# Financial Viability Appraisal

| | |
|---|---|
| **Address:** | **Heath Buildings, High Street, Oxshott, Leatherhead, KT22 0JW** |
| **LPA:** | **Elmbridge Borough Council** |
| **Planning ref:** | **N/A** |
| **Client:** | **Wolsey House Group** |
| **Date:** | **31st March 2023** |

# Executive Summary

This report provides a Financial Viability Appraisal (FVA) of proposed development at Heath Buildings, High Street, Oxshott, Leatherhead, KT22 0JW. The process involves utilising Market Comparison and Residual Methods following RICS Guidance Valuation of Development Property (2019), Assessing Viability in Planning under the NPPF Framework (2021), and National Planning Policy Guidance on Viability (NPGV 2019), and complies with RICS professional standards and guidance Financial Viability in Planning: Conduct & Reporting.

Following NPGV para 008, wherever possible this FVA utilises assumptions used in the underlying local plan evidence base. Where changes have been made, these are fully supported by market evidence demonstrating current local circumstances.

The key outputs of this FVA are summarised in the below table:

*Option 1: Benchmarking to BCIS*

| | |
|---|---|
| GDV | £7,798,612.06 |
| Costs exc land and profit | £4,872,605.61 |
| Finance | £418,384.79 |
| Return | £1,504,751.12 |
| BLV | £1,500,000.00 |
| RLV | £1,002,870.55 |
| RLV-BLV | (£497,129.45) |
| Target profit | 20.00% |
| Actual profit | 13.39% |



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*Option 2: Applicant cost plan*

| | |
|---|---|
| GDV | £7,798,612.06 |
| Costs exc land and profit | £7,547,893.69 |
| Finance | £97,725.86 |
| Return | £1,504,751.12 |
| BLV | £1,500,000.00 |
| RLV | (£1,351,758.61) |
| RLV-BLV | (£2,851,758.61) |
| Target profit | 20.00% |
| Actual profit | -17.90% |
| Inclusive of grant funding | £2,095,000 |

Target developer return includes a risk-adjusted rate for market residential (20%). Sensitivity analysis demonstrates this is the minimum return necessary to offset the current risk environment.

Benchmark Land Value (BLV) is assessed via the EUV and AUV method where relevant in line with national policy. No premium has been added in this instance.

As such, this FVA demonstrates that, on a 100% open market basis, the benchmark land value exceeds the residual land value of the scheme. Therefore, the development cannot viably provide the targeted contributions.

Full appraisal inputs and evidence are found in the Schedules, referred to throughout.



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# Introduction

S106 Management is instructed by Wolsey House Group to produce a Financial Viability Appraisal (FVA) to determine the level of Affordable Housing contribution that can be viably delivered on proposed development at Heath Buildings, High Street, Oxshott, Leatherhead, KT22 0JW.

Elmbridge Borough Council seeks an Affordable Housing in accordance with Core Policy CS21 (adopted July 2011).

The existing site comprises Heath Buildings, five retail units with a total net area of 509.94m2.

This FVA is to be viewed in conjunction with a new application. The proposed development seeks to demolish the existing buildings and use the site to erect a block of flats containing 9 x units arranged over floors 1 to 3 and 4 x retail units at ground floor level. The development will provide in total 1,098m2 of residential accomodation and 447.5m2 of commercial accomodation.



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## Proposed Site Plan




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# S106 Management

**S106 Management** is a viability consultancy established in 2011. Formed initially to capitalise on 35 years of specialist experience in planning law, viability assessment and development, the company has expanded over the last 10 years and now benefits from the expertise of chartered surveyors, town planners, solicitors, architects and an extensive network of planning professionals.

With over a decade of experience in creating expert financial viability appraisals, advising on complex planning obligations, and negotiating with local authorities, **S106 Management** has often been at the forefront of planning viability matters. The company is now one of the most effective and experienced specialist viability consultancies in the UK, combining expertise from all corners of the industry and benefiting from a considerable evidence base of several thousand development appraisals countrywide.



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# Planning Policy

By virtue of section 38 (6) of the Planning and Compulsory Purchase Act 2004, planning applications must be determined in accordance with the adopted plan of the Local Authority, unless material considerations indicate otherwise.

Therefore, the policy starting point is CS21 of the Elmbridge Core Strategy (adopted July 2011):

> **CS21 - Affordable housing**
>
> The Council will aim to deliver at least 1150 affordable homes between 2011-2026.
>
> In the event that overall housing targets are exceeded, the target for affordable housing delivery will rise proportionately.
>
> The Council will require provision of affordable housing in accordance with the following, where viable:
>
> - 40% of the gross number of dwellings on sites of 15 dwellings or more
> - 30% of the gross number of dwellings on sites of 6 – 14 dwellings
> - 20% of the gross number of dwellings on sites of 5 dwellings
> - A financial contribution equivalent to the cost of 20% of the gross number of dwellings on sites of 1 – 4 dwellings.
>
> Where exceptionally development is proposed on a greenfield site[44], at least 50% of the gross number of dwellings should be affordable on any site of 15 dwellings or more.
>
> A target of at least 50% will apply to public land, regardless of the number of dwellings proposed. [45]
>
> On-site provision will be expected for sites of 5 or more dwellings. Only in exceptional circumstances will an alternative to on-site provision be appropriate.
>
> The target tenure mix of affordable housing and housing types and sizes shall be in accordance with those identified in the most up to date SHMA or SPD.[46]

CS21 suggests that developments of 6 - 14 dwellings should provide a financial contribution equivalent to 30% of the gross number of dwellings.

The purpose of this FVA is to determine whether the development is capable of supporting the targeted contribution.

This policy has been informed by the 'Elmbridge Borough Council Local Development Framework Viability Study' (hereafter referred to as the FVS), completed on behalf of the council in May 2009. A more recent study has been undertaken by DSP (2022) to inform the draft local plan.

PPG Viability para 008 states:

> ***'How should a viability assessment be treated in decision making?***
>
> *Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then.'*

This creates a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties, with the burden of proof relating to what changes have occurred since adoption of the local plan applicable to all parties.

As such, where appropriate the conclusions of the underlying local plan evidence base are used to inform our report and corroborate assumptions. Where we believe changes must be made these are fully evidenced.

National Guidance is a material consideration; therefore, we also consider the 'National Planning Policy Framework' (NPPF) (2021), and the 'National Planning Guidance for Viability' (NPGV) (May 2019).



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## National Guidance

National guidance on the delivery of Affordable Housing is provided by the NPPF.

Paragraphs 57, 58 and 64 of the NPPF are of relevance:

57. Planning obligations must only be sought where they meet all of the following tests[26]:

    a) necessary to make the development acceptable in planning terms;

    b) directly related to the development; and

    c) fairly and reasonably related in scale and kind to the development.

58. Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.

64. Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount[30].

The recommended approach referred to above is set out in the NPGV (https://www.gov.uk/guidance/viability).

The standard approach to viability is explained at para. 10 of the NPGV:

> ***'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.'***



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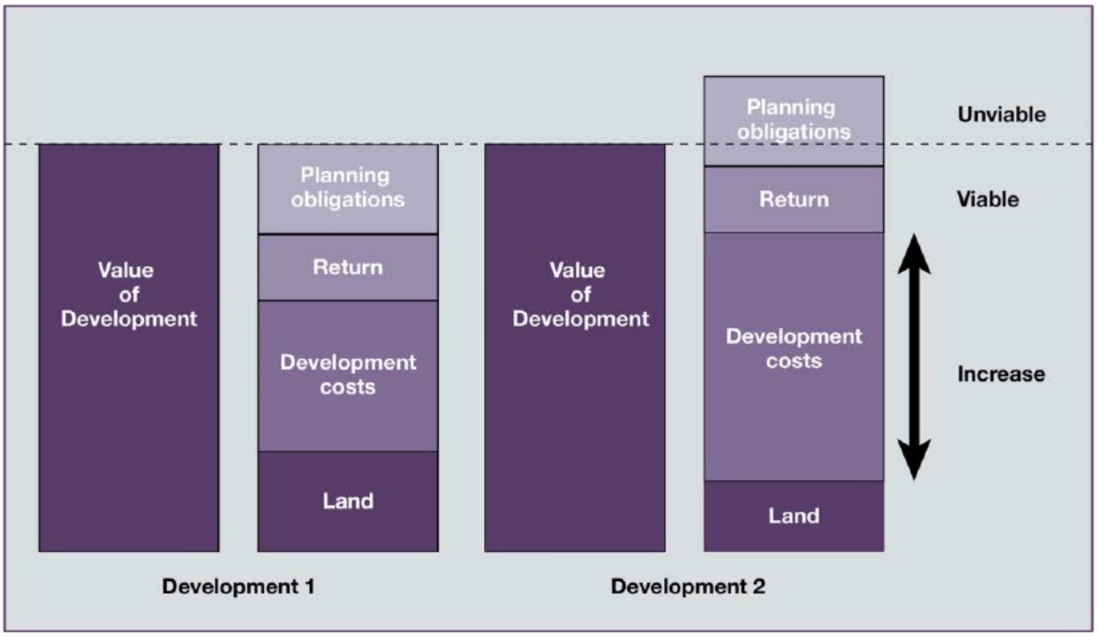
This is summarised well in the below figure from RICS guidance:




Paragraphs 11-18 lay out the required approach to calculating gross development value (GDV), development costs, benchmark land value, landowner and developer return.

The concept of viability is well expressed by the NPGV, in particular para 12 which sets out the costs that should be included in any viability statement, and paras 13-17 which seek to ensure that the landowner should receive the Existing Use Value (EUV) of the site plus a premium, thus providing an incentive to the landowner to bring the site forward for development.

Our report has been written in accordance with the principles set out in both the NPPF, and the NPGV.



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## Particular Circumstances

Both RICS guidance and PPG Viability note that particular circumstances must justify the need for a site-specific viability assessment. These circumstances are broad, with a non-exhaustive list provided by the PPG.

> *'Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.'*
>
> *PPG Viability para 007*

The particular justification for this site-specific viability assessment is that significant economic changes have occurred since the plan was brought into force.

Following the RICS guidance:

**3.10.3** The main differences in FVAs for decision taking, compared to for plan making, are that:

- the level of planning requirements has been determined in the plan
- the site will be identified
- the scheme will be specified in more detail
- any abnormal costs can be identified, including any remediation costs and related land remediation relief tax allowances that may be available, and any costs incurred in readying the site for development, and
- the evidence base can be more specifically related to the actual site (where the site was not assessed at the plan-making stage).

In many cases due to the lifecycle of the local plan it has often been many years since the last area-wide study was completed, meaning that the data underlying the adopted policy may require updating to accurately model changes to local markets.



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# Viability

The relevance of viability is accepted in Core Policy CS21 which states:

**Financial viability**

Developers and landowners are expected to consider the overall cost of development, including the required planning obligations and any abnormal costs, prior to negotiating the sale or purchase of land or the acquisition or sale of an option. The affordable housing should be provided through private subsidy, and where economically justified, a public subsidy.

In the exceptional circumstances where it is considered that the delivery of affordable housing in accordance with the policy is unviable, this must be demonstrated through the submission of a financial appraisal alongside a planning application. The Council's 'Validation Checklist' will be updated to reflect this as a local requirement for validating planning applications. The Council will also require the applicant to pay for an independent review of the information submitted. If the Council is satisfied that affordable housing cannot be provided in accordance with the policy, it will seek to negotiate alternative provision.

This policy statement should be seen in the context of the NPPF, and indeed subsequent Government guidance.

There are several proprietary toolkits in use to justify viability. We use the Housing Corporation Economic Appraisal Tool (HCEAT); and Argus Developer.

Our report and its conclusions are based on the application of this tool.

The next section sets out the assumptions that have been made in the preparation of the viability toolkit examining the viability of this site; the toolkit is shown in **Schedule 1** of this report. The comments below address the inputs to the toolkit sequentially and an electronic copy can be provided to the LPA on request.



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# Toolkit Inputs

## Proposed Development

The residential element of the development is summarised by the table below (plans are shown at **Schedule 2** to this report):

| Unit | Area (m2) | Floor - Type |
|---|---|---|
| 1 | 92.74 | 1F - 2-bed flat |
| 2 | 99.01 | 1F - 2-bed flat |
| 3 | 99.01 | 1F - 2-bed flat |
| 4 | 92.74 | 1F - 2-bed flat |
| 5 | 92.74 | 2F - 2-bed flat |
| 6 | 99.01 | 2F - 2-bed flat |
| 7 | 99.01 | 2F - 2-bed flat |
| 8 | 92.74 | 2F - 2-bed flat |
| 9 | 167.60 | 3F - 3-bed flat |
| **Total Resi. GIA (m2)** | **934.60** | |
| **Total Resi. Net Area** | **1,098.19** | |
| **Avg. Resi. Size (m2)** | **103.84** | |

The unit mix comprises 8 x 2-bedroom flats and 1 x 3-bedroom flat located at the top floor. The total residential net area is 1,098.19m2, including 163.6m2 of communal areas and the average flat size is 103.84m2.

## Affordable Housing Values

We approach this issue by firstly modelling a scheme with no Affordable Housing; if the Residual Value of this model exceeds the Benchmark Value of the site (as described below) producing a surplus profit, then we produce a second model to illustrate the maximum level of Affordable Housing that can viably be delivered by the development.



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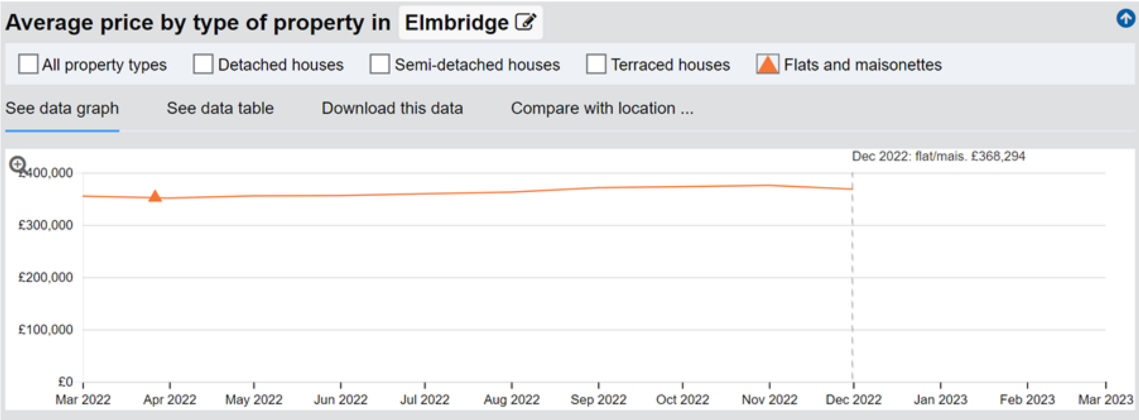
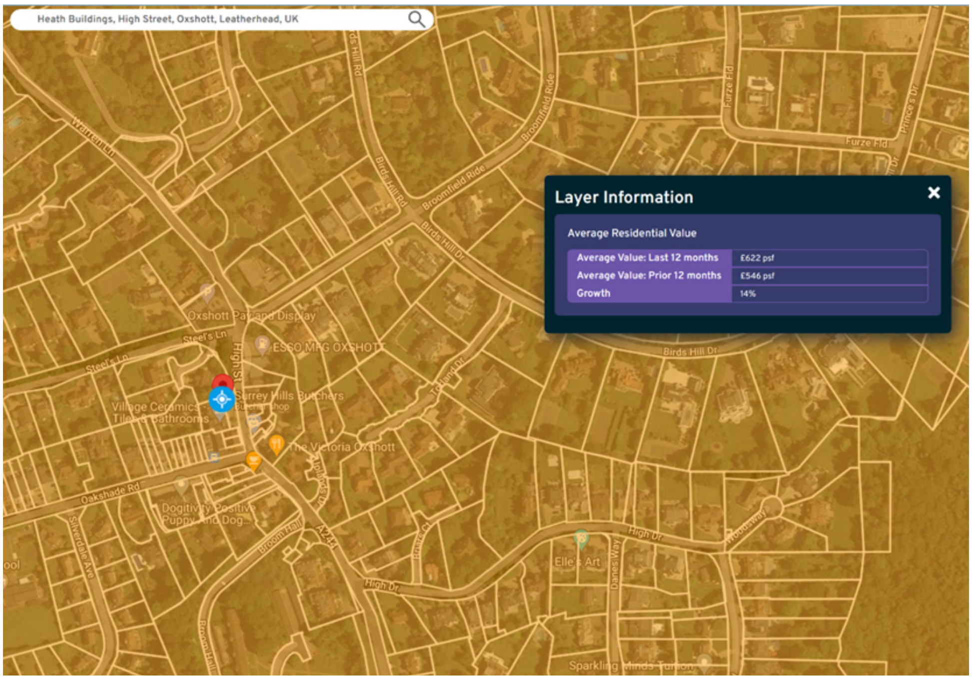
## Open Market Housing Values

Land Registry data for Elmbridge suggests the following average values for flats:




Nimbus suggests the following data:







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This suggests an average open market value (last 12 months.) for properties in the immediate area of £6,695.208/m2 or £622/sq.ft.

We have further consulted the original local plan viability study which notes the following assumptions for value at appendix XI (page 30).

| Property Type | Value Point 1 | Value Point 2 | Value Point 3 | Value Point 4 | Value Point 5 |
|---|---|---|---|---|---|
| 1-Bed Flat @ 50 m² | £125,000 | £162,500 | £200,000 | £237,500 | £275,000 |
| 2-Bed Flat @ 67 m² | £167,500 | £217,750 | £268,000 | £318,250 | £368,500 |
| 2-Bed House @ 75 m² | £187,500 | £243,750 | £300,000 | £356,250 | £412,500 |
| 3-Bed House @ 85 m² | £212,500 | £276,250 | £340,000 | £403,750 | £467,500 |
| 4-Bed House @ 100 m² | £250,000 | £325,000 | £400,000 | £475,000 | £550,000 |
| **£/m² guide** | £2,500 | £3,250 | £4,000 | £4,750 | £5,500 |

The viability study considers property values across 5 value points, depending on the area.

Therefore, for 2-bed flats averaging 67m2 the lowest suggested value is £167,500 (£2,500/m2) and the highest suggested value is £368,500 (£5,500/m2). No values are proposed for 3-bed flats.

However, we note this information is from 2009 and therefore will require updating for current market conditions.

The more recent 2022 study suggests the following values:

> 2.6.5 Overall, the data indicates that although there is variation in the market across the borough, typical new build values fall within a relatively narrow range of between £5,250 - £6,250/sq. m compared to the overall new build range across all areas of between approximately £4,750/sq. m to £7,500/sq. m. Appendix III provides more detail and as with all data, there are variations to this with specific properties and areas sometimes showing higher or lower values than discussed here.



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## Transactional Data

We have compared this data to relevant recent 'sold' transactions extrapolated from Rightmove (see **Schedule 3**). Values are extremely sensitive to small changes in search area; therefore, we have limited our transactional search to within 1 year and 1 mile of the scheme.

| *SOLD Flats- within 1 Year, 1 Mile* | | | | | |
|---|---|---|---|---|---|
| **Address** | **Type** | **Sale Date** | **Area (m2)** | **£/m2** | **Price** |
| 34, Gunters Mead, Oxshott, Leatherhead, Surrey, KT22 0PD | Ground-floor flat | 04.10.2022 | 57.00 | £3,771.93 | £215,000 |
| Ash Court, 6, The Warren, Oxshott, Leatherhead, Surrey, KT22 0SB | Top-floor flat | 15.08.2022 | 78.00 | £9,294.87 | £725,000 |
| Maple Court, 25, The Gables, Oxshott, Leatherhead, Surrey, KT22 0SD | Ground-floor flat | 07.07.2022 | 103.00 | £5,631.07 | £580,000 |
| 64, Gunters Mead, Esher, Surrey, KT10 9HJ | Top-floor flat | 10.05.2022 | 65.00 | £2,461.54 | £160,000 |
| 9, Gunters Mead, Esher, Surrey, KT10 9HJ | Ground-floor flat | 31.03.2022 | 56.00 | £3,571.43 | £200,000 |
| 12, Halcyon Close, Oxshott, Leatherhead, Surrey, KT22 0HA | Top-floor flat | 15.03..2022 | 49.00 | £2,142.86 | £105,000 |
| | | | **Avg. £/m2** | **£4,865.20** | |

The average achieved prices are lower than the average data noted above. This is due to the fact that this data is compiled from across the postcode and typologies. More granular data presents a more accurate picture.



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We have also studied properties which are currently on the market:

| *Flats For Sale within 1/2 Mile* | | | | | |
|---|---|---|---|---|---|
| **Address** | **Type** | **Sale Status** | **Area (m2)** | **£/m2** | **Price** |
| Broom Hall, Oxshott, KT22 | 3-bedroom maisonette, private south facing balcony, 2 separate private garages, landscaped communal grounds, communal parking | For Sale | 115.70 | £4,969.75 | £575,000 |
| Broom Hall, Oxshott, KT22 | 3-bedroom maisonette, private south facing balcony, 2 separate private garages, landscaped communal grounds, communal parking | For Sale | 118.20 | £5,076.14 | £600,000 |
| The Gables, Oxshott, KT22 | 3-bedroom apartment, land-scaped wooded grounds, private double garage in block, private balcony | For Sale | 113.40 | £6,128.75 | £695,000 |
| Webster Close, Cobham, Surrey, KT22 | 2-bedroom maisonette, private front and rear gardens | Under Offer | 67.00 | £5,507.46 | £369,000 |
| Broom Hall, Oxshott, KT22 | 3-bedroom maisonette in need of full refurbishment, private balcony | Under Offer | 116.30 | £3,869.30 | £450,000 |
| Lyfield, Oxshott, KT22 | 2-bedroom apartment in need of modernisation, allocated private storage | Sold STC | 49.30 | £5,070.99 | £250,000 |
| Canterbury Mews, Oxshott, KT22 | 1-bedroom apartment, private outside space, allocated parking spaces | Sold STC | 46.20 | £7,251.08 | £335,000 |
| The Warren, Oxshott, KT22 | Modern 3-bedroom apartment, garage in separate block, residents parking, private garden terrace | Sold STC | 99.00 | £7,323.23 | £725,000 |
| | | | **Avg. £/m2** | **£5,515.10** | |



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Furthermore, we have reviewed new-build data.

| *New Build Flats For Sale within 1/4 Mile* | | | | | |
|---|---|---|---|---|---|
| **Address** | **Type** | **Sale Status** | **Area (m2)** | **£/m2** | **Price** |
| Opus Court, Leatherhead, Surrey, KT22 | New build 2-bedroom apartment, communal gardens, parking available | For Sale | 62.00 | £5,644.35 | £349,950 |
| Leatherhead, KT22 | New build 2-bedroom apartment, private balcony, private parking | For Sale | 68.82 | £5,594.30 | £385,000 |
| Opus Court, Leatherhead | New build 2-bedroom apartment, communal gardens, parking available | For Sale | 62.00 | £5,644.35 | £349,950 |
| Cleeve Road, Leatherhead | 2/3-year-old new build studio apartment, allocated parking | For Sale | 33.30 | £6,306.31 | £210,000 |
| Leatherhead, KT22 | New build 2-bedroom apartment, private balcony, private parking | For Sale | 73.74 | £5,356.66 | £395,000 |
| 4 Treetops Apartments | New build 1-bedroom apartment, large private balcony, allocated parking | For Sale | 69.20 | £5,563.58 | £385,000 |
| Garlands Road, Leatherhead, KT22 | New build 2-bedroom apartment, private garden, allocated parking | For Sale | 77.00 | £6,948.05 | £535,000 |
| Sienna Close, Chessington, Surrey, KT9 | New build 2-bedroom maisonette | For Sale | 64.30 | £5,442.46 | £349,950 |
| Sienna Close, Chessington | New build 2-bedroom maisonette | For Sale | 66.00 | £5,302.27 | £349,950 |
| | | | **Avg. £/m2** | **£5,742.59** | |

The average £/m2 values and GIAs from the data sets above are summarised below:

| | **Nimbus (Gen-** | **Sold** | **For Sale** | **NB For Sale** |
|---|---|---|---|---|
| ***Avg. £/m2 values - Flats*** | £6,695.21 | £4,865.20 | £5,515.10 | £5,742.59 |
| | **Sold** | **For Sale** | **NB For Sale** | **As Proposed** |
| ***Avg. GIA (m2) - Flats*** | 68.00 | 90.64 | 64.04 | 103.84 |

In addition we have recently concluded several appraisals in Elmbridge which demonstrated values of c. £5,700-6,300/m2.



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Average asking prices are inflated when compared to wider achieved values and the dataset supplied by Nimbus, suggesting asking prices are unlikely to be achieved Consultation with local agents suggests prices are often being discounted 5-10% in the current market. Halifax and Nationwide are both reporting several subsequent months of falling house prices in Q4 2022. Savills predicts an average 10% contraction in house prices UK wide, while JLL suggest a more modest 6% fall.

***Garlands Road (New Build for Sale)*** - this 2-bedroom flat is located within c. 0.25 miles from the subject site and is most similar in terms of size to the proposed smallest 2-bedroom flats at 92.74m2. This is currently on the market for £535,000 (£6,948.05/m2) The property is also new build however and we therefore expect the proposed units mentioned to achieve a similar value.

***Broom Hall (For Sale)*** - this 3-bedroom flat is located within c. 0.5 miles from the subject site and is most similar in terms of size to the proposed 3-bedroom flat located at the top floor. The property is currently on the market for £600,000 (£5,076.14/m2). However, the property is c. 41.5% smaller than the proposed top floor flat and hence we expect this to achieve a higher sale price

We have had particular regard to these transactions when valuing the proposed units.

We have valued the scheme as per the table below:

| Unit | Area (m2) | Type | £/m2 | Sales Price (£) |
|---|---|---|---|---|
| 1 | 92.74 | 1F - 2-bed flat | £6,200.13 | £575,000 |
| 2 | 99.01 | 1F - 2-bed flat | £6,059.99 | £600,000 |
| 3 | 99.01 | 1F - 2-bed flat | £6,059.99 | £600,000 |
| 4 | 92.74 | 1F - 2-bed flat | £6,200.13 | £575,000 |
| 5 | 92.74 | 2F - 2-bed flat | £6,200.13 | £575,000 |
| 6 | 99.01 | 2F - 2-bed flat | £6,059.99 | £600,000 |
| 7 | 99.01 | 2F - 2-bed flat | £6,059.99 | £600,000 |
| 8 | 92.74 | 2F - 2-bed flat | £6,200.13 | £575,000 |
| 9 | 167.60 | 3F - 3-bed flat | £5,369.93 | £900,000 |
| | | | **Total GDV (£)** | **£5,600,000** |
| | | | **Avg. Resi. £/m2** | **£5,991.8682** |



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The proposed valuation above has been reached following extensive market research, consideration of comparable characteristics in recent transactions, new build and external amenity premiums and advice from local agents and therefore should be considered robust. The figures represent the very top end of what can be achieved in today's market and considering current trends should be considered optimistic.

## Freehold Ground Rent

The capital value of the Freehold Ground Rents from the project is therefore included at zero for the purposes of this viability appraisal. The Leasehold Reform (Ground Rent) Bill received Royal Assent on 8 February 2022 meaning it is now an Act of Parliament (law).

The Act limits ground rent to a 'peppercorn rent.'

As such all-viability assessors are currently including ground rent at either a zero or nominal rate as this income will not be realised.

## Timing

This FVA is to be read in conjunction with a detailed planning application which we expect to be granted within 3 months. There will be a 3-month period following this to produce building regs. drawings and obtain all fixed price quotations. We therefore allow a 6 month pre-commencement period.

Construction is projected over a 12-month period with sales at months 10-15

## Construction Costs

The below commentary is drawn from the most recent BCIS update.

Wide predictions of a forthcoming recession combined with persistent high inflation provides a bleak outlook for construction over the next two years. Construction demand is expected to shrink, and with fewer opportunities there will be greater keenness to secure work. Although materials prices will fall long term, in the short term, current inflationary pressures are expected to keep labour costs rising resulting in increases in both



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costs and tenders. Tender prices will be rising more slowly than input costs over the next two years as contractors seek to fill order books and it is not until the last two years of the BCIS forecast period that margins and output are expected to recover.

Building costs as measured by the BCIS General Building Cost Index rose 12.7 in the year to Q3 2022 but are forecast to slow to approximately 2.5% per annum over the rest of the forecasted period. Although, in 2022 the increase in building costs was mainly driven by escalating costs of materials, going forward, labour is expected to be the main driver.

RICS released further advice in December 2022:

- *Tender prices in 4Q2022 rose by 1.1% compared with the previous quarter, and by 7.6% on an annual basis. Economic uncertainty will make contractors keen to tender, however, it also increases their risk of delivery. Although labour site rates are rising faster than wage awards, supply issues with materials have largely been resolved. Tender prices are likely to be suppressed in the first two years of the forecast due to reduced demand. It is not until the last two years of the forecast period that tender prices are likely to rise faster than basic costs, with tender prices forecast to rise by 13% in the five years to 4Q2027.*
- *Materials prices rose by 2.3% in 3Q2022 compared with the previous quarter, and by 18.5% compared with a year earlier. Some materials prices are easing (timber, steel, metals); however, soaring energy costs will result in escalating prices for energy-intensive construction materials.*
- *Wage awards over the next year will come under pressure from high inflation. Some of the 2% and 3% increases already agreed for 2023 may be renegotiated. Wage awards will peak in 2023 and the average annual wage awards over the forecast period will be around 3.5% per annum. Site rates have already risen in line with inflation and may steady in 2023. This will be reflected in the market conditions element of the TPI.*
- *The BCIS General Building Cost Index rose by 2.3% in 3Q2022 compared with 2Q2022, and by 12.7% compared with 3Q2021. Costs will rise by 13% over the forecast period (4Q2022 to 4Q2027).*
- *Total new work output increased by 2.4% in 3Q2022 compared with the previous quarter and by 5.7% compared with a year earlier. New construction output is expected to contract in 2023-2024, before returning to growth thereafter, and rising 5% over the forecast period (2022-2027).*



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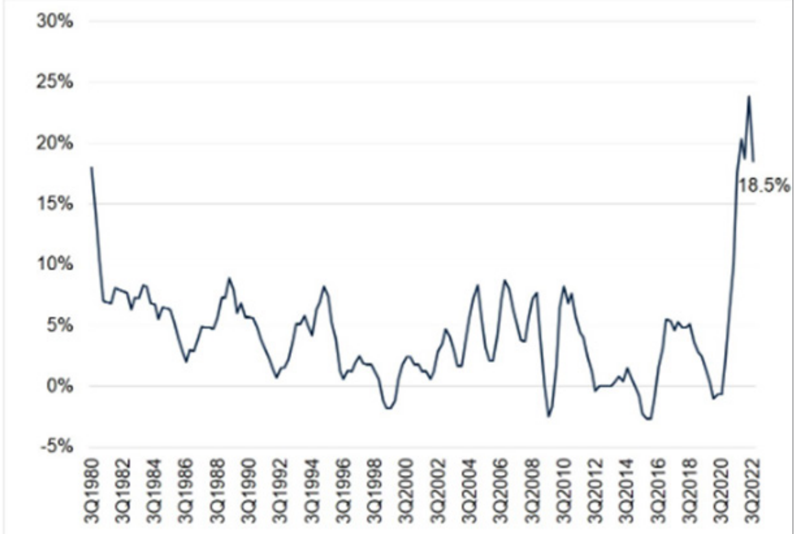
Figure 11: Annual growth in BCIS Materials Cost Index




Source: BCIS

Therefore, while there are initial positive signs, and some predictions of a more competitive environment driving pricing into 2023, overall build costs continue to increase at the current time.

The local plan viability study adopts a base build cost of £1,250/m2 for flatted schemes up to 4-storeys; however, this was in a very different economic environment.

The applicant has provided a detailed construction cost plan for this project, produced by Castellum. The full report is shown at **Schedule 4** and is also summarised below for ease of reference:

| | Item | Cost (£) |
|---|---|---|
| *Substructures* | | |
| A1 | Basement incl. ground floor slab | £1,599,609.45 |
| A2 | Waterproofing system | £0.00 |
| *External Works* | | |
| B1 | Site clearance | £2,500.00 |
| B2 | Demolitions/asbestos removal | £115,000.00 |
| B3 | Tree works | £5,000.00 |



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| | | |
|---|---|---|
| B4 | Garden cut & fill | £0.00 |
| B5 | Surface water drainage | £0.00 |
| B6 | Foul water drainage | £0.00 |
| B7 | Crossover | £5,000.00 |
| B8 | Hard landscaping | £107,100.00 |
| B9 | Soft landscaping | £30,000.00 |
| B10 | Tennis court | £0.00 |
| B11 | Irrigation system | £0.00 |
| B12 | Entrance gates & decorative piers | £18,000.00 |
| B13 | Decorative railings | £0.00 |
| B14 | Fencing and walls | £5,360.00 |
| ***Services*** | | |
| C1 | Builders work in connection with services | £5,500.00 |
| C2 | Gas mains | £15,500.00 |
| C3 | Electric mains | £21,500.00 |
| C4 | Water mains | £19,950.00 |
| ***Shell and Core*** | | |
| D1 | Scaffolding | £65,000.00 |
| D2 | Bricklaying | £305,509.88 |
| D3 | Decorative stonework | £100,000.00 |
| D4 | Structural steels | £63,000.00 |
| D5 | Fire applications to steelwork | £4,500.00 |
| D6 | PCC upper floors | £113,978.02 |
| D7 | Diamond drilling for service penetrations | £5,000.00 |
| D8 | Roofing carpentry | £35,000.00 |
| D9 | Pitched roof coverings | £35,000.00 |
| D10 | Flat roofing coverings | £64,350.00 |
| D11 | Leadworks | £42,500.00 |
| D12 | External windows, doors & specialist roof | £264,100.00 |
| D13 | Render | £0.00 |
| D14 | Decorative balustrades | £58,625.00 |



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| | | |
|---|---|---|
| D15 | Rainwater goods | £28,650.00 |
| ***Internal Fit-Out*** | | |
| E1 | Under floor heating | £21,776.35 |
| E2 | Screed and structural toppings | £56,157.25 |
| E3 | Plumbing & heating | £218,500.00 |
| E4 | Ventilation & coolings | £0.00 |
| E5 | Building management system | £0.00 |
| E6 | Re-newable energy system | £15,000.00 |
| E7 | Electrical installations | £270,500.00 |
| E8 | AV installations | £141,750.00 |
| E9 | Security & fire installations | £41,500.00 |
| E10 | Swimming pool and leisure facilities | £21,500.00 |
| E11 | Passenger lift | £70,000.00 |
| E12 | Carpentry 1st fix, 2nd fix and 3rd fix | £203,000.00 |
| E13 | Plastering, partitions & suspended ceilings | £292,465.26 |
| E14 | Specialist cornices | £28,360.00 |
| E15 | Kitchen furniture, appliances, worktops & | £145,000.00 |
| E16 | Sanitaryware & brassware | £42,000.00 |
| E17 | Shower enclosures | £13,500.00 |
| E18 | Staircases | £40,000.00 |
| E19 | Specialist fireplaces | £0.00 |
| E20 | Specialist joinery | £188,000.00 |
| E21 | Painting & decorating | £104,000.00 |
| E22 | Natural stone & ceramic coverings | £86,940.00 |
| E23 | Wood & carpeted floor coverings | £50,360.00 |
| E24 | Specialist resin floor finish | £0.00 |
| E25 | Glassworks and mirrors | £13,500.00 |
| E26 | Garage doors | £0.00 |
| E27 | Car lift & turntable | £0.00 |
| E28 | Mastic pointing | £13,500.00 |
| E29 | Builders cleaning | £22,500.00 |



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| *Preliminaries* | | |
|---|---|---|
| F1 | Site running costs | £560,710.00 |
| *Associated Fees* | | |
| G1 | Investigation, H&S and associated fees | £75,700.00 |
| | | |
| | **Main contractor OHP @ 10%** | **£587,145.12** |
| | **Other design fees** | **£222,000.00** |
| | **GRAND TOTAL** | **£6,680,596.33** |

This cost plan is inclusive of externals – which we split out below – and fees, which we have not allowed for separately.

The total base build of £6,330,275 equates to a £/m2 considerably above the BCIS upper quartile.

## Results

› Rebased to 2Q 2023 (382; forecast) and Elmbridge ( 121; sample 18 ) Edit

### £/m2 study

**Description:** Rate per m2 gross internal floor area for the building Cost including prelims.
**Last updated:** 11-Mar-2023 05:56

**Maximum age of results:** Default period

| Building function (Maximum age of projects) | £/m² gross internal floor area Mean | Lowest | Lower quartiles | Median | Upper quartiles | Highest | Sample |
|---|---|---|---|---|---|---|---|
| **New build** | | | | | | | |
| **345. Shops** | | | | | | | |
| Generally (30) | 2,210 | 814 | 1,175 | 1,808 | 2,833 | 5,661 | 19 |
| 1-2 storey (30) | 2,233 | 814 | 1,174 | 1,886 | 2,862 | 5,661 | 18 |
| **816. Flats (apartments)** | | | | | | | |
| Generally (15) | 2,112 | 1,050 | 1,754 | 1,994 | 2,378 | 7,282 | 856 |
| 1-2 storey (15) | 2,011 | 1,248 | 1,692 | 1,898 | 2,245 | 4,146 | 183 |
| 3-5 storey (15) | 2,079 | 1,050 | 1,747 | 1,985 | 2,355 | 4,440 | 574 |
| 6 storey or above (15) | 2,508 | 1,542 | 2,052 | 2,348 | 2,686 | 7,282 | 96 |



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As such we have modelled two options – an benchmarking exercise based on the BCIS upper quartile cost, and an assessment including the applicant's detailed build cost plan.

Our modelling has been run with a corresponding correction factor.

## Non-BCIS Costs

As mentioned previously, the BCIS data makes no allowance for all external works and associated infrastructure costs, and as it is reported in retrospect will not account for newer policy and legislation such as biodiversity and enhanced building regulations.

In this case, the external works costs are incorporated in the overall cost, as per the report shown at **Schedule 4.**

For our benchmarking exercise we have adopted a standard assumption of 15% of the base build cost for external works.

The toolkit has been run with a corresponding figure.

## Fees

Professional fees are often quoted on a range of 8-12%, with separate allowances for planning fees.

The local plan viability study adopts 3.5% for Architect Fees and 3.0% for Consultants fees (6.5% total) as a broad category – this is not differentiated by site type.

This will vary according to the size and complexity of the scheme. We normally adopt 6-8% for large sites (with repetitive designs and no complicating factors), 10-12% for more differentiated sites (with a variety of different house types or areas) and 10-15% for small sites, where the scale of the fees is often larger due to the lower overall cost of build and lack of potential efficiencies.

We have adopted a figure of 10% for this scheme on the basis of 9 x flats and 1,098.18m2 size of scheme.



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The applicant's cost plan includes a detailed breakdown of fees, and this is included within the £/m2 rate for the total development. We have not therefore included a separate allowance for this in the cost plan version of our assessment.

## Contingency

PPG Viability para 012 notes:

> *Explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return.*

Inflation is currently at 10.4%, which given the early stage of this assessment (pre-planning consent) is a material long-term risk. All prudent developers are currently adopting a standard contingency allowance of 6-12% to account for this risk. While general risk is accounted for in the project's target return, the lower the return assumption the higher the contingency adoption should be, ensuring an operating profit is retained in all instances.

In this case we adopt 6% on the basis of a 20% target return. If the target return is reduced, then the contingency allowance must likewise be adjusted to compensate.

## Planning Obligations (S106 Contributions & CIL)

Elmbridge Borough Council adopted their CIL Charging Schedule in February 2013 and updated it in July 2020. We have calculated the CIL payment as below, accounting for indexation.

| | Residential CIL |
|---|---|
| Adopted Charging Schedule (£/m2) | £186.38 |
| Following indexation (£/m2) | £214.05 |
| Total proposed GIA (m2) | 1,098.19 |
| Existing GIA (m2) | 0.00 |
| Retained GIA (m2) | 0.00 |



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| | |
|---|---|
| Lost GIA (m2) | 0.00 |
| Applicable GIA (m2) | 1,098.19 |
| **CIL (total)** | **£235,073** |

| | **Commercial CIL** |
|---|---|
| Adopted Charging Schedule (£/m2) | £74.55 |
| Following indexation (£/m2) | £85.62 |
| Total proposed GIA (m2) | 447.50 |
| Existing GIA (m2) | 200.00 |
| Retained GIA (m2) | 0.00 |
| Lost GIA (m2) | 200.00 |
| Applicable GIA (m2) | 247.50 |
| **CIL (total)** | **£21,191** |

We therefore adopt a total CIL sum of £256,264. This is subject to confirmation by the charging authority.

According to the Local Plan Viability Study, the following allowances are made for additional S106 contributions in addition to the onsite affordable housing contribution:

- Education (Primary) - £2,262 per 2-bed dwelling and £3,225 per 3-bed dwelling
- Education (Secondary) - £2,489 per 2-bed dwelling and £3,549 per 3-bed dwelling
- Transport - £1,804 per 2-bed dwelling and £2,573 per 3-bed dwelling
- Libraries - £162 per 2-bed dwelling and £231 per 3-bed dwelling
- Playing Pitches - £136 per 2-bed dwelling and £193 per 3-bed dwelling
- Equipped Playspace - £1,014 per 2-bed dwelling and £1,446 per 3-bed dwelling
- Community Facilities - £264 per 2-bed dwelling and £377 per 3-bed dwelling
- Recycling - £58 per 2-bed dwelling and £83 per 3-bed dwelling
- Environmental Improvements - £440 per 2-bed dwelling and £628 per 3-bed dwelling

When applying the rates suggested above, the total S106 contribution sought from the development is £81,337. However we have not modelled this estimate in the first instance subject to confirmation by the local authority.

The toolkit has been run with the corresponding figure.



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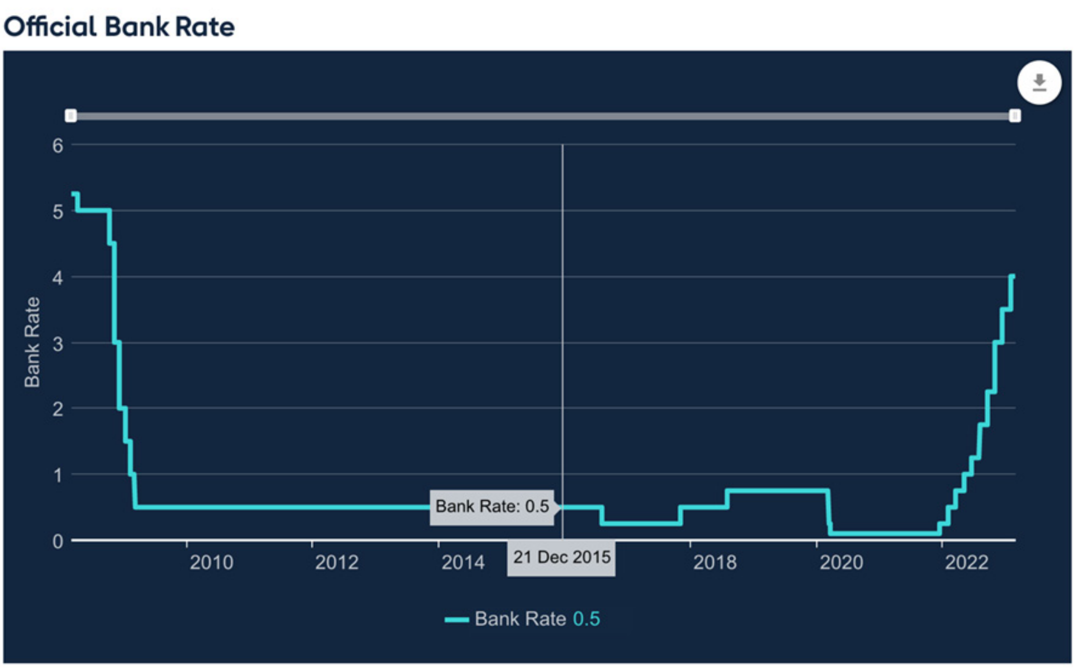
## Site Acquisition Costs

The EUV is £1,500,000 as explained below. We have included acquisition costs comprised of SDLT at 5%, legal fees at 0.75% and agency fees of 1%.

## Finance Costs

Given the macro-economic context, lenders have become increasingly risk adverse and therefore funding is becoming harder to acquire. The Bank of England raised the base rate to 4% in March 2023, with further rate rises currently suggested throughout 2023. The local plan viability study in 2009 adopted 7%. The base rate at that date was 0.5%. The base rate has increased by 3.5% since this date.



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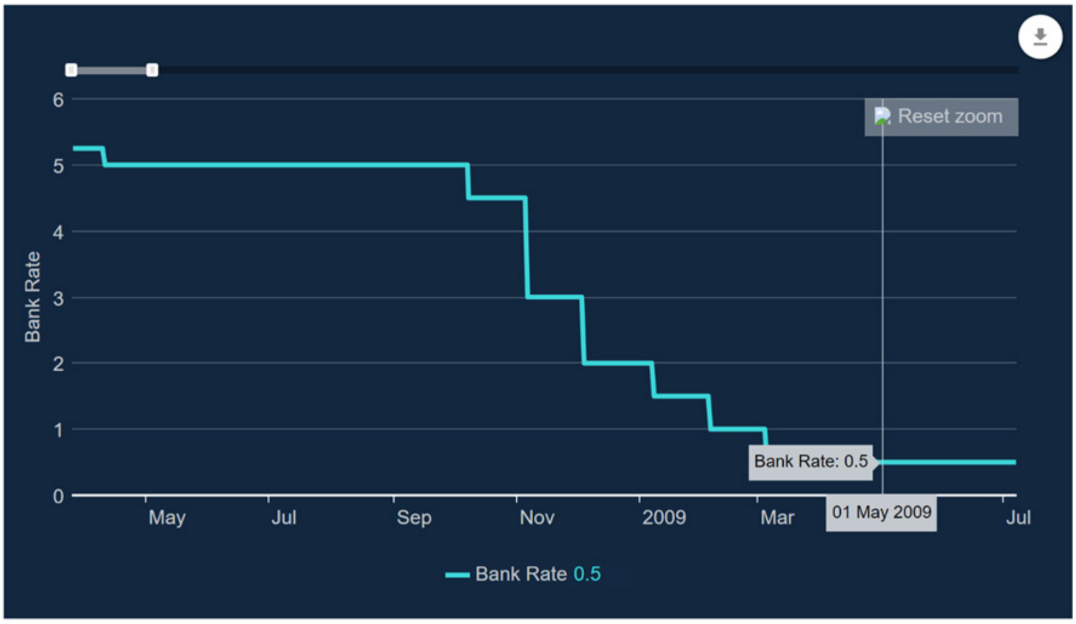
Official Bank Rate




Therefore, a minimum interest figure of 8% is appropriate, and has been used in the toolkit. In reality finance deals are now significantly exceeding this level, but as an all-in rate 8% accommodates all fees and is applied to all costs.

## Sales/Marketing Costs

The most recent local plan viability study adopts the following inputs:

| | |
|---|---|
| Marketing Costs | 3% of GDV sales agent & marketing fees<br>£750/unit legal fees |

Generally, we would assume sales agents' fees at 1.5%, legal fees at 0.5% and marketing/promotion at 2% for housing schemes including a show home and 1% for marketing without a show home.

In this instance however, we have adopted a sales/marketing cost of 3% and legal fees of £750 per unit, as suggested by the local plan viability study.



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## Developer Profit

The NPGV contains the following advice at paragraph 18:

> ***How should a return to developers be defined for the purpose of viability assessment?***
>
> *'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.'*

The RICS guidance similarly notes the test laid out in the PPG as a starting point.

> ### Return to the developer
>
> **4.2.27** In paragraph 018, under the heading of 'Standardised inputs to viability assessment', the PPG provides some guidance on how a return to developers is defined for the purposes of the FVA. The paragraph's focus is on a suitable return for plan making, rather than individual returns for scheme-specific decision taking. It identifies a standardised input of 15% to 20% of GDV as a suitable return for the purpose of plan making, but is silent on a decision-taking developer return. However, PPG paragraph 008 states that where a site-specific FVA accompanies a specific planning application, it 'should be based upon and refer back to the viability assessment that informed the plan; and the applicant should provide evidence of what has changed since then'. This implies, in addition to other inputs, a similar test regarding developer's profit to that used at the plan-making stage.

The guidance further notes that timescale, uncertainty and any particular characteristics that increase risk are factors which particularly influence profit assumptions.

As previously noted, Paragraph 008 of the NPGV provides a presumption that the underlying local plan evidence base is correct until otherwise proven by dissenting parties.

The Local Plan Viability Study, produced by Adams Integra in May 2009, identifies 20% gross development value as an appropriate assumption. This aligns with national policy and precedent.

Our experience is that for the previously assumed finance terms to be offered by commercial lenders, a min-



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imum of 17.5% is generally required, up to a maximum of 25% on riskier proposals. Development finance will generally therefore set the expectations for return on investment.

Taking into account the risk profile of the development we consider the assumption adopted in the Local Plan Viability Study to be appropriate (20%). This is supported by our sensitivity analysis, which further demonstrates the relative risk profile of the development (see below).

The appraisal has been run accordingly.



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# Commercial Assumptions

## Size of Scheme

In addition to the residential dwelling the development will also provide commercial units. These are summarised below, and full plans are shown at **Schedule 2.**

| Unit | Area (m2) | Floor - Type |
|---|---|---|
| 1 | 85.59 | 0F - Retail |
| 2 | 112.79 | 0F - Retail |
| 3 | 112.79 | 0F - Retail |
| 4 | 85.59 | 0F - Retail |
| Total Comm. Area (m2) | 396.76 | |

## Values

The most recent local plan viability study considers the following commercial value assumptions:

***Figure 8: Assumed rental value / revenue – Commercial /non-residential typologies***

| Development Use Type | Example scheme type | Values Range - Annual Rents / revenue £ per sq. m / room | | |
|---|---|---|---|---|
| | | Low | Mid | High |
| Larger format retail | Foodstore / large convenience store - centres / urban | £250 | £275 | £300 |
| | Retail warehouse - ditto | £250 | £300 | £350 |
| Small Retail (settlement centres) | Smaller shops development - retail, restaurants or similar - settlement centres | £150 | £250 | £350 |
| Small Retail | Local convenience stores and other local shops | £125 | £175 | £225 |
| Business - Offices - Town Centre | Office Building (3+ storey) | £225 | £275 | £325 |
| Business - Offices - Out of Town Centre | Office Building (3+ storey) | £225 | £275 | £325 |
| Business - Industrial / Warehousing | Smaller / Move-on type industrial unit including offices - industrial estate | £70 | £100 | £130 |
| Business - Industrial / Warehousing | Larger industrial / warehousing unit including offices - industrial estate | £60 | £80 | £100 |
| Hotel | Hotel - town centre / urban (3-storey) (£/room) | £4,000 | £5,300 | £6,600 |
| Residential Institution | Care Home (£/room) | £5,200 | £7,800 | £10,400 |

(DSP 2021 - 2022)



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We have completed our own market research on rents and yields in the subject location.

We have looked at similar retail units that are currently offered for rent however, no results were produced in the immediate area and hence we were required to extend our search to +3 miles. For this reason, we note that suggested values might not necessarily be entirely applicable.

| *Retail Units For Rent within 3 Miles* | | | | | |
|---|---|---|---|---|---|
| **Address** | **Type** | **Status** | **Area m2** | **Annual Rent** | **£/m2 Rent** |
| North Street, Leatherhead, Surrey, KT22 | Long term lease high street retail property | For Rent | 60.00 | £17,496.00 | £291.60 |
| High Street, Leatherhead, Surrey, KT22 | Long term lease high street retail property | For Rent | 56.00 | £15,996.00 | £285.64 |
| Craddocks Parade, Ashtead, Surrey, KT21 | Long term lease high street retail property, customer parking in front | Let Agreed | 50.00 | £24,000.00 | £480.00 |
| Hazel Parade, Penrose Road, Leatherhead, Surrey, KT22 | Long term lease high street retail property, customer parking in front | For Rent | 100.46 | £12,000.00 | £119.45 |
| Molesey Road, Walton-on-Thames, Surrey, KT12 | Long term lease retail property, large garden storage are to the rear | Let Agreed | 40.60 | £15,000.00 | £369.46 |
| | | | | **Avg. £/m2** | **£275.16** |

The comparable retail units are on average smaller (61.41m2) than the proposed units (99.19m2). Moreover, all of the presented units are in need of refurbishment and not directly comparable to new-build properties. For this reason, we expect the proposed to achieve higher rental values.

The existing site comprises five similar retail units and hence in this case we refer to Mr John Carter's EUV assessment as shown below.

We are advised that the existing units are currently being let to long-standing occupiers at historical rents. Taking this into consideration, we would expect the actual rents achievable by the proposed new-build units to be higher and reflective of current market trends.



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We therefore propose the following rental values for the proposed units:

| Unit | Area (m2) | Floor - Type | £/m2 (PA) Rent | PA Rent (£) |
|---|---|---|---|---|
| 1 | 85.59 | 0F - Retail | £423.5308 | £36,250 |
| 2 | 112.79 | 0F - Retail | £398.9715 | £45,000 |
| 3 | 112.79 | 0F - Retail | £398.9715 | £45,000 |
| 4 | 85.59 | 0F - Retail | £423.5308 | £36,250 |
| | | | **Total Comm. Rent PA (£)** | **£162,500** |
| | | | **Avg. Comm. Rent (£/m2)** | **£409.5675** |

The most recent local plan viability study assumes a yield of 5-7% depending on specific circumstances. In his assessment of the existing retail units, Mr John Carter has applied a yield of 8%. However, considering that the proposed units will be new build, we apply 7% in this instance.

## Build Costs

The full cost report (see **Schedule 4**) considers the construction costs of the proposed development as a whole.

For the benchmarking appraisal we have had regard to the BCIS extract and assumed a median cost of £1,808/m2.

## Timing

This is identical to the 'residential' section of the report.

## Purchaser's Costs

We have adopted purchaser's costs of 5.75%.



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## Developer Profit

The local plan viability study does not suggest a target profit rate for commercial element and hence in this case we have adopted a reduced 17.5%.



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# Benchmark Land Value

The NPGV provides a standard methodology for determining Benchmark Land Value (BLV). Paragraph 15 requires that the EUV of the site should be identified:

> *'Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. 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 (excluding any hope value for development).*
>
> *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.'*

RICS guidance Assessing Viability in Planning under the NPPF Appendix B lays out the appropriate approach to assessing existing use value, including relevant data sources:

**B.1.3** The PPG paragraph 015 identifies the type of evidence base that can be used to support the determination of the EUV and the sources of that evidence. At the plan-making stage, this should be accomplished with collaboration between the plan-makers, developers and landowners, and can use published sources of information on rental and capital values of land and property, such as:

- 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 and
- public sector estate/property teams' locally held evidence.



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In this case, we have obtained advice from Mr John Carter (MRICS) for the assessment of the existing use value. His assessment is presented below:

> *'I've been asked to provide a Benchmark Valuation on the premises at 1 to 5 Heath buildings, Oxshott, KT22 0JP.*
>
> *The premises comprise five retail units. I am advised that the units are currently let to longstanding occupiers at historic rentals (apart from unit 4 which was let on a rolling licence at £30,000 per annum in October 2019).*
>
> *The net areas of each of the units are as follows: Unit 1 900 ft.$^2$ Unit 2 965 ft.$^2$ Unit 3 929 ft.$^2$ Unit 4 1374 ft.$^2$ and Unit 5 1321 ft.$^2$ . The breakdown of the areas of the units has been taken from the current Rateable Values of each.*
>
> *I have spoken to a representative from Hurst Warne, Chartered Surveyors based in Leatherhead, who assisted with the letting of number 2 High Street, the rent of which was settled at a figure of £20,000 per annum based on a Zone A of £44.26 per square foot. They have also supplied me with further rental comparable evidence relating to 3 High Street which was settled at £25,000 per annum, breaking back to a Zone A of £55 per square foot and of a number 4 Heath buildings which was settled and £30,000 per annum breaking back to £51 in terms of Zone A. 46 High Street was let this year as a rental of £20,000 per annum, breaking back to a figure of £64 per square foot in terms of Zone A. This was a small unit. Having discussed the matter with the representative from Hurst Warne (who has provided a breakdown of the of the comparable evidence referred to), they have advised that an appropriate Zone A figure for the subject properties should be at £44 per square foot, falling in line with the letting of number 2 High Street.*
>
> *Adopting the appropriate Zone A figures, the rental values of each of the units is as follows : Unit 1 £22,000 per annum, Unit 2 £25,000 per annum, Unit 3 £24,000 per annum, Unit 4 £26,000 per annum, and Unit 5 £26,325 per annum. The total rental receipt from the five units amounts to £123,350 per annum. I have used of yield 8% on the rentals, producing a Capital Value of £1,542,000.*
>
> *My Benchmark Valuation is at the sum of £1,500,000.'*

We therefore adopt £1.5M as our EUV.



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We note for context that the most recent price paid was £2.4m in September 2021. The above therefore appears if anything conservative

Paragraph 16 requires that a premium should be added to the EUV (EUV +) to incentivise the landowner to bring the site forward for development:

> *'The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.*
>
> *Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. 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).'*

**D.2.4** The circumstances underpinning the assessments of the EUV and premium, and which may require adjustment, could include:

- the date of the determination of the BLV
- landowner optionality, i.e. the range of options open to the landowner
- state of the property, obsolescence and compliance with environmental and building regulations
- site constraints such as ground conditions, contamination, ransom issues, planning factors, third-party rights and covenants
- uniqueness of opportunity, such as 'one-off' site assembly
- competition from alternative sites
- the weighting of individual BLV/premium evidence relative to the subject property, and
- adjustments made by the plan-maker in arriving at an adopted premium, if any.



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**D.2.5** Information on BLVs and premiums in other FVAs can be requested but, if it cannot be provided, the practitioner will need to make assumptions and this will have an impact on the quality of that evidence. It is up to the decision-maker how much weight to accord to that evidence.

**D.2.6** Where the EUV part of the benchmark is a substantial element of the overall assessed value, the premium is usually stated as a percentage increase of the EUV. This is typical in urban and brownfield sites.

**D.2.7** In the case of greenfield, cleared brownfield or some *sui generis* (unique) sites outside of the normal planning use classes, where the EUV is a small proportion of the BLV, the premium is more likely to be stated as a multiplier or could be stated as an actual amount.

In this case we do not consider necessary to include a landowner premium.

We therefore adopt the aforementioned figure of £1.5M as our BLV.

Paragraph 17 allows the BLV to be determined by an alternative Use Value (AUV):

*'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. 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 would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan.*

*Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.*

*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 up to date 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.'*



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The professional guidance sets out the requirements for an AUV approach to determining land value. Largely this will be most appropriate where an existing extant or implementable consent is in place and there are accurate drawings on which to base the AUV:

> **C.1.5** Extant consents also need to meet the tests set out in C.1.1. above. But, as the extant consent is capable of being implemented, assessment of the residual value of the consent as permitted should be provided.

> **C.1.2** The AUV approach should be based on accurate floor plans and elevations for the alternative scheme. This is essential so that accurate gross to net assumptions can be made and for a detailed cost plan to be prepared.

In this case, calculating an AUV is not applicable.

**The standard approach to viability is to compare the BLV of the development site with the Residual Value calculated by the viability toolkit. It is only if the Residual Value of the development exceeds the Market Value (Benchmark), that it will be viable for a contribution to be made towards Affordable Housing.**



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# Conclusions

The full toolkit appears at **Schedule 1**, and the key conclusions are set out in the summary section. They are also repeated for convenience below:

***Option 1: Benchmarking to BCIS***

| **Sales** | **£7,798,612.06** |
|---|---|
| *Less Costs* | |
| Construction Costs (Resi) | £2,614,569.04 |
| Commercial Costs (Build & Fees) | £1,000,825.95 |
| Other Site Costs | £1,082,467.82 |
| Marketing | £174,742.81 |
| Finance Costs | £418,384.79 |
| Developer Return | £1,504,751.12 |
| Residual Site Value | £1,002,870.55 |
| Benchmark Land Value | £1,500,000.00 |
| **Result** | **(£497,129.45)** |

***Option 2: Applicant Cost Plan***

| **Sales** | **£7,798,612.06** |
|---|---|
| *Less Costs* | |
| Construction Costs (Resi) | £6,330,275.74 |
| Commercial Costs (Build & Fees) | £56,384.61 |
| Other Site Costs | £986,490.54 |
| Marketing | £174,742.81 |
| Finance Costs | £97,725.86 |
| Developer Return | £1,504,751.12 |
| Residual Site Value | (£1,351,758.61) |
| Benchmark Land Value | £1,500,000.00 |
| **Result** | **(£2,851,758.61)** |



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To determine the viability of targeted affordable housing provision, the Benchmark Value of the site as stated above, is deducted from the Residual Value calculated by the viability model. If the result is negative, as it is in this case, the development does not achieve the target return on a 100% open market basis and therefore is unlikely to be able to viably deliver the targeted contributions.

The following table summarises the above conclusions.

***Option 1: Benchmarking to BCIS***

| | |
|---|---|
| Spreadsheet Residual Value | £1,002,870.55 |
| Plus Target Developer Return | £1,504,751.12 |
| Less Benchmark Value | £1,500,000.00 |
| Actual Profit | £1,007,621.67 |
| | |
| Percentage actual profit | 13.39% |

***Option 2: Applicant Cost Plan***

| | |
|---|---|
| Spreadsheet Residual Value | (£1,351,758.61) |
| Plus Target Developer Return | £1,504,751.12 |
| Less Benchmark Value | £1,500,000.00 |
| Actual Profit | (£1,347,007.49) |
| | |
| Percentage actual profit | -17.90% |

The benchmarking exercise demonstrates that the scheme would make a return below the targeted level (20%) but is still deliverable. However any planning obligations will impact upon this.



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# Sensitivity Matrix

Following RICS guidance we have provided a sensitivity analysis of the assumptions in this report, demonstrating the impact on developer profit of +/-5-10% changes in build costs and sales values. This is particularly important to inform assessment of risk.

Sensitivity testing conclusions are included below.

Testing the variance associated with changes in sales and build costs of +/- 5-10% results in the below matrix:

| Developer profit % | | Sales values | | | | |
|---|---|---|---|---|---|---|
| | | -10% | -5% | 0% | 5% | 10% |
| Build Costs | -10% | 6.50% | 11.68% | 16.87% | 22.05% | 27.23% |
| | -5% | 4.76% | 9.95% | 15.13% | 20.31% | 25.50% |
| | 0% | 3.03% | 8.21% | 13.39% | 18.58% | 23.76% |
| | 5% | 1.29% | 6.47% | 11.65% | 16.84% | 22.02% |
| | 10% | -0.45% | 4.73% | 9.92% | 15.10% | 20.28% |



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**T&Cs and Compliance**

1.1 S106M has been instructed by the applicant to review the viability of the proposed development and engage with the local authority and their representatives on this matter.
1.2 Scope of instruction extends to provision of 1 report document and schedules for submission as part of a planning application.
1.3 S106M has not inspected the property.
1.4 This report is prepared as an assessment of the Planning Financial Viability of a proposed development for the purposes of agreeing appropriate Section 106 planning obligations and affordable housing contributions. It is not a valuation of the subject site or scheme. It is exempted from the RICS Red Book on the basis of the parties negotiating and agreeing the planning obligations and the authoritative requirement of the NPPF and PPG. It does not constitute a Red Book valuation report, and should under no circumstances be relied upon as such, although it may refer to the conclusions of third parties in this regard for which no liability is accepted. The date of the report can be viewed on the front page and will require updating for market uncertainty after a reasonable time period has elapsed.
1.5 The report is assumed to be made publicly available for transparency purposes unless otherwise stated. The Executive Summary can be considered a Non-Technical Summary for the purposes of the guidance.
1.6 S106M accepts responsibility only to the commissioning party named at the start of this report alone that this report has been prepared with the skill, care and diligence reasonably to be expected of a competent consultant but accept no responsibility whatsoever to any other person or entity.
1.7 S106M confirm that any RICS members involved in this reporting have complied with the mandatory requirements of RICS Professional Statement Financial Viability in Planning: Conduct and Reporting May 2019, including the following:

- We have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information (para 2.1).
- We have identified no conflicts of interest or risk of conflicts in preparing this report (para 2.2).
- We are not working under a contingent or performance related fee agreement basis (para 2.3).
- We support positive, proactive, transparent and appropriate engagement between all parties in the planning process. This report is prepared on the basis that it will be made publicly available, except in specifically agreed exceptional circumstances (para 2.4).
- We have not been involved in the preparation of the Council's Local Plan Area Wide Viability Assessment (para 2.5); however we have regard to this in line with PPG Viability para 002 and the statutory development plan.
- All inputs are reasonably justified by market and supporting evidence including but not limited to the local plan viability study which justifies the adopted planning policy in line with para 008 PPG Viability



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(para 2.6-2.7).

▪ The status of this report is Final as of the dated front page subject to any further reasonable, proactive and constructive negotiations to resolve reasonable professional differences of opinion in line with para 2.6, 2.8 and 2.10 of the Professional Statement.

▪ Our report includes sensitivity testing in line with the para 2.9.

▪ Where there are professional differences of opinion over inputs we seek to resolve these during negotiations following submission of the original report in line with para 2.8-2.10. Where differences of opinion cannot be resolved this is stated clearly.

▪ The Executive Summary complies with the Non-Technical Summary requirement of para 2.11.

▪ Any sub-consultants contributing to this report have been made aware of the Professional Statement and its requirements, and confirm compliance with it (para 2.13).

▪ We have been allowed sufficient time since instruction to carry out this FVA bearing in mind the scale of the development and the status of the information as at the date of this report (para 2.14).

▪ Appropriate regard has also been had to RICS Guidance Note: Assessing Viability in Planning under the NPPF 2019 (2021).

**Material Uncertainty**

In respect of the planning and development sector as at the report date where unprecedented sets of circumstances are highlighted, including for example COVID-19, the Ukraine War and Energy Crisis, creating an absence of relevant/sufficient market evidence on which to base our judgements, our report will be reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, in respect of the report less certainty – and a higher degree of caution – should be attached to that report than would normally be the case.

For the avoidance of doubt this explanatory note, including the 'material valuation uncertainty' declaration, does not mean that the report cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which said report may have been prepared. In recognition of the potential for market conditions to move rapidly in response to changes in market conditions we highlight the importance of the valuation date and any reporting material uncertainty.



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**Quality Control**

This report is provided for the stated purpose and for the sole use of the named clients. In line with para 2.12 the following quality control pathway has been taken, with all parties involved in the compilation of this report and history of previous viability discussions noted:

**Alex Toma BA Hons**

**John Carter MRICS**
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