reflected also in the value of the 6 no. proposed retail units.
- 3.2.12 We will return to this, after considering the submitted RLV appraisal assumptions and the extent to which the level of BLV influences our view of the overall outcome.

3.3 Acquisition Costs

- 3.3.1 Acquisition costs of £9,900 in total (1.5% of the stated BLV) have been applied, for agents' and legal fees relating to purchase of the site. Stamp Duty of £22,500 has been included.

Overall these costs are within the range we would expect and we have not adjusted these rates in our appraisal.

3.4 Gross Development Value - Private Residential

3.4.1 The development consists of the following mix of housing (as described in the submitted appraisal):

- 25 no. 1 bed flats, average size 45 m²
- 5 no. 2 bed flats, average size 62 m²

3.4.2 Sales values have been assumed with reference to local comparable evidence, to reach an overall GDV of £4,634,500 which equates to £3,250/m².

3.4.3 1 bed flats have been valued at an average of £145,210 (£3,250/m²) and 2 bed flats at an average of £200,850 (also £3,250/m²).

3.4.4 We have carried out our own research of property values in the area, based on Land Registry sales data, and advertised prices on property websites for both new and resale properties. Our review indicates that new build 1 bed flats in the area are likely to achieve average values of £3,400, particularly for flats such as these with easy access to Havant railway station and a direct train to London Waterloo. However, our review also indicates that the values proposed for 2 beds are fairly positive, at £3,250/m². Land Registry data indicates an average closer to £3,000/m² can be expected for new build 2 bed flats. Applying these rates to the scheme indicates a slightly higher GDV, however this equates to an additional circa £3,000 per property. Whilst this indicates a potentially cautious view of sales values it is a relatively small difference which we consider to be within the margin of error in this case. We have not adjusted the sales values in our appraisal but will consider other appraisal assumptions in the context of these values.

3.4.5 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 Ground Rents

3.5.1 Ground rents have been assumed at £200 per unit per annum, capitalised at a yield of 5%. The assumed ground rents add £120,000 to the development value, resulting in a total development value of £4,754,500.

3.5.2 In our view a ground rent assumption of £300 per annum would be more appropriate for the 2-bed flats. We have applied this in our appraisal, which adds an additional £10,000 to the ground rental value.

3.6 Gross Development Value – Affordable Housing

3.6.1 In the submitted appraisal which includes affordable housing, the affordable units are assumed to be 7 no. 1 bed flats for affordable rent 2 no. 1 bed flats and 1 no. 2 bed flat for shared ownership.

3.6.2 Values for affordable rented units are based on rents at Local Housing Allowance levels. The resulting values are an average of £104,538 for rented 1 bed flats.

3.6.3 Shared ownership values assume a 50% equity sale with rent assumed at 2.75% of unsold the equity. This leads to values of £121,114 for 1 bed flats and £150,774 for the 2 bed flat.

3.6.4 We consider these assumptions to be not unreasonable.

3.6.5 A cost of £20,000 has been included for sale of the affordable units to an RP, which equates to £2,000 per unit – these costs are not explained in the AHVR but are typical on a scheme with relatively few units of affordable housing.

3.6.6 Also not explained or mentioned in the AHVR is a cost of £60,000 (£6,000 per affordable unit) within the appraisal attributed to 'RP purchase costs'. This is not a cost typically seen in viability appraisal and would normally be assumed to be a cost the RP will absorb as part of their general overheads relating to acquisition of S106 units. We consider that the submitted GDV of the affordable housing could be achieved via an offer from an RP without this amount being deducted; if RP purchaser's costs are to be included these would appear to be set at an excessive level. We have removed this amount from our appraisal.

Gross Development Value – Commercial

3.6.7 The 6 no. proposed commercial units are of the following sizes:

Retail units		
Unit number	Size (m ²)	Size (ft ²)
1	66	710
2	56	603
3	46	495
4	45	484
5	43	463
6	64	689

3.6.8 The units have been valued at £10 per square foot / £107.60/m² (£36,813 per annum), capitalised assuming a yield of 7.5%. This leads to a total value of £490,834.

3.6.9 We note that the Valuation Office applies a valuation for the existing(?) units at North Street Arcade, indicating an average rent of £10.44 psf (£112,38/m²). We have also reviewed the retail values locally using the CoStar database, which indicates an average advertised rent of £11.35 psf. However, some of the examples contributing to the CoStar average are units within the nearby Meridian shopping centre which tend to command higher rents.

3.6.10 Overall, we consider the submitted assumptions to not unreasonable, with the relatively low yield for this location reflecting the premium attached to newly built/newly refurbished units.

3.7 Development Timings

3.7.1 Development timings include a 6-month lead-in period, an 18-month construction period with sales beginning on completion and taking 10 months (a rate of 3 units per month).

3.7.2 Overall, these development timings appear reasonable in our opinion.

3.8 Cost Assumptions - Build Costs

3.8.1 Base build costs for the flats are stated to have been based on BCIS median rates for 3-5 storey development at a rate of £1,491/m².

3.8.2 The development involves demolition of the commercial units at the rear of the building and replacing with several floors of residential apartments. Although described as outward/upward extension the majority of the development is effectively new build, therefore we agree that the BCIS rate for standard new build housing is a suitable

assumption in this case. We consider the rate of £1,491/m² for the residential element of the scheme to be a not unreasonable assumption.



- 3.8.3 A net : gross adjustment of 82 : 18 has been made to the 1,426 m² net internal area of the flats to allow for the communal areas of the building, leading to a gross internal area (GIA) of 1,739 m². This adjustment is within typical parameters for a scheme of this type. The above BCIS rate of £1,491/m² has been applied to the GIA of 1,739 m², leading to total submitted base build cost is £2,592,849.
- 3.8.4 An additional 7.5% has been added to the base build cost to cover all external works, landscaping etc, which we consider a suitable assumption.
- 3.8.5 Overall, we consider the submitted build cost for the residential element to be within expected parameters, and consistent with the submitted values discussed earlier in this report.
- 3.8.6 For the commercial development, a build cost of £1,200/m² has been assumed, based on construction of the 6 x retail units (shell only), and resulting in a build cost of £410,400 for the commercial element. BCIS indicates lower rates, as per the table below. We note also that three of the proposed retail units are in fact remodelling/refurbishment of existing units, for which the shell already exists. It should also be noted that the submitted BLV is based on the units in their current state being lettable. Therefore, we consider that the costs relating to construction of the commercial element may be overstated.

BCIS rates, rebased to a Havant location factor	
Category	'Default' median rate (£)
Shops generally	1158
Shops 1-2 storey	1107
Shops (SHELL ONLY)	944
Shops (rehabilitation/conversion)	560

- 3.8.7 Based on a combination of the existing and new build retail units, we have tested a lower rate of £757/m², resulting in a build cost of £258,800 for the commercial element, as shown below.



	Area (m ²)	DSP rate	Total
New build (shell only)	134	£ 1,000	£ 134,000
Refurb/conversion of existing	208	£ 600	£ 124,800
TOTAL	342	£ 757	£ 258,800

3.9 Cost Assumptions – Professional fees and contingency

- 3.9.1 Professional fees related to the construction of both the residential and commercial elements have been included at 7%, which we consider to be reasonable for a scheme of this type and scale.
- 3.9.2 A contingency allowance of 5% (on build costs) has also been included. Whilst at the upper end of the typical range agreed, is probably also not unreasonable for a scheme of this type.

3.10 Cost Assumptions - CIL / Planning Obligations

- 3.10.1 The development appraisal includes an allowance of £158,906 for CIL, stated to be based on the net increase in floor area. We recommend that HBC confirms this figure.
- 3.10.2 No allowance has been made for any S106 contributions in addition to the above CIL.

3.11 Cost Assumptions - Development Finance

- 3.11.1 Finance costs have been included using a rate of 6.5% including all fees.
- 3.11.2 The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT): *'The rate applied will depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible and will generate significantly erroneous results in a long-term scheme.'*
- 3.11.3 RICS also points out that it is often the case that schemes are modelled at current costs & values i.e. ignoring inflation (as is the case here). In this case RICS Financial viability in planning Guidance Note states in appendix D 4.5 *'... current values and costs should be used together with a net of inflation finance rate. Such a net of inflation rate would be much lower than a bank rate (which naturally includes inflation expectations).'*

3.11.4 Typically, in the recent period we would expect to see finance rates of 6% - 6.5% inclusive of all fees, therefore the submitted assumption of 6.5% including all ancillary fees does not exceed the expected range, and we have not adjusted this in our appraisal.

3.12 Cost Assumptions - Agent's, Marketing & Legal – Private Residential

3.12.1 The appraisal has assumed 2.75% GDV for sales and marketing costs, stated to be inclusive of a show home, development branding and associated materials and agents' fees of 1.5%. This assumption exceeds typical parameters and S106AHL note that we have queried this assumption in a previous review.

3.12.2 Legal costs of £750 per unit have been included, which is within the expected range.

3.12.3 Overall, the sales/marketing costs for the residential units £143,199, which is 3% of GDV. We note that this is at the upper end of the range usually seen, however we have not adjusted these assumptions at this stage; alternative assumptions could be applied but the effect on the overall viability position would be negligible in this case.

3.13 Cost Assumptions - Agent's, Marketing & Legal – Commercial

3.13.1 Fees related to letting are included at 2% of value (total of £9,252) and purchaser's costs are assumed at 5.75% (£28,223). These costs are within expected parameters.

3.14 Developer's Risk Reward – Profit

3.14.1 Profit has been assumed at 17.5% of GDV for the market housing, and at 6% for the affordable housing (where included). Profit of 15% on GDV has been assumed for the commercial units. It should be noted that as stated in the AHVR, when the deficit, as presented, is taken into account, the 'actual' profit from the development is 4% on GDV.

3.14.2 The level of profit assumed viable is a matter of debate but in our experience through both numerous site specific cases and strategic viability review, typically a profit on GDV of between 15% - 20% for market housing, 6% for affordable housing and 10% to 15% for commercial serves as a typical range considered acceptable to applicants; lower profit levels outside this range are also encountered.

3.14.3 The RICS Guidance states that: *'When a developer's return is adopted as the benchmark variable, a scheme should be considered viable, as long as the cost implications of planning*

obligations are not set at a level at which the developer's return (after allowing for all development costs including site value) falls below that which is acceptable in the market for the risk in undertaking the development scheme. If the cost implications of the obligations erode a developer's return below an acceptable market level for the scheme being assessed, the extent of those obligations will be deemed to make a development unviable as the developer would not proceed on that basis'.

- 3.14.4 It goes on to state: *'The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain. A development project will only be considered economically viable if a market risk adjusted return is met or exceeds a benchmark risk-adjusted market return'.*
- 3.14.5 Planning Practice Guidance 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 types³.

- 3.14.6 The PPG, as above, although silent in terms of decision making, does set out a range of between 15% and 20% on GDV for market housing; lower for affordable housing in relation to plan making. Given that the NPPF and PPG expect planning applications to be consistent with the plan making stage, it is therefore also appropriate to assume that the range 15% - 20% on GDV (lower for affordable housing) may be considered applicable at the decision taking stage.
- 3.14.7 We consider the submitted profit assumptions of 17.5% on GDV for the market housing, 6% on GDV for the affordable housing (where included) and 15% on GDV for the commercial units to be suitable assumptions and we have not adjusted these in our appraisal.

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 We consider the submitted approach to assessing viability to be appropriate.
- 4.1.2 The majority of the assumptions appear fair at this stage too. However, there are aspects that we have queried or where a difference of opinion exists.
- 4.1.3 Reviewing the discussion above, in summary these include:
- Benchmark Land Value (BLV) - discussed in section 3.2 of this report, and below;
 - Ground rents – we consider a ground rent of £300 per annum for each of the 2 bed flats is a more appropriate assumption;
 - The inclusion of ‘RP purchase costs’ in the appraisal containing affordable housing – which we consider would be part of an RP’s general expenditure and not factored into the amount paid for affordable housing units;
 - The submitted £1,200/m² build cost of the commercial element – we have applied a lower rate of £757/m² based on three of the units being refurbishment rather than new build, and the remainder being shell/core only.
- 4.1.4 Applying the above adjustments to the submitted 100% market housing appraisal indicates a residual value of £311,240.
- 4.1.5 This must then be compared to a BLV. Whilst we do not necessarily agree with the submitted benchmark value in this case, we consider that the BLV is likely to exceed the residual value identified by our appraisal. Therefore the scheme does not indicate any surplus available for affordable housing whilst maintaining a suitable level of developer return.
- 4.1.6 Taking an overall view of the viability of this scheme, it is our opinion that the likely profit position is more positive than indicated by the AHVR, however we agree that the scheme as presented will not support a contribution to affordable housing.
- 4.1.7 We note that the difference in residual value between the submitted 100% market housing appraisal and the submitted policy-compliant appraisal which includes 10

affordable units is very little (and is even smaller when applying DSP's assumptions). Whilst both scenarios show a deficit against the likely BLV once a reasonable level of developer return is applied this indicates that the affordable housing policy requirement is not a major factor in scheme viability and that there are wider issues with the scheme itself.

- 4.1.8 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 as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.
- 4.1.9 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.
- 4.1.10 As regards the wider context including the 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. Whilst in the short term we may with more time see evidence of negative impacts on viability, it is also possible that we may see some balance for example in terms of development cost levels, Government interventions or other factors. As set out in the PPG, a balanced assessment of viability should consider the returns against risk for the developer and also the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission. DSP will continue to monitor the established appropriate information sources. To assist the Council in its decision-making in this context, where appropriate we have considered the sensitivity of the viability position to variations in key inputs.
- 4.1.11 DSP will be happy to advise further as required.

Review report ends
May 2020

Appendix I – DSP appraisal summaries (DSPv001 and DSPv002)