

For: Havant Borough Council

Review of Applicant Submitted Viability Position

**Land rear of 11-15 South Street
Havant
PO9 1BU**

**May 2024
(DSP23403Y)**

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Contents

1. Notes and Limitations	2
2. Introduction	4
3. Review of Submitted Viability Assumptions.....	8
4. Findings Summary	20

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 our client 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 'Affordable Housing Viability Report' (AHVR) dated 22nd November 2022 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 11-15 South Street, Havant, PO9 1BU.
- 2.1.2 The AHVR was submitted in support of an application (reference APP/23/00193) which seeks permission for: *'Part demolition and part redevelopment of existing buildings and change of use from Class A2, B1(c) and B8 to C3 use with the construction of 7 town house dwellings and 10 apartments at land to the rear of 11, 13 and 15 South Street, Havant.'*
- 2.1.3 The Council's adopted affordable housing policy (Policy CS9) of its 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 and secure a suitable contribution, or on-site provision, equivalent to on average 30-40% on smaller housing developments between 5 and 14 dwellings (gross), unless a lesser requirement has been transparently justified on viability grounds.'*
- 2.1.4 In this instance, therefore, between 5 and 7 affordable homes would be required.
- 2.1.5 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Affordable Housing Viability Report' (AHVR) and Appendices including a printed summary of the submitted financial appraisal. We have also been provided with the 'live' working version of the submitted financial appraisal.
- 2.1.6 For context, DSP has also had sight of the documents contained within the Council's online planning application files.

- 2.1.7 We have not been provided with an updated viability submission to review and therefore, we have considered the assumptions individually listed within the submitted November 2022 AHVR and provided our commentary based on those.
- 2.1.8 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.
- 2.1.9 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'.

- 2.1.10 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

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

scheme is much more likely to proceed (on the basis that a reasonable developer profit margin is also reached).

- 2.1.11 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. This is then compared to a Benchmark Land Value (BLV), in this case assumed at £587,473. Therefore, an approach has been taken that sets out to consider, in the applicant's view, the maximum supportable contribution for affordable housing.
- 2.1.12 The AHVR provides two appraisals, 100% 'open market' and 'policy compliant'. The 'policy compliant' scheme appraisal is based on including 6 no. affordable homes (4no. affordable rent and 2no. shared ownership units). The results of the appraisals provided on this basis are set out in a table in the AHVR and replicated below (both showing relatively small deficits in the overall context of the scheme finances).

Appraisal Scenario	Residual Land Value	Benchmark Land Value	Surplus/Deficit
Open Market	£564,478	£587,473	-£22,995
Policy Compliant	£457,693	£587,473	-£129,780

- 2.1.13 The AHVR concludes that: *'The appraisal shows a deficit at £22,995 and therefore we have to conclude no surplus is generated by the development to support any affordable housing provision. For the site to come forward the developer will need to take a commercial view to accept a lower level of return below the usual benchmark level. It is therefore clearly evident that no surplus is generated by the development to support any affordable housing provision.'*
- 2.1.14 It is also worth noting that the scheme viability, as submitted, indicates a very small difference in viability between the scheme with nil affordable housing and one with a policy compliant level of affordable housing; the difference of £106,785 between the two reported small deficit outcomes represents circa 2.3% of GDV.
- 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, 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.
- 2.1.17 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) 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 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.
- 2.1.19 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.
- 2.1.20 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 AHVR. As noted above, we have used the submitted assumptions as the basepoint for our review and commentary, applying up to date information and experience having noted the passing of time since the writing of 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 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) Professional Standard 'Assessing viability in planning under the National Planning Policy Framework 2019 for England' (reissued April 2023) took effect from 1st July 2021 when it was previously published as a guidance note. Its emphasis 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 RICS Professional Standard 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 September 2023) 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 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

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 time³.*

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 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 agreement⁴.)'*

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*

² Paragraph: 015 Reference ID: 10-015-20190509

³ Paragraph: 014 Reference ID: 10-014-20190509

⁴ Paragraph: 014 Reference ID: 10-014-20190509

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 counted⁵.

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 application site is described as a range of two storey buildings with office and workshop use and an internal courtyard area. The AHVR has accessed the Valuation Office Agency (VOA) rating list for the premises to note the floor areas as follows:

15a South Street Offices	57.37 sq. metres
15b South Street Offices	87.3 sq. metres
15c South Street Workshop	341.32 sq. metres
Total	485.99 sq. metres

3.2.12 The AHVR refers to offices located at 8 – 10 East Street, Havant, which at the time were advertised 'to let' with a guide rent equivalent to £11.26 per sq. ft based on a floor area of 1,065 per sq. ft. Based on this evidence, the AHVR applies an assumed rent of £11 per sq. ft. to the offices and £7 per sq. ft. to the workshops. Using these assumptions, the AHVR assesses the EUV as follows:

⁵ Paragraph: 017 Reference ID: 10-017-20190509

Rental Income	£42,845 per annum
Capitalise 8% yield	£535,563
Six months rent free	£21,422
Buyers costs	£30,795
Sub-total	£483,346
Parking spaces 11 spaces @ £2,500	£27,500
EUV	£510,846

3.2.13 The AHVR then applies a 15% landowner's premium to arrive at an EUV+ / BLV of £587,473.

3.2.14 As noted above, the AHVR assumes a value of £2,500 per parking space, which in our experience is within the range of capital values seen for parking spaces in locations such as this, i.e. within walking distance of a railway station and town centre.

3.2.15 However, in relation to the buildings at 15 South Street, we have accessed the subsequent 'Commercial Viability Report' dated 24th August 2023 and submitted in support of the planning application. The Report states that: *'The buildings are approximately 100 years old and have reached the end of their economic lives.'*

From an internal inspection the buildings are very fragmented, including a number of sub-divided areas. Parts of their construction are temporary in nature and unsuitable for modern occupation. The layout is not compatible with the demands of modern occupiers who are looking for flexible, open-plan, energy efficient premises.'

3.2.16 The Report concludes: *'Whilst the units are currently being used by commercial occupiers and there are approximately 6 full and part time members of staff on the site, it is only a matter of time until this use is extinguished due to the aged buildings and the safety implications.'*

Due to the age and conditions of the building, they are already non-compliant with Statutory Requirements and should not be occupied. Their continued occupation can only be considered temporary.'

3.2.17 For buildings that are reported as appearing to be nearing the end of their economic life and not compliant with statutory requirements, and therefore may have difficulties in

attracting prospective tenants, in our view, the AHVR's assessment of EUV may be overstated.

- 3.2.18 In addition, we note that the offices at 8 – 10 East Street referred to in the AHVR continue to be advertised for let (extract from Rightmove below) with a reduced rent equivalent to £10 per sq. ft. Since the AHVR is dated November 2022, this indicates that demand for office space of this nature in Havant is limited.



- 3.2.19 We have also accessed the Land Registry title documents and we note that 15 South Street was purchased on 3 May 2023 for £450,000. The title plan for the property (extracted below) shows that the title includes all the buildings but excludes the parking area, which we have shown coloured yellow.

Source: Land Registry Title Plan for 15 South Street



- 3.2.20 Although the Planning Practice guidance clearly states that the price paid for a property is not a relevant justification for failing to accord with relevant policies in the plan, it can be used as a cross check of other evidence. Given that the premises were likely purchased with development in mind, reflecting also the submitted information in respect of apparent low demand for the existing use, the purchase price is likely to include a significant level of hope value, which should be ignored for the purposes of

viability in planning. We would not expect the EUV+ / BLV for this part of the application site to exceed the figure of £450,000 paid.

- 3.2.21 We have also accessed the valuation from the VOA information online and the rateable value attributed to premises (VOA's rental value opinion) is £23,350 (with an effective date of 1 April 2023), made up as follows:

15a South Street offices £4,850
15b South Street offices £6,000
15c South Street workshop £12,500

- 3.2.22 We understand that a vehicle repair workshop also forms part of the buildings at 15 South Street. The rateable value for the vehicle repair premises is £11,500 (with an effective date of 4 March 2024).

- 3.2.23 In our experience, the assumed yield (8%) is also potentially too positive (percentage too low). The Knight Frank yield guide (March 2024) indicates yields of 11.5% for Secondary South East Town offices and 6.75-7.25% for Good Secondary Industrial Estates. We would therefore expect a less positive yield to be supported by the investment prospects at the subject premises, in existing use and condition. For similar properties, we have been able to agree yield assumptions of generally not more than 10%. Applying a yield of 10% when capitalising the rateable value (total £34,850) indicates a capital value of £348,500. Then Allowing a 6-month void and purchaser's costs of 5.75%, consistent with the AHVR, produces a value of £313,176.

- 3.2.24 Adding the assumed value of £27,500 for the parking area, produces an EUV of £340,676 and applying a landowner's premium of 15%, also consistent with the AHVR, produces an EUV+ / BLV of £391,777 (£390,000 rounded).

- 3.2.25 We have tested the scheme against a reduced total BLV of £390,000, therefore, allowing £358,375 for the buildings (15 South Street) and £31,625 for the area of car parking.

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 We note that since the date of the AHVR (November 2022) the proposed development has altered slightly; the proposal no longer includes a 1-bedroom flat and the overall floorspace has increased by circa 40 sq. metres.

3.4.2 Based on a market research exercise, the AHVR adopts a total GDV of £4,694,494, noted to be equivalent to a blended value of £3,765 per sq. metre (£3,819 per sq. metre for the flats and £3,707 per sq. metre for the houses). It is worth noting that applying an average value of £3,765 per sq. metre to the revised floor areas produces a higher GDV of £4,856,100.

3.4.3 To assess whether the values assumption remain appropriate, we have undertaken our own research into values locally. We have considered properties that have sold and also those that are currently being marketed for sale.

Land Registry sold price data

3.4.4 Data for new build properties sold in Havant is limited. Data for terraced properties is limited to Emsworth and Bedhampton and data for flats is limited to Emsworth. The reported average sales values are as follows:

- Terraced £4,687 per sq. metre
- Flats £4,374 per sq. metre

3.4.5 The Land Registry data for resales indicates the following (based on a search of a 2-mile radius over the past nine months):

- Terraced £3,050 per sq. metre
- Flats £3,047 per sq. metre

3.4.6 We would expect a premium over resale values for newbuild properties and this appears to be reflected in the available data.

Advertised prices (within 3 miles of site)

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

- Terraced £4,191 per sq. metre
- Flats insufficient data

Resale – advertised prices (within 5 miles of site)

- Terraced £3,417 per sq. metre
- Flats £3,119 per sq. metre

3.4.8 The submitted sales values fall between the re-sale data and the limited available new build data. In our view, they could be potentially higher, closer towards the new build values identified and therefore, to fully ‘stress-test’ the viability position we have tested both the assumed values alongside an assumption 10% in sales values.

3.5 Gross Development Value (GDV) - affordable housing

3.5.1 The ‘policy compliant’ appraisal includes 4no. affordable rented and 2no. shared ownership units. The assumed value of the affordable rented units is based on affordable rents set at 80% of market rent capped at the LHA rates. After typical deductions for management costs, voids and repairs and the rent is capitalised using a yield of 4.5%.

3.5.2 The assumed values for the shared ownership units have been based on initial sales at 40% and rent on the retained equity of 2.75%. Again, after deductions for management costs and voids, the net revenue has been capitalised at 5.5%.

3.5.3 We do not consider the affordable housing assumptions to be unreasonable.

3.6 Cost Assumptions - Construction Costs & Fees – Residential

3.6.1 The submitted build costs for the proposed scheme have been based on information from BCIS, using the default median rebased to Havant, which at the time of the report were shown to be:

New build - terraced	£1,489/m ²
New build – apartment	£1,750/m ²
Conversion – apartment	£1,475/m ²

- 3.6.2 This submitted approach is considered suitable, and with the passing of time since the AHVR (November 2022), we have considered the latest available BCIS data and we have adopted the following build rates in our trial appraisal:

New build - terraced	£1,539/m ²
New build – apartment	£1,834/m ²
Conversion – apartment	£1,470/m ²

- 3.6.3 An allowance of 10% for external works has been applied to the base build costs. We do not consider the allowance for external works unreasonable for the proposed development type, when combined with the BCIS median build cost rate. We have also applied an allowance of 10% to the latest BCIS rates shown above.
- 3.6.4 The build rate for the flats has been applied to a net:gross ratio of 82%, meaning that approximately 18% of the overall built floorspace of the flats is in the form of communal, on-saleable floorspace. DSP has not checked this ratio from the plans. The Council will be able to do so; however, this appears to represent a reasonably efficient, typical proportion of non-saleable floorspace for the development type.
- 3.6.5 A further allowance of £30,000 has been included for demolition. The Council may wish to consider requesting additional evidence of these assumed costs from the applicant; however, they do not appear excessive, and we have not adjusted these costs in our trial appraisal.
- 3.6.6 Professional fees have been included in the submitted appraisals at 10% which does not exceed usual parameters and not considered excessive.
- 3.6.7 Contingency has been included at 5% of works cost, which again is considered to be not unreasonable.

3.7 Development Timings/Project Timescales

- 3.7.1 The timings in the submitted appraisals include a 6-month pre-commencement period, a 15-month construction period with sales expected over a 5-month period commencing at construction completion.
- 3.7.2 We do not consider these timings assumptions to be unreasonable.

3.8 CIL / Planning Obligations

- 3.8.1 Havant Borough Council charges a Community Infrastructure Levy (CIL) on new development. The AHVR has assumed a total CIL liability of £90,232 based on an indexed rate of £118.57/m² on the assumed relevant floor area (assuming 100% market housing).
- 3.8.2 Based on the 2024 CIL rates and the increased floor area as a result of the amended plans, we calculate the CIL liability as £108,856; approximately £18,000 higher than assumed when the AHVR was prepared. HBC should confirm this figure or provide an alternative that can be included within any necessary final appraisal.
- 3.8.3 We note also that this sum would be reduced in a policy compliant appraisal or an appraisal with a lower proportion of market housing.

3.9 Development Finance

- 3.9.1 Typically, in the recent period we would expect to see finance rates of 6-8%, with those assumptions representing the costs inclusive of all fees. While compared with previous assumptions we have begun to see higher rates in the market and discussion with lenders indicates that while finance rates do not directly follow changes in the bank base rate, the recent increases have put upward pressure on the cost of debt.
- 3.9.2 Finance costs have been included using an 8.75% debit interest rate assumption (on the same basis – i.e. with no further fees allowances made). The assumed debit rate is high in our experience when applied as it is typically for viability in planning purposes (to the whole cost over the full development period), and particularly with a nil or very low interest rate on positive cash balances applied, and therefore we have tested, for the purposes of this review, a finance rate of 7.5% and on the basis that this cost would include all ancillary fees.

3.10 Agent's, Marketing and legal costs

- 3.10.1 The development appraisal accompanying the AHVR assumes sales and marketing costs of 2.5%. Legal costs of £750 per unit have also been assumed. These costs are within the range typically seen and therefore considered reasonable.

3.11 Developer's Risk Reward – Profit

- 3.11.1 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 and 6% of GDV on affordable housing (where applicable).
- 3.11.2 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 types⁶'*.
- 3.11.3 We consider the assumptions to be assumed at an appropriate level for these specific proposals and have not adjusted them in our appraisals.

⁶ <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 AHVR to assessing the viability of the proposed development is considered appropriate in terms of general principles.

4.1.2 Similarly, we consider several of the submitted assumptions to be appropriate. There are some areas where we have a difference of opinion or where there is some uncertainty, however, 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:

- Benchmark Land Value (paragraph 3.2) The AHVR contains a valuation of the site in its current use. We have some concerns about the BLV placement, based on the described nature and condition of the existing premises. We have therefore made a downward adjustment from the submitted £587,473 to apply a BLV £390,000.
- Gross Development Value (paragraph 3.4). While the submitted values fall between resale values and newbuild values from the wider area, we consider that they could be potentially at a level closer to the newbuild evidence identified and we have therefore also applied a 10% increase to the submitted values in order to fully test the viability position.
- Build costs (paragraph 3.6). Taking a balanced view, and using the same approach (assumptions basis) as submitted, we have updated(increased) the build costs to reflect the latest available BCIS rates.
- CIL (paragraph). We have increased the CIL liability figure to reflect the revised plans and current indexed charging rate. The Council will be able to confirm the figure or provide an alternative that can be reflected in the trial appraisal, however.
- Finance (paragraph 3.9). We consider the submitted 8.75% finance rate assumption to be excessive, and we have tested a finance rate of 7.5%.

4.1.3 The position as submitted is that both a 100% 'open market' scheme and a scheme including 6no. affordable homes ('policy compliant') produces a deficit (AHVR extract as follows).

Appraisal Scenario	Residual Land Value	Benchmark Land Value	Surplus/Deficit
Open Market	£564,478	£587,473	-£22,995
Policy Compliant	£457,693	£587,473	-£129,780

- 4.1.4 As part of our audit style approach, we have carried out sensitivity testing based on making adjustments to the assumptions as described throughout this report and referred to again at 4.1.2 above. When adopting the submitted sales values, the scheme produces the following outcomes:

Appraisal Scenario	Residual Land Value	Benchmark Land Value	Surplus/(Deficit)
Open Market	£437,033	£390,000	£47,033
Policy Compliant	£285,909	£390,000	(-£104,091)

- 4.1.5 When increasing the assumed values by 10%, the scheme produces the following outcomes:

Appraisal Scenario	Residual Land Value	Benchmark Land Value	Surplus/(Deficit)
Open Market	£756,523	£390,000	£366,523
Policy Compliant	£540,167	£390,000	£150,167

- 4.1.6 The 100% 'open market' scheme in both sensitivity tests produces a surplus. Therefore, based on current day values and costs, the viability of the proposed scheme appears to have moved on from the date of the AHVR (November 2022) and there does appear to be scope for a contribution towards affordable housing. At this stage, we are unable to agree with the applicant's nil affordable housing outcome.
- 4.1.7 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.

- 4.1.8 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.
- 4.1.9 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. The most recent (national) reporting suggests that the housing market generally is showing signs of improving somewhat following month-on-month falls seen in the autumn; prices have increased in the most recent months, 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.’
- 4.1.10 Regarding construction costs, the still uncertain sales market is mitigated to some extent by an apparent slowdown in build cost inflation, following a period of rapid increases in construction costs.
- 4.1.11 The RICS Professional Standard 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 Professional Standard notes: ‘*PPG paragraphs 007 and 009 reflect on the impact of market cyclicity 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 cyclicity, which is embedded in the level of developer return*’.



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

**Review report ends
May 2024**



Appendix I – DSP’s versions of applicant submitted appraisal