

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

**Land at Bartons Road
Havant
PO9 5JB**

March 2022
(DSP21403U)

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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. 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. 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.*' 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).
- 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 'Economic Viability Report' (EVR) dated 20th September 2021 and supplied to the Council on behalf of the applicant by Sturt and Company. This is in relation to the proposed redevelopment of Land at Bartons Road, Havant, PO9 5JB.
- 2.1.2 The EVR has been submitted in support of a full planning application (ref. APP/20/00658) which seeks permission for a *'Proposed development of 175 apartments together with associated access, parking and landscaping'*.
- 2.1.3 The application originally sought permission for a mixed-use development comprising 175 apartments and two drive-through restaurants. As now under consideration, subsequently the proposal has been revised to exclude the two drive-throughs – now residential apartments only are proposed. DSP were commissioned by the Council to review the viability of the previous scheme iteration and we reported to the Council in May 2021. Our report conclusion based on running various sensitivities was that a nil affordable housing position had not been proven to be appropriate at that stage in our view.
- 2.1.4 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'.*
- 2.1.5 In this instance, therefore, between 53 and 70 affordable units would be required.
- 2.1.6 In presenting their viability position, the applicant has supplied to the Council the aforementioned EVR, together with appendices which include a site and layout plan, photographs and schedule of accommodation. In addition, printed and electronic copies of the submitted development appraisals carried out using Argus Developer have been submitted.

- 2.1.7 DSP has also had sight of the documents contained within the Council's online planning application file.
- 2.1.8 We have considered the assumptions individually listed within the EVR and provided our commentary based on those whilst also carrying out sensitivity testing using the same appraisal where our opinion differs from that of the applicant's agent.
- 2.1.9 This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to support land value and profit) associated with that aspect of the overall proposals.
- 2.1.10 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 permission'.*
- 2.1.11 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).

- 2.1.12 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.
- 2.1.13 The EVR states a 100% private scheme produces a negative residual land value of -£1,220,000 and concludes that: *"The commercial viability assessment indicates that a policy compliant affordable housing provision is not viable as the residual land value is below the Benchmark Land Value as demonstrated by the appraisals."* With this deficit residual in mind, on first sight it appears that as presented the proposal would not be considered viability in normal terms before affordable housing and were the site value to be nil.
- 2.1.14 The EVR includes sensitivity analysis looking at the influence of build costs going up in 2.5% increments and with GDV increasing and decreasing in 2.5% increments. The EVR states that: *"Even using the most optimistic scenario the development does not achieve accepted Benchmark Land Value"*.
- 2.1.15 It is clear from the scheme outputs as set out in the EVR that significant adjustments would need to be made to the assumptions in order of the 100% market scheme to be a viable prospect.
- 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 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.

- 2.1.18 In this context, 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 EVR 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.
- 2.1.20 This assessment has been carried out by Dixon Searle Partnership, a consultancy that has a great many years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and 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 19 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 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.
- 2.1.22 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 EVR.
- 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 (Royal Institution of Chartered Surveyors) has recently issued a new guidance note: 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (1st Edition, March 2021). This was effective from 1st July 2021 and replaces the previous (RICS 2012) 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 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 revisions to the Viability PPG and the new NPPF (latter updated 19th February 2019, May 2019 and most recently in July 2021 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. 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 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.'

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 time.'*

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 agreement).'*

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 counted.'

- 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 In this case, the application site comprises a brownfield site which was formally occupied by a commercial building that has since been demolished. The site is described as extending to 1.2 ha (2.97 acres) which we note has reduced from the previously stated 1.66 ha (approx. 4.1 acres) when the commercial use proposals were included
- 3.2.12 As previously submitted, the EVR considers that the EUV of the site is “*as a development site for employment purposes*” and then goes on to consider the value of the site with reference to the sale of other sites in the locality that are described as being developed for employment purposes.
- 3.2.13 The EVR then adopts an assumption of £750,000 per acre (increased from an assumption of £620,000 per acre in the previous EVR) to arrive at the following BLV:

Site Area	Price	Benchmark Land Value
1.20 ha (2.97 acres).	£1,850,000 ha (£750,000 acre)	£2,230,000

- 3.2.14 Consistent with our previous report, our view is that, at £1.85m/ha (increased from £1.61m/ha in the previous EVR), the assumed value could be considered overstated.

- 3.2.15 When viewed against the MHCLG Land Value estimates for policy appraisal 2019 documents. This indicates a value of £1.2m/ha for industrial land in Havant, £865,000/ha for office – edge of CBD land for Portsmouth (the nearest town with data) and out of town centre office land at £1.5m/ha.
- 3.2.16 In our continued experience of reviewing both site specifics and from our involvement in strategic projects, a value of £1-£1.5m/ha is likely to be sufficient. This would place the value of the site between £1.2m and £1.8m. Taking a mid-point view, would equate to a value of £1,500,000 (equivalent to £1.25m/ha which is consistent with our previous view, and appropriately so in the circumstances in our view).
- 3.2.17 Again, as before, an alternative view would be to value the site as open storage land for which we would expect to see rents of no more than £1.50/ft². Applying this rent to the subject site and capitalised at a yield of 12% would produce a capital value of circa £1.6m before considering any works needed to secure the site/make it suitable for such a purpose, or any other consents that may be needed.
- 3.2.18 We have therefore tested the scheme against a lower BLV of £1.5m, which we consider to be a reasonable view for a PDL site such as the one here, applying the existing use principles of the PPG.

3.3 Acquisition Costs

- 3.3.1 Acquisition costs have been assumed including an agent's fee of 1.5% and a legal fee of 0.75%. However, because the appraisal outcome results in a negative residual land value, no allowances are included. The agent's fee is high in our view and as before we have reduced this to 1%. Although, as noted, unless the scheme output results in a positive RLV then an allowance will not be included as a result of the appraisal functionality.

3.4 Gross Development Value - Private Residential

- 3.4.1 The proposed development is for 110no. 1-bedroom and 65no. 2-bedroom flats with a total GIA of 93,342ft² (8,671.7m²) and 188 parking spaces. A breakdown of the individual units is included within the EVR at Appendix 3.
- 3.4.2 The total GDV assumed is £30,997,500, equivalent to £332/ft² (£3,574/m²) based on a floor area of 93,342ft² (8,671.7m²), although the development appraisal includes a floor area of 93,976ft² (8,731/m²).

3.4.3 The values assumed now are very similar to those previously adopted (i.e. at £331/ft² overall) and found to be acceptable on review by DSP. The EVR states that this is considered appropriate based on a review of recent transactions.

3.4.4 The current Land Registry House Price Index (HPI) data for Havant (including data available to December 2021) indicates that in the intervening period from DSP's review (May 2021), flats have increased in value by 5.4%. We have therefore tested the scheme applying an increase to the assumed sales values in line with the HPI data.

3.4.5 In addition, we have excluded the sales incentive costs of £750 per unit. Sales incentives are specific to the developer and are not always required. On this basis, we would not expect to see an allowance for sales incentives included within the appraisals.

3.4.6 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 Although, the EVR notes that the Government intends to bring forward legislation to limit ground rents, the development appraisals include a ground rent of 0.1% GDV. This results in a capital contribution of £518,636 within the 100% market scheme appraisal.

3.5.2 Since the date of the EVR, the Leasehold Reform (Ground Rent) Act 2022 has restricted ground rents for new, long leasehold residential properties to a peppercorn (nil value). We therefore consider it appropriate to exclude the capital contribution from the appraisal.

3.5.3 We have also removed the associated purchaser's costs, sales fee and a sales legal fee for the sale of the ground rent investment.

3.6 Gross Development Value – Affordable Housing

3.6.1 The EVR assumes a blended value of 65% GDV for affordable tenures and the intermediate/shared ownership units. However, no policy compliant appraisal has been

supplied in this instance on the basis that it *“does not produce a proper return for the developer”*. This is not an unreasonable assumption, in our view. The tenures and mix will potentially need to be considered further if affordable housing proves to be workable on finalising our review.

3.7 Development Timings

3.7.1 The development appraisal assumes a pre-construction period of 3-months and a construction period of 36 months. Sales timings have been assumed at a rate of 3 per month. The construction timings assume that Block C would commence when Blocks A and B have been completed. This results in an overall project period of 58 months for a development of 175 flats, which continues to appear a particularly pessimistic in our view.

3.7.2 Although, we have not adjusted the timescales within our trial appraisal, we note that the BCIS duration calculator indicates a 90% confidence interval of 77 to 95 weeks and a 90% prediction interval of 57 to 128 weeks for a project of this size. Certainly, in our experience, a construction period of 36 months for 175 flats appears to be a potentially pessimistic view.

3.8 Cost Assumptions - Build Costs - Residential

3.8.1 The assumed base build costs for the flats are stated to have been based on BCIS median rates for 3-5 storey development rebased to Havant at a rate of £133.59/ft² (£1,438/m²).

3.8.2 We have reviewed the BCIS 5-year data set for the same category, and on this basis, we do not consider the assumed base build rate to be unreasonable.

3.8.3 Within the development appraisal a net:gross adjustment of 75% has been made to the 93,342ft² (8,672m²) net internal area of the flats to allow for the communal areas of the building, leading to a gross internal area (GIA) of 125,863ft² (11,693m²) including undercroft and bike shed. This includes a high proportion of non-saleable floorspace at around 25%, and the Council will be able to check these figures from the plans validated with the planning application.

3.8.4 As before, an allowance of £2,500 per upper floor flat (above ground floor) has been allowed for glass fronted balconies. This equates to a total of £360,000 (144 units).

3.8.5 Also as before, a rate of £100/ft² (£1,076/m²), in addition to the base build cost, has been applied to the undercroft car parking to produce a total cost of £127,100.

3.8.6 An additional 5% of the base build cost for the apartments has been added to cover the external works.

3.8.7 Consistent with our previous review, we do not consider these build cost assumptions to be unreasonable.

3.9 Cost Assumptions – Site Specific Costs

3.9.1 The EVR refers to site specific costs and states that *“all works needed have not been identified or assessed.”* A table of those identified so far has been provided and we have included it below. In the previous submission, the offsite electrical upgrades, site clearance and new entrance costs had been included as a nominal figure of £1 on a *“to be confirmed”* basis.

Site Specific Costs		
Item	Description	Cost
Attenuation Solution	It is likely to require permeable surfaces and underground storage crates.	£111,556
Off Site Electrical Upgrades	A cost has been provided by the utility undertaker	£222,500
Site Clearance	Remove demolition material stored on site and sub soil structures	£183,094
New Entrance	New bellmouth onto Martin Road.	£90,000
Acoustic Fencing		£30,795
Cycle Stores	Store with appropriate bike storage system 403 sq ft at £80 sq ft.	£32,250
	Total	£670,195

3.9.2 The development appraisal also includes these following allowances:

- S278 costs - £236,770
- Piled Foundations - £347,600
- Part L Building Regulations - £350,000 (equivalent to £2,000 per unit)

- 3.9.3 We have not made any adjustments within our trial appraisal. However, HBC may wish to request additional evidence from the applicant on these costs.

3.10 Cost Assumptions – Professional fees and contingency

- 3.10.1 Professional fees related to the construction have once again been included at 8%, which as before we consider to be reasonable for a scheme of this type and scale.
- 3.10.2 A contingency allowance of 5% (on build costs) has also been included. Whilst this is higher than the previously submitted 3%, this assumption falls within the typical range agreed and is also not unreasonable for a scheme of this type.
- 3.10.3 Allowances of £5,000 for S106 legal fees and £3,680 for the LA monitoring fee, in addition to the allowances for EPC and PAT testing have been included within the development appraisals. Similarly, the development appraisals include allowance for warranties and a Town Planning fee of £75,000 and a site investigation – contamination cost of £10,000 (acquisition costs). We would not expect to see these additional allowances – an overall allowance being made within the development appraisal for professional fees as is typical in viability assessments for the purposes of determining planning obligations. Therefore, consistent with our previous review, we have excluded these costs from our trial appraisal.

3.11 Cost Assumptions - CIL / Planning Obligations

- 3.11.1 The 100% market scheme development appraisal includes the following allowances:
- CIL - £1,380,479
 - Solent Rec Mitigation 1 bed – 38,060
 - Solent Rec Mitigation 2 bed - £32,500
 - Nitrates Mitigation - £168,875 – this is significantly higher than the figure of £191 previously included within the 100% market housing scheme.
- 3.11.2 We recommend that HBC confirms these figures or advises of any alternatives.

3.12 Cost Assumptions - Development Finance

- 3.12.1 Typically, in the recent period we would expect to see finance rates of 6-6.5% representative of the costs inclusive of all fees.

- 3.12.2 Finance costs have again been included using a 6.5% interest rate and accordingly as previously we do not consider this to be an unreasonable assumption.

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

- 3.13.1 The appraisal has assumed 2.5% GDV for sales and marketing costs. This assumption is not unreasonable in our view.
- 3.13.2 Legal costs of £1,250 per unit have again been included, which is high in our experience – as noted previously. We would not expect to see this assumption exceed £1,000 per unit, which again we have reflected within our trial.
- 3.13.3 Empty property costs at £274 per unit (stated as £265 per unit within the EVR) are also included within the development appraisal. We would not expect to see an allowance for empty property costs in a viability in planning appraisal for such a scheme, and we have excluded this from the development appraisals.

3.14 Developer's Risk Reward – Profit

- 3.14.1 Profit has been assumed at 20% of GDV for the market housing as previously, and at 6% for the affordable housing (although not included in the presented scenario).
- 3.14.2 The Planning Practice Guidance (PPG) on Viability states: *'Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan'*. It goes on to state: *'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'*
- 3.14.3 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 application at the decision taking stage.

- 3.14.4 DSP has calculated that when the deficit is deducted from the target profit, the scheme as presented produces an actual profit circa 9% GDV.
- 3.14.5 Based on the commentary above, we are of the view that a 20% profit does not necessarily form a required rate and that a lower profit should be acceptable to enable a scheme to proceed. As noted above, the outturn position of the submission appears to support this (at circa 9% GDV). Taking this into consideration, we are of the view that a profit assumption at 17.5% GDV on the market units is a more reasonable and appropriate one in this case, as indeed we see in many cases that reach this stage of needing viability review. This revised profit assumption therefore serves as the benchmark in our trial appraisal.

4. Recommendations / Summary

4.1.1 We consider the submitted approach to assessing viability to be appropriate.

4.1.2 A number 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) – we have tested the scheme against a lower BLV assumption of £1.5m, reduced from £2.23m (paragraph 3.2).
- Acquisition costs – we have reduced the agent's fee from 1.5% to 1% (paragraph 3.3).
- Gross Development Value – we have increased the assumes values by 5% in line with the Land Registry House Price Index data for Havant (paragraph 3.4).
- Fees – we have excluded the Town Planning fee, the site investigation allowance, the s106 legal fees, the warranties allowance and the LA monitoring fee (paragraph 3.10);
- Legal costs on sales – we have included legal costs of £1,000 per unit – a downward adjustment from the submitted £1,250 per unit (paragraph 3.13);
- Sales incentives and empty property costs – we have excluded these from our development appraisals (paragraph 3.13);
- Profit – we have tested the scheme with a profit of 17.5% GDV for the market sales (paragraph 3.14).

4.1.4 The scheme as presented by the EVR produces the following RLV:

Scheme	Residual Land Output
Scheme 1 – All private units	-£1,220,000

4.1.5 When making adjustments as advised throughout this report and summarised at paragraph 4.1.3 above, the scheme produces a residual land value of £625,971 (DSP Appraisal v1) and when compared to DSP's revised BLV of £1.5m, produces a deficit of -

£874,029m. When the deficit is deducted from the target profit the scheme produces an actual profit of 15% GDV.

- 4.1.6 As a further sensitivity test consideration, we have considered the potential effect of a further 5% increase in sales values, which indicates a residual land value of £1,674,024 (DSP Appraisal v2) and when compared to DSP's revised BLV of £1.5m, produces a surplus of £174,024.
- 4.1.7 Our review indicates that the viability position is significantly more positive (less negative) than presented by the applicant or at least has that potential. However, taking an overall view of the viability of the scheme, our appraisals indicate that the viability of the proposed scheme (with nil affordable housing provision) appears to be a marginal proposition at this stage. However, the Council may wish to consider a review mechanism which could capture any positive movement in the sales values and build costs.
- 4.1.8 The current outcome is not an unexpected result when compared to the results set out in our previous review report (extracted below). The previous scheme produced a surplus of circa £1m when including a circa £500,000 capital contribution from ground rents and circa £3.2m GDV assumed contribution from the previously included commercial units (McDonalds and Costa proposals) although noting some balancing of course on the costs of developing those.

Scheme	RLV DSP build costs	Surplus/Deficit compared to BLV of £2.075m	RLV submitted build costs	Surplus/Deficit compared to BLV of £2.075m
All Private	£3,123,731	£1,048,731	£1,560,205	-£514,795
Policy Compliant	£1,987,870	-£87,130	-£320,315	-£2,395,315

- 4.1.9 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.
- 4.1.10 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.

4.1.11 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. At the time of writing, we continue to see positive reporting in terms of the property market; the expected slowdown of the market as a result of Brexit/Covid-19 has not occurred. 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.

4.1.12 DSP will be happy to advise further as required.

Review report ends
March 2022



Appendix I – DSP appraisal summaries

Bartons Road Havant- All Private 175 Units
No Commercial v1

Bartons Road Havant- All Private 175 Units No Commercial v1

Appraisal Summary for Phase 1 All Private 175 Units

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Block A 1 Bed Flat	57	25,023	376.71	165,375	9,426,375
Block A 2 Bed Flat	7	5,460	296.15	231,000	1,617,000
Block B 1 Bed Flat	19	8,322	377.57	165,375	3,142,125
Block B 2 Bed Flat	13	9,633	304.66	225,750	2,934,750
Block C 1 Bed Flat	34	15,028	374.15	165,375	5,622,750
Block C 2 Bed Flat	45	30,510	321.35	217,875	9,804,375
Totals	175	93,976			32,547,375

NET REALISATION

32,547,375

OUTLAY

ACQUISITION COSTS

Residualised Price (2.97 Acres @ 210,764.64 /Acre)		625,971	
			625,971
Agent Fee	1.00%	6,260	
Legal Fee	0.75%	4,695	
			10,954

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
Block A 1 Bed Flat	25,023	133.59	3,342,823	
Block A 2 Bed Flat	5,460	133.59	729,401	
Block A Common Areas	12,171	133.59	1,625,924	
Block A Undercroft	1,271	100.00	127,100	
Block B 1 Bed Flat	8,322	133.59	1,111,736	
Block B 2 Bed Flat	9,633	133.59	1,286,872	
Block B Common Areas	5,905	133.59	788,849	
Block C 1 Bed Flat	15,028	133.59	2,007,591	
Block C 2 Bed Flat	29,835	133.59	3,985,658	
Block C Common Areas	12,812	133.59	1,711,555	
Bike Shed	403	80.00	32,240	
Totals	125,863 ft²		16,749,749	
Contingency		5.00%	938,857	
Breakup Tarmac & Old Foundaton			83,094	
Decomination / Removal/Monitoring			100,000	
New Entrance Bellmouth			90,000	
S278 Costs			236,770	
Off Site Electric Upgrade			222,500	
CIL Residential	124,592 ft²	11.08	1,380,479	
Solent Rec Mitigation 1 Bed	110 un	346.00 /un	38,060	
Solent Rec Mitigation 2 Bed	65 un	500.00 /un	32,500	
Nitrates Mitigation (PC Sum)	175 un	965.00 /un	168,875	
				20,040,884

Other Construction

Piled Foundations			347,600	
Part L of the Building Regulations	175 un	2,000.00 /un	350,000	
Balconies			360,000	
Externals Residential		5.00%	835,875	
New Entrance onto Martin Road			1	
Attenuation Resi Only			111,556	
Acoustic Fencing			30,795	
				2,035,827

PROFESSIONAL FEES

Professional Fees	8.00%	1,500,188	
			1,500,188

DISPOSAL FEES

Residential Sales & Marketing Suite		2.50%	813,684	
Sales Legal Fee Residential	175 un	1,000.00 /un	175,000	
				988,684

FINANCE

Timescale	Duration	Commences
Pre-Construction	3	Jun 2021
Construction	36	Sep 2021
Sale	43	Sep 2024
Total Duration	82	

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)	
Total Finance Cost	1,649,075

TOTAL COSTS

26,851,584

Bartons Road Havant- All Private 175 Units
No Commercial v1

PROFIT
5,695,791

Performance Measures

Profit on Cost%	21.21%
Profit on GDV%	17.50%
IRR% (without Interest)	19.52%

Bartons Road Havant- All Private 175 Units
No Commercial v2

Bartons Road Havant- All Private 175 Units No Commercial v2

Appraisal Summary for Phase 1 All Private 175 Units

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Block A 1 Bed Flat	57	25,023	394.65	173,250	9,875,250
Block A 2 Bed Flat	7	5,460	310.26	242,000	1,694,000
Block B 1 Bed Flat	19	8,322	395.55	173,250	3,291,750
Block B 2 Bed Flat	13	9,633	319.16	236,500	3,074,500
Block C 1 Bed Flat	34	15,028	391.97	173,250	5,890,500
Block C 2 Bed Flat	45	30,510	336.65	228,250	10,271,250
Totals	175	93,976			34,097,250

NET REALISATION

34,097,250

OUTLAY

ACQUISITION COSTS

Residualised Price (2.97 Acres @ 563,644.44 /Acre)		1,674,024	
			1,674,024
Agent Fee	1.00%	16,740	
Legal Fee	0.75%	12,555	
			29,295

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
Block A 1 Bed Flat	25,023	133.59	3,342,823	
Block A 2 Bed Flat	5,460	133.59	729,401	
Block A Common Areas	12,171	133.59	1,625,924	
Block A Undercroft	1,271	100.00	127,100	
Block B 1 Bed Flat	8,322	133.59	1,111,736	
Block B 2 Bed Flat	9,633	133.59	1,286,872	
Block B Common Areas	5,905	133.59	788,849	
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Contingency		5.00%	938,857	
Breakup Tarmac & Old Foundaton			83,094	
Decomination / Removal/Monitoring			100,000	
New Entrance Bellmouth			90,000	
S278 Costs			236,770	
Off Site Electric Upgrade			222,500	
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Solent Rec Mitigation 1 Bed	110 un	346.00 /un	38,060	
Solent Rec Mitigation 2 Bed	65 un	500.00 /un	32,500	
Nitrates Mitigation (PC Sum)	175 un	965.00 /un	168,875	
				20,040,884

Other Construction

Piled Foundations			347,600	
Part L of the Building Regulations	175 un	2,000.00 /un	350,000	
Balconies			360,000	
Externals Residential		5.00%	835,875	
New Entrance onto Martin Road			1	
Attenuation Resi Only			111,556	
Acoustic Fencing			30,795	
				2,035,827

PROFESSIONAL FEES

Professional Fees	8.00%	1,500,188	
			1,500,188

DISPOSAL FEES

Residential Sales & Marketing Suite		2.50%	852,431	
Sales Legal Fee Residential	175 un	1,000.00 /un	175,000	
				1,027,431

FINANCE

Timescale	Duration	Commences
Pre-Construction	3	Jun 2021
Construction	36	Sep 2021
Sale	43	Sep 2024
Total Duration	82	

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)	
Total Finance Cost	1,822,582

TOTAL COSTS

28,130,231

Bartons Road Havant- All Private 175 Units
No Commercial v2

PROFIT
5,967,019

Performance Measures

Profit on Cost%	21.21%
Profit on GDV%	17.50%
IRR% (without Interest)	18.97%