Independent Viability Experts

FAO Ms Laura Eastwood MRTPI
Principal Planning Officer
Ribble Valley Borough Council

Sent by email only

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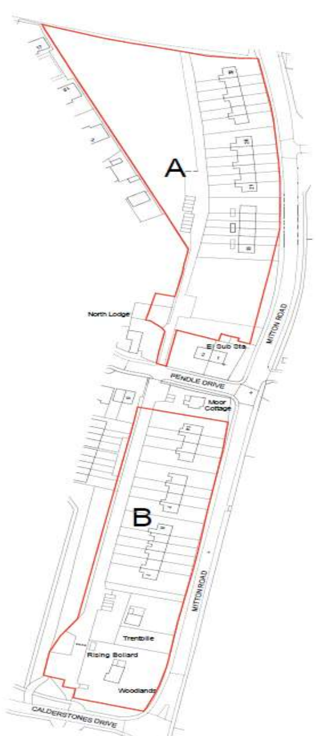
Our ref: DN-0487
Your ref: 3/2021/0076
Date: 8th April 2021

Dear Ms Eastwood

PROPERTY ADDRESS: Queen Mary Terrace and Bridge Terrace Mitton Road Whalley BB7 9JS
INSTRUCTING BODY: Ribble Valley Borough Council
APPLICANT: Prospect GB



Further to your instruction and our Terms of Engagement dated 18th March 2021, we are pleased to report as follows.

1. Property Overview

1.1. The property is located in the northern part of the large village of Whalley, a semi-rural settlement close to the southern boundary of Ribble Valley district. The town of Clitheroe lies just under 3.5 miles to the north, and the larger town of Accrington lies around 5 miles to the south. The northern part of the village (known as Calderstones) is separated from the main part by the A59 trunk road, which is reached via Mitton Road (B6246), less than half a mile to the south. The A59 links Merseyside in the west to North Yorkshire in the east, with Junction 7 of the M65 the nearest connection to the strategic road network, just over 4.5 miles to the south. The nearest rail connection is at Whalley, with the Ribble Valley Line providing connections to Manchester, Blackburn and Clitheroe.

1.2. The part of the village in which the site is situated is less than a mile to the north of the village centre and has historically been dominated by the Calderstones Hospital, which occupied most of the land to the west of the subject property. However, in recent years the extent of the hospital has shrunk to around one third of its former size, with the remainder being redeveloped (mainly since 2000) for private market housing.

1.3. More specifically, the subject property is split into 2 parcels:

- Parcel A is situated to the north of Pendle Drive and to the east of Mitton Road
- Parcel B is also to the west of Mitton Road, between Calderstones Drive to the south and Pendle Drive to the north.

1.4. Existing housing (most of it mainly good quality private dwellings built since 2000) lies to the west, but a handful of earlier former hospital staff dwellings will remain close to the subject property, mostly in average condition. The site boundary to each parcel to the east is back of a footpath on Mitton Road, the western boundaries to the newer housing and woodland (in the case of Parcel A) and to the newer housing and public open space (Parcel B). The northern boundary of Parcel A is to woodland, with the southern boundary to the curtilages of 1 and 2 Pendle Drive. The northern boundary of Parcel B is to the curtilage of Moor Cottage and the southern boundary to the highway verge to Calderstones Drive.

1.5. New build activity in the immediate area (known collectively as Calderstones Park) has been extensive since 2000, with around 600 dwellings in total developed on the former hospital site by a number of volume housebuilders. The last new build sales on these schemes were in 2015. A limited amount of affordable housing was provided at Nightingale Close. Current schemes away from the subject property location include Redrow's Oak Leigh Gardens development (Ph 1) of 119 dwellings (3 and 4 bed) and Taylor Wimpey's Clover Meadows development of 107 dwellings (3 and 4 bed) both located in the village of Barrow, less than 0.75 mile to the north east of the subject property. Some new build activity has also taken place in the last few years in the main part of Whalley village at David Wilson Homes' Monk's Cross scheme of 136 dwellings (1 to 5 beds) on Mitton Road about half a mile south of the subject property and Redrow's Lawson Rise scheme of 55 dwellings (mainly 4 and 5 bed detached but with 16 affordable dwellings) on Clitheroe Road less than 0.75 mile to the south east.

1.6. The property comprises, for the most part, 6 blocks of existing 2 storey terraced dwellings (3 in Queen Mary Terrace in Parcel A and 3 in Bridge Terrace in Parcel B), together with 2 detached dwellings lying at the southern end of Parcel B. According to the "Viability Assessment" dated January 2021 submitted by Roger Hannah & Co ("RH") on behalf of the applicant, all of the dwellings were previously occupied in association with the Mersey Care Foundation Trust's activities at the remaining Calderstones Hospital facilities. However, it is understood that all are now vacant, and in average to poor condition (although habitable according to the RH report) due to a lack of regular maintenance. Parcel A also includes an area of grassed open space to the west and an overgrown, undeveloped piece of land edged with mature trees and shrubs to the south of 15 Bridge Terrace. Tarmac surfaced roads allow rear access to the dwellings in both parcels, with a number of garages built on a tarmac apron adjacent to the access road close to 15 to 20 Bridge Terrace. A public footpath runs from south to north along these access roads.

1.7. Both parcels have a very irregular shape and are essentially flat. According to the RH "Viability Assessment" the property extends to circa 1.86 Ha (4.6 acres) in total, on a gross basis.

1.8. In terms of planning history, there is none of any material relevance to the current proposals. The current application is for:

- 3/2021/0076 - "Proposed demolition of 34 existing dwellings and the erection of 50 new dwellings with vehicular accesses, landscaping and other associated works."

1.9. This envisages the construction of 2 storey detached and semi-detached dwellings of 9 different house types with 3 and 4 bedrooms.

1.10. Based on the schedule of accommodation provided by RH, the applicant's consultant, in their "Viability Assessment" report dated January 2021, the dwellings to be provided on site can be summarised as follows:

Type	Beds	Units	Sq ft	Total sq ft
Barton – 2s semi	3	6	915	5,490
Croston Plus – 2s detached	3	7	1,012	7,084
Edmonton – 2s detached	3	7	1,255	8,785
Barley – 2s detached	4	5	1,191	5,955
Cleveley - 2s detached	4	3	1,251	3,753
Mawdesley - 2s detached	4	4	1,284	5,136
Whalley – 2s detached	4	10	1,404	14,040
Keighley - 2s detached	4	5	1,596	7,980
Pattersley – 2s detached	4	3	1,715	5,145
Totals		**50**		**63,368**

2. Scope of Assessment and General Assumptions

2.1. To support the applicant's case for an adjustment to policy, RH have submitted their "Viability Assessment" report dated January 2021. In it, RH consider 2 scenarios for the scheme, as follows:

- Scenario 1 – Non-target policy compliant with 30% affordable housing provision but no S.106 contributions.

- Scenario 2 – Non-target policy compliant with 20% affordable housing provision but no S.106 contributions.

2.2. RH believe, based on their appraisal assumptions, that the subject scheme under both scenarios will return a residual land value below their opinion of Benchmark Land Value, with the implication that both are unviable even without the additional S106 obligations.

2.3. We have been instructed to provide an independent viability assessment of the scheme, with a view to advising the Council as to whether the scheme can support the target level of policy contributions including affordable housing.

2.4. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that in completing this instruction CP Viability Ltd have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

2.5. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that prior to accepting this instruction we undertook a conflict of interest check. It is stressed that as an organisation we only provide independent viability reviews upon the instruction of Local Authorities and therefore can guarantee that we have not provided viability advice on behalf of the applicant for this scheme. Within this context and having undertaken a review we are unaware of any conflict of interest that prevents CP Viability from undertaking this instruction. If, at a later date, a conflict is identified we will notify all parties to discuss how this should be managed.

2.6. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that the fee agreed to undertake this review is a fixed rate (covering the elements set out in our fee quote / terms of engagement) and is not performance related or a contingent fee.

2.7. In accordance with the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) we can confirm that CP Viability Ltd is not currently providing ongoing advice to Ribble Valley Borough Council in area-wide financial viability assessments to help formulate policy.

2.8. As stated within the RICS Financial viability in planning: conduct and reporting 1st Edition (May 2019) it is now a mandatory requirement to provide sensitivity analysis of the viability results. This is to demonstrate to the applicant and decision maker the impact that changes to inputs have on the viability outcome and also to help the assessor reach an informed conclusion. We have subsequently undertaken sensitivity testing as part of this review.

2.9. We have assessed the viability of the scheme as at 8th April 2021.

2.10. This assessment does not provide a critique of the proposed development design (i.e. we have not commented on the efficiency of design, density etc). Our role is limited to testing the viability of the proposals as detailed in the planning application.

2.11. We have relied on the information provided to us by the instructing body and the applicant and in particular information publicly available through the Council's planning portal website.

2.12. We have not met either of the Instructing Body or the applicant and consequently have not partaken in any negotiations regarding the scheme.

2.13. In accordance with the RICS "Assessing viability in planning under the National Planning Policy Framework 2019 for England (Guidance Note 1st Edition, March 2021), our appraisal assumes a hypothetical landowner and a hypothetical developer. The intention of a viability assessment is therefore to identify the approach a 'typical' or 'average' developer / landowner would take to delivering the site for development. A viability assessment does not therefore seek to reflect the specific circumstances of any particular body (whether landowner or developer).

2.14. Our appraisal also adheres to the guidance as set out in the Planning Practice Guidance for viability (last updated in September 2019).

2.15. In undertaking our appraisals, we have utilised ARGUS Developer. This is an industry approved cash-flow model, designed specifically residual appraisals. This report reflects the independent views of CP Viability, based on the research undertaken, the evidence identified and the experience of the analysing surveyor.

2.16. This report reflects the independent views of CP Viability, based on the research undertaken, the evidence identified and the experience of the analysing surveyor.

3. RH's appraisal – summary

3.1. As stated in 2.1 above, RH have modelled two different scenarios for the scheme. In neither case does the (appraisal target) residual land value returned by the appraisal match or exceed RH's opinion of the Benchmark Land Value (BLV) of the property, implying that neither approach is viabIe. RH make no comment on deliverability of the scheme in those circumstances.

3.2. RH, however, undertake sensitivity analysis on the results of both appraisals by varying the sales values by steps of £5 and £10 per sq ft and the construction costs by steps of £10 and £20 per sq ft (up and down). Only with Scenario 2 (20% affordable housing) do RH consider that an increase in sales values of £20 per sq ft and a £10 per sq ft reduction in construction costs returns a residual land value above BLV.

3.3. In undertaking our review and appraisal, we have focused on their Scenario 1 (i.e. 30% affordable housing). **However, in the actual appraisal summary the scheme only refers to 5 onsite affordable dwellings (10%). RH explain this as follows: "It has been agreed with the LPA that as the existing dwellings have never been encumbered with any Section 106 agreement or restriction on title that the houses must be used in perpetuity as affordable housing, the 30% affordable housing provision is only applicable to net additional dwellings. The uplift of 16 dwellings therefore generates a 30% affordable requirement of 5 dwellings". For the purposes of this review, we have worked on the basis that this has been agreed between the applicant and the Council. However, please note, if at a later date this is proven to not be the case this could impact on our viability conclusions.**

3.4. To summarise RH's appraisal we have categorised the costs provided under what we consider to be the most common sections of a viability appraisal. For example, all costs which we believe relate to the basic construction of a dwelling (including a contractor's margin and overhead) have been allocated under "Estate housing". Likewise, those costs deemed unusual are labelled 'abnormal' costs. This categorisation approach allows us to undertake a comparison between the subject scheme and other developments we have assessed.

Gross Development Value (Revenue)

Type	No.	Average £ per sq ft	Total
Market Value houses	45	£275	£16,150,656
Affordable houses	5	£164	£749,985
Total	**50**		**£16,900,641**

Gross Development Cost (Outgoings)

Type	Rate	Total
Semi-detached	£101.45 per sq ft	£556,961
Detached	£114.46 per sq ft	£6,624,716
Integral garages	10 x £4.5k single/3 x £6.5k double	£64,500
Standalone garages	19 x £11.6k single/5 x £18k double	£310,629
External works	14.26% of above build costs	£1,077,251
Contingency	3.48% of build costs	£300,398
Professional fees	5.97% of build costs	£515,683
Abnormal – various	£300,085 per acre	£1,379,208
Marketing & sales	3% of revenue	£484,520
Sales legal costs MV dwellings	£1,878 per dwelling	£84,503
Sales legal costs Aff dwellings	£1,500 per dwelling	£7,500
Finance	6.5% debit	£312,077
Land purchase costs	Agent, Legals, SDLT etc	£203,669
Developer profit	18% MV/8% affordable on revenue	£2,967,117
Total		**£14,888,732**

3.5. Based on the RH's appraisal (Scenario 1), the scheme returns a residual land value equivalent to £2,011,274. This is unviable when considered in the light of RH's opinion of BLV for the site of £3,680,000.

4. CP Viability's appraisal

Gross Development Value (Revenue)

4.1. We have based our assessment of value for the completed dwellings on the mix detailed above (see 1.10).

4.2. In their appraisal, RH have adopted the following sales values (all 2 storey housing):

- Barton 3b semi £266 per sq ft
- Croston Plus 3b detached £289 per sq ft
- Edmonton 3b detached £260 per sq ft
- Barley 4b detached £278 per sq ft
- Cleveley 4b detached £273 per sq ft
- Mawdesley 4b detached £281 per sq ft
- Whalley 4b detached £274 per sq ft
- Keighley 4b detached £275 per sq ft
- Pattersley 4b detached £273 per sq ft

4.3. In support of their sales values, RH have reviewed recent sales, availability and general evidence from the Ribble Valley and, more specifically, the BB7 postcode area (in which the scheme lies). RH also consider this data alongside existing stock transactions for Calderstones Park dating back to 2018.

4.4. More specifically, RH review the following:

- David Wilson Homes' Monk's Cross scheme in Whalley, with 19 sales identified for terraced, semi-detached and detached dwellings (all but 1 in 2019).

- Barratt Homes' ongoing scheme The Brooks at Whalley Rd, Barrow. 3 house types are referred to (2 bed terrace, 3 bed semi and 4 bed detached). Asking prices are referred to and then separately a 2.5% deduction is made for incentives to give theoretical net sales prices. The net of incentives theoretical sales prices range from circa £264 to £293 per sq ft.

- Redrow Homes' ongoing scheme Oak Leigh Gardens at Barrow. 4 house types are referred to (all detached). Asking prices are referred to and then separately a 2.5% deduction is made for incentives to give theoretical net sales prices. The net of incentives theoretical sales prices range from circa £254 to £302 per sq ft.

- Harwood Homes' ongoing scheme Oak Leigh Gardens at Barrow. 5 house types are referred to (all detached). Asking prices are referred to and then separately a 2.5% deduction is made for incentives to give theoretical net sales prices. The net of incentives theoretical sales prices range from circa £255 to £274 per sq ft.

4.5. Various second-hand sales are also identified, however given the new build evidence available we attribute only limited weight to this.

4.6. Our own research has also focused on new build housing in the postcode area BB7 (which includes the subject property). In terms of new build transactions, as per RH's assessment, the most recent evidence in Whalley is from David Wilson Homes' Monk's Cross scheme. We note the following sales since Jan 2019 (limited to dwellings considered to be broadly similar to that proposed at the subject property):

Monk's Cross (David Wilson Homes)

	Address		Pcode	Sq ft	£/sq ft	Price	Type	Date
2	CHERRY TREE ROAD	WHALLEY	BB7 9YH	1,270	£ 286	£ 362,995	Detached	24/05/2019
21	ABBEY FARM VIEW	WHALLEY	BB7 9YF	1,539	£ 273	£ 419,995	Detached	28/06/2019
4	CHERRY TREE ROAD	WHALLEY	BB7 9YH	1,539	£ 241	£ 370,495	Detached	27/02/2020
9	RIVER CLOSE	WHALLEY	BB7 9YJ	1,539	£ 270	£ 414,995	Detached	28/06/2019
				1,539	**£ 261**	**£ 401,828**		
16	NAB VIEW	WHALLEY	BB7 9YG	1,604	£ 280	£ 448,995	Detached	04/10/2019
35	CHEW MILL WAY	WHALLEY	BB7 9YL	1,604	£ 259	£ 414,995	Detached	28/02/2019
				1,604	**£ 270**	**£ 431,995**		
23	ABBEY FARM VIEW	WHALLEY	BB7 9YF	1,776	£ 276	£ 489,995	Detached	28/06/2019
5	CHERRY TREE ROAD	WHALLEY	BB7 9YH	1,776	£ 267	£ 474,995	Detached	12/12/2019
7	CHERRY TREE ROAD	WHALLEY	BB7 9YH	1,776	£ 267	£ 474,995	Detached	06/12/2019
5	RIVER CLOSE	WHALLEY	BB7 9YJ	1,776	£ 279	£ 494,995	Detached	29/03/2019
7	RIVER CLOSE	WHALLEY	BB7 9YJ	1,776	£ 262	£ 465,495	Detached	20/06/2019
3	CHEW MILL WAY	WHALLEY	BB7 9YL	1,776	£ 282	£ 499,995	Detached	28/06/2019
				1,776	**£ 272**	**£ 483,412**		
4	CHEW MILL WAY	WHALLEY	BB7 9YL	840	£ 294	£ 246,995	Semi	28/02/2019

4.7. Please note, a key consideration when analysing Land Registry data is the issue of incentives. On this we note the HM Land Registry Guidance "Practice guide 7: entry of price paid or value stated data in the register" states:

"5.1 Discounts and incentives:

Often developers offer discounts and incentives to prospective buyers. In this case we enter the net (lower) price paid in the register. If we are unable to identify the net price, we will request this. The reason for this is that entry of the pre-discount price may be misleading. Certain incentives, such as legal and moving costs, are not treated as a discount for price paid purposes."

4.8. In other words, the Land Registry sales data already allows for some form of sales incentives incurred as part of the sale.

4.9. We have reviewed this is more detail and would make the following comments:

- The "UK Finance Disclosure Form (21 Feb 18) is what is used by the Land Registry when inputting the value of a new build property in their database. Section 7 of the form relates to incentives. For ease, the layout is as follows:

7. INCENTIVES

List the details of any incentives to be received by the purchaser either before or after completing the transaction
(continue on a separate sheet if necessary)

List full details of the value of all **financial** incentives to be received by the buyer(s):

Deposit paid by seller £ ....

Guaranteed rental income £ .... Total (£.......... per month for .... months)

Mortgage subsidies £ .... Total (£.......... per month for .... months)

(including payment of mortgage interest, subsidies of interest rate and mortgage payment subsidies)

Stamp Duty Land Tax / LBTT payment £ ....

Cashbacks £ ....

Valuer fees £ ....

Legal fees £ ....

Other financial incentives not listed* £ ....
(give details below)

* Please provide full details of other financial incentives

....

Provide a list of all **non-financial**/in-kind incentives to be received by the buyer(s)

(e.g. white goods/kitchen appliances; furniture/furnishing; electrical equipment; garden furniture/landscaping; holidays; vehicles; buy-back guarantees; car-parking season tickets etc). **This is NOT an exhaustive list.**

Do not include any items provided as part of the standard specification of the property

....
....

- The form therefore requires 'financial' incentives to be listed in monetary terms. This allows a deduction to be made when the Land Registry inputs the price paid into their database. The form also requires a list of 'non-financial' or 'in-kind' incentives to be listed. Examples given include white goods/kitchen appliances, furniture/furnishing, electrical equipment, garden furniture landscaping, holidays, vehicles, buy-back guarantees, car-parking season tickets etc. However, there is no requirement to place a monetary cost to these items.

- In summary, the Land Registry guidance states that some incentives (such as legal and moving costs) are not treated as a discount from the price paid. However, equally it is clear that other discounts are already factored into the price paid.

- The requirement for incentives will depend on a variety of factors, including macro-economics, local purchaser demand, product etc. It is not the case that all sales will always require incentives, as this will depend upon purchaser demand.

4.10. In terms of evidence of incentives in March 2020 we undertook a viability assessment of a housing scheme (in Lincolnshire). The assessment was of Phase 2 of a development. As part of the process the house builder provided details of sales / exchanges that had taken place in Phase 1 of the development. The information provided included the gross sales price and the financial and non-financial incentives applied. 56 sales were provided, which show an average gross sales price of £205 per sq ft. Of the 56 sales 37 did not need any incentives to drive sales (66%). Of the remaining 19 sales the incentives provided included payment of legal costs, payment of Stamp Duty, turf to garden, carpet upgrade and furniture. The average 'cost' to the builder for these incentives was £1,387. On average this was equivalent to 0.66% of the gross sales price (for these 19 units). Across the whole sample of 56 dwellings the average incentive was £471 (0.22% of the gross sales price).

4.11. Furthermore, it is stressed that some of the incentives discussed above in the example scheme will be reflected in the Land Registry data already. This further reduces the need to make adjustments.

4.12. In summary, it is debatable as to what (if any) discount is necessary from the Land Registry data to reflect incentives. This will depend on a variety of factors, including the level of pricing applied and demand in a specific location. For the purposes of the modelling we accept that some 'non financial' incentives should be factored into the assessment, but consider it reasonable to assume that this would only apply to 50% of the sales. We also consider an allowance of 1% of the sales value to be reasonable for these 'non financial' incentives (with the 'financial' incentives already inherently factored into the Land Registry data).

4.13. In terms of how RH's allowances compare to the Monk's Cross values (less 1% for the non-financial incentives as per our commentary above), we note the following:

	Monk's Cross 2019	**RH values at subject**
Detached circa 1,250 sq ft	£283 psf	£273 - £281 psf
Detached circa 1,600 sq ft	£267 psf	£275 psf
Detached circa 1,750 sq ft	£269 psf	£273 psf
Semi circa 850 -900 sq ft	£291 psf	£266 psf

4.14. Within the context of the above evidence, and allowing for sales inflation since the Monk's Cross sales were secured, RH's allowances appear broadly reasonable for the detached dwelling types of circa 1,600 sq ft and 1,750 sq ft. However, the detached circa 1,250 sq ft and semi detached types are below the identified evidence.

4.15. By way of additional evidence, we have also identified a number of sales at Redrow's Oak Leigh Gardens scheme in Barrow. We note the following sales as shown on the Land Registry:

Oak Leigh Gardens (Redrow)

	Address		Pcode	Date	Sq ft	£ psf		Price	Type
19	ASPEN CRESCENT	BARROW	BB7 9ZL	04/06/2019	1,173	£	274	£ 320,995	Detached
21	ASPEN CRESCENT	BARROW	BB7 9ZL	24/05/2019	1,173	£	274	£ 321,995	Detached
					1,173	**£**	**274**	**£ 321,495**	
3	IVY BANK	BARROW	BB7 9ZJ	07/06/2019	1,292	£	269	£ 347,995	Detached
6	IVY BANK	BARROW	BB7 9ZJ	02/09/2019	1,292	£	271	£ 349,995	Detached
17	ASPEN CRESCENT	BARROW	BB7 9ZL	12/04/2019	1,292	£	275	£ 354,995	Detached
23	ASPEN CRESCENT	BARROW	BB7 9ZL	12/04/2019	1,292	£	270	£ 348,995	Detached
25	ASPEN CRESCENT	BARROW	BB7 9ZL	26/04/2019	1,292	£	275	£ 354,995	Detached
					1,292	**£**	**272**	**£ 351,395**	
7	IVY BANK	BARROW	BB7 9ZJ	21/08/2019	1,378	£	269	£ 369,995	Detached
10	IVY BANK	BARROW	BB7 9ZJ	26/07/2019	1,378	£	269	£ 370,995	Detached
30	ASPEN CRESCENT	BARROW	BB7 9ZL	07/02/2019	1,378	£	265	£ 364,995	Detached
2	IVY BANK	BARROW	BB7 9ZJ	22/03/2019	1,389	£	261	£ 362,995	Detached
					1,381	**£**	**266**	**£ 367,245**	
9	IVY BANK	BARROW	BB7 9ZJ	18/09/2019	1,453	£	268	£ 389,995	Detached
38	ASPEN CRESCENT	BARROW	BB7 9ZL	28/06/2019	1,453	£	272	£ 394,995	Detached
44	ASPEN CRESCENT	BARROW	BB7 9ZL	27/06/2019	1,453	£	272	£ 394,995	Detached
					1,453	**£**	**271**	**£ 393,328**	
42	ASPEN CRESCENT	BARROW	BB7 9ZL	27/06/2019	1,765	£	255	£ 449,995	Detached

4.16. In terms of how RH's allowances compare to the Redrow's values (less 1% for the non-financial incentives as per our commentary above), we note the following:

	Oak Leigh Gardens 2019	**RH values at subject**
Detached circa 1,200 sq ft	£271 psf	£278 psf
Detached circa 1,300 sq ft	£269 psf	£281 psf
Detached circa 1,400 sq ft	£263 psf	£274 psf
Detached circa 1,750 sq ft	£252 psf	£273 psf

4.17. Allowing for differences due to location, and also sales inflation, within the context of the above RH's adopted values appear reasonable.

4.18. In addition, we have also considered current asking prices and note the following:

Oak Leigh Gardens, Barrow (Redrow)

- Leamington Lifestyle: 3 bed detached of 1,417 sq ft. Asking price £401,995 (£284 per sq ft. Adopting RH's approach, if a 2.5% incentive is applied this gives a net sales value of £277 per sq ft.

- Oxford Lifestyle: 3 bed detached of 1,318 sq ft. Asking price £373,995 (£284 per sq ft. Adopting RH's approach, if a 2.5% incentive is applied this gives a net sales value of £277 per sq ft.

The Brooks, Barrow (Barratt Homes)

- Detached houses from to £320,000 to £380,000 (sizes not stated)
- End of terrace available for £248,000 (size not given)

4.19. Having considered all of the above evidence, we conclude that the figures put forward by RH are broadly in keeping with the identified evidence (after adjustments are made for factors such as location, dwelling type and size, sales incentives and sales price inflation). We have subsequently adopted the same rates in our appraisal.

4.20. For the affordable dwellings, we consider affordable rental values at 50% of market value to be reasonable. For shared ownership / intermediate we have assumed 67.5% of market value.

Build costs

4.21. RH's appraisal adopts basic construction costs sourced from BCIS data (Lower quartile data point, rebased to Ribble Valley), equivalent to £101.45 per sq ft for the semi-detached dwellings and £114.46 per sq ft for the detached dwellings, exclusive of external works costs. RH then add separately for garages (both integral and standalone) and for external works (at 14.26% of the combined construction costs). A further 3.48% of all of the above costs is added as a contingency sum. Abnormal works amounting to circa £1.38m are accounted for separately.

4.22. For a scheme of this scale and nature we consider it appropriate to benchmark the standard plot construction costs put forward against the BCIS data (which includes preliminaries and contractor's overhead, but excludes externals, contingency and abnormals). This is a database of construction costs regularly used in the industry. Whilst, like all databases, it has its limitations, it does provide a reasonable point of comparison for the standard plot construction costs.

4.23. However, we note that the sample size in Ribble Valley, which feeds into the BCIS data, is only 14. A BCIS article titled "BCIS Tender Price Studies – Location Study" – dated May 2020 states the following:

> *"The higher the number in the sample, the more reliable the results are likely to be. Treat small samples (less than 20) with caution".*

4.24. As the Ribble Valley is based on a sample of 14 (and therefore is less than 20) there are some questions as to the reliability of this data. As an alternative, we consider it appropriate to also consider the wider 'Lancashire' rebasing, which is based on a much larger sample of 194 and therefore can be regarded as being more reliable. We have considered each of the datasets as follows:

	Ribble Valley (sample 14)	Lancashire (sample 194)
Semi-detached 2 storey	£102.10 psf	£98.01 psf
Detached	£115.10 psf	£110.55 psf

4.25. In light of the RICS's mandatory requirement for sensitivity testing, we have subsequently considered 2 scenarios as follows:

Scenario 1 – applies the Ribble Valley (small sample) BCIS rates

Scenario 2 – applied the Lancashire (large sample) BCIS rates

4.26. The BCIS rates do not allow for garages, externals, contingency or abnormal costs; therefore it is appropriate to allow for these as separate line items in the viability appraisal. The allowances for garages are considered to be broadly reasonable and have been accepted in our appraisal.

4.27. For external works costs, RH apply a rate which equates to around 15% of the BCIS rates and garages. By way of evidence, we have reviewed an in-house database of viability appraisals submitted to us by applicants. In this case, we have limited the sample to schemes since Jan 2020 and developments providing between 30 and 75 dwellings. We have identified 5 developments that fall within these criteria. Whist the full details of each case remains confidential, we are able to refer to the average across the dataset. For externals, the average equates to 13.88%. However, we note that 3 out of the 5 schemes in the sample show external costs at 15% (or higher). On this basis, RH's suggested external costs are deemed to be reasonable and have been accepted in our appraisal.

4.28. For contingency, RH's allowance equates to just over 3.5% of the standard plot construction costs, garages and externals (please note we exclude abnormals when undertaking this analysis as abnormals can fluctuate significantly from site to site which can 'skew' the figures). As evidence, we have again referred to the sample of sites discussed above in para 4.28. The average contingency across the sample is 3.20%. On this basis, RH's allowance is slightly above expectations. We have subsequently adjusted this to 3% in our appraisal.

4.29. In addition, RH have also included an itemised list of "abnormal costs" (Page 12 of their report), to include the following:

Site clearance & demolition	£250,000
Service diversions	£262,200
Contaminated land	£18,150
Foundations	£290,684
Cut & fill & retaining walls	£60,000
Capping layer	£76,632
Surface water drainage	£318,342
Pump station	£62,000
Foul drainage	£41,200
Total	**£1,379,208**

4.30. These costs derive from a schedule prepared by the applicant and have therefore not been independently verified.

4.31. In terms of the abnormal works costs noted above, we would stress that we are not qualified quantity surveyors and therefore can only provide a high-level view of these costs based on our experience of undertaking viability assessments.

4.32. That said, to some degree the impact of abnormal costs can be offset in the land price (at least when determining viability). The recent publication of the Planning Practice Guidance ('PPG') on viability makes it clear that abnormal costs must be factored into the assessment of land value (with the implication being the higher the abnormal costs the greater the downward pressure on land value).

4.33. In practical terms, it is not the case that if abnormal costs go up by £100,000 per acre the land value will always decrease by £100,000 per acre, as the land value still has to be at a sufficient level to incentivise a landowner to release the site for development. For example, if a site has an existing use value as an agricultural field at £10,000 per acre and, after abnormal costs are deducted, a residential scheme can only deliver a land value of £15,000 per acre then this would not represent a sufficient incentive for a landowner to release the site for development. There still has to be some sort of suitable premium above the existing use value. However, it is reasonable that the burden of the higher abnormal costs on a development should not fall solely on the Council through a reduction in their planning policies. The principle that the land value must bear the most significant proportion of any abnormal costs is a sound one.

4.34. In short, changes in abnormal costs are of course significant, however when assessing viability they should be balanced against land value (which can serve to dampen the effect of abnormal costs on the overall viability outcome).

4.35. Within this context, we have accepted the costs set out by RH in relation to the items included, albeit we have looked to appropriately reflect these costs within the assessment of the benchmark land value.

Professional fees

4.36. RH have allowed professional fees totalling around 6% of the combined plot construction, garage and external works costs.

4.37. As evidence, we have again referred to the sample of sites discussed above in para 4.28. The average professional fees across the sample is 4.89%. On this basis, RH's allowance is slightly above expectations. We have subsequently adjusted this to 5% in our appraisal.

CIL / S106 / Other Council Policy Requirements

4.38. As discussed above in paragraph 3.3, for the purposes of our review we have followed RH's approach whereby the 30% affordable housing policy provision is only applied to the net additional 16 units that the scheme will provide (i.e. 5 dwellings). We have made this assumption because the applicant has stated that this has been agreed with the Council. Should this not be the case, this could impact the findings of our report.

4.39. RH's appraisal assumes education and leisure and play contributions totalling £138,006 (although RH acknowledge that the S106 contributions have yet to be confirmed by the Council and therefore the allowances are likely to be subject to adjustment).

Marketing / legal costs

4.40. For marketing RH have allowed 3% of revenue for sales and marketing costs, plus £1,878 per market value dwelling and £1,500 per affordable dwelling for sales legal costs.

4.41. As evidence, we have again referred to the sample of sites discussed above in para 4.28. The average marketing / disposal fees across the sample is 3.09%. On this basis, RH's allowance is considered to be reasonable and has been accepted in our appraisal.

4.42. However, the legal cost allowance are significantly above our expectations (particularly when the legal documents / searches for the various dwellings will be replicated across the site). We consider an adjustment to £750 per dwelling to be appropriate.

Finance

4.43. RH have allowed a debit rate of 6.5% in their appraisal. In the current economic climate this is considered to be a realistic allowance and has been accepted in our appraisal.

4.44. To calculate the finance, we have inputted our appraisal data into the ARGUS Development Appraisal Toolkit, which is an industry approved discounted cash flow model (appended to this report).

Developer's profit

4.45. RH adopt a rate of return on revenue for the market value dwellings of 18% and 8% for the affordable dwellings, referring to "...a typical margin of 18-20% profit on GDV..." for the open market dwellings and an "...appropriate profit..." for the affordable dwellings of "...8% of GDV." When the market value and affordable units are 'blended' together this gives a developer profit equivalent to 17.59% on revenue.

4.46. For a scheme of this size and nature we believe it is appropriate to apply a profit margin expressed as a percentage of the revenue.

4.47. In our experience, and for a scheme of this size, profit margins fluctuate depending on the nature of the scheme and the type of developer implementing the project. However, and only as a broad guide, we tend to see profit margins in the region of 15% to 20% of revenue for market value dwellings. This is supported by the Planning Practice Guidance on viability ('PPG'), which refers to a range of 15% to 20% on revenue. Whilst this range is referred to in the context of plan wide viability testing it is considered to provide a reasonable indication of profit for individual cases (and the recent RICS consultation on its latest guidance for viability indicated that the range could be applied to individual cases).

4.48. By way of evidence, we have again referred to the sample of 5 schemes discussed above in para 3.3. Whilst profit will fluctuate from site to site dependent on the specific risks involved, from the sample we note that that 4 out of the 5 schemes show a 'blended' profit (i.e. when the market value and affordable dwellings are mixed together) of 15% to 16.38% on revenue. Only 1 scheme shows a profit higher, at 20% on revenue, however this was in a significantly lower value area than the subject property, therefore carried higher risks. The 4 other schemes were in broadly similar value areas to the subject site (in terms of the rates per sq ft being achieved).

4.49. Having considered the above, we conclude that RH's blended profit allowance of 17.59% on revenue is, based on the evidence of similar sized schemes in similar value areas, above expectations. For the purposes of our review we have applied a 'blended' profit equivalent to 15.5% on revenue, which is considered to be in line with the identified evidence.

Benchmark land value

4.50. The Benchmark Land Value ("BLV") attempts to identify the minimum price that a hypothetical landowner would accept in the prevalent market conditions to release the land for development. Whilst a relatively straight forward concept in reality this is open to interpretation and is generally one of the most debated elements of a viability appraisal. It is also often confused with market value, however the guidance stresses that this is a distinct concept and therefore is different to market value assessments.

4.51. The standard approach is to run an initial appraisal based on all of the above fixed inputs to arrive at a site value for the site. In accordance with the RICS guidance, this residual site value can then be compared to the "benchmark land value" (which is the minimum price that a hypothetical landowner would accept and a hypothetical developer would pay for the scheme to be delivered). If the residual site value is above this "benchmark" then the scheme is viable. If the residual site value falls below this figure then the scheme is deemed to be unviable.

4.52. Viability assessors are provided some guidance through the National Planning Policy Framework ('NPPF') and Planning Practice Guidance ('PPG'), as published on 24th July 2018. One area which the PPG deals with is in relation to assessing BLV, stating the following:

4.52.1. 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. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.

4.52.2. The EUV should disregard any hope value.

4.52.3. Benchmark land value should reflect the implications of abnormal costs, site specific infrastructure costs and professional site fees.

4.52.4. Benchmark land value should be informed by market evidence including current uses, costs and values wherever possible.

4.52.5. 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 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.

4.52.6. Under no circumstances will the price paid for land be a relevant justification for failing to accord with the relevant policies in the plan.

4.52.7. Alternative Use Value of the land may be informative in establishing benchmark land value. However, these should be limited to those uses which have an existing implementable permission for that use. 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.

4.53. In other words, the Council should not subsidise (through a loss of planning policy contributions) any overbid made when acquiring the site. Any overbid (or indeed underbid) for a site should therefore be disregarded when considering the BLV. As part of the process of reviewing viability it is down to the assessor to determine whether a price paid is an appropriate figure (or not) to use as a BLV.

4.54. RH arrive at their BLV for the property by following the PPG, in that they establish an existing use value (by attributing a market value to the dwellings of between £99 and £116 per sq ft and an amenity land value to the vacant land of £10,000 per acre) and then apply a premium of 20% to the figure for the dwellings and a multiplier of 10 to the figure for the land, arriving at a total sum for the BLV of £4.382m. To reflect some of the impact of the abnormal costs, they reduce this to £3,680,000.

4.55. In terms of approach we agree with RH that the starting point is to establish the existing use value of the property. For the subject site, this involves identifying a value for the existing dwellings, which are understood to include the following:

- 6 x 2 bed terraces (around 807 – 861 sq ft)
- 26 x 3 bed terraces (around 807 – 861 sq ft)
- 1 x detached 1,894 sq ft
- 1 x detached 2,357 sq ft

4.56. For the terraced dwellings, RH have allowed £80,000 for the 2 bed dwellings and £100,000 for the 3 beds (which includes an allowance for capital expenditure to modernise the properties). Based on our review of the local market for traditional style terraced housing this is considered to be a reasonable allowance. This gives a total existing use value of £3.08million.

4.57. For the detached dwellings RH apply £189,400 and £235,700 (again inclusive of capital expenditure), which is equivalent to £100 per sq ft. Again, these allowances are considered to be reasonable within the context of the Whalley market and likely capital expenditure required for the properties.

4.58. Finally, RH have also applied a rate of £10,000 per acre to the surplus land associated with the property, giving a total of £17,700. We agree that this is reasonable.

4.59. The combined existing use value for the various elements totals £3,522,000, which we have accepted in our appraisal.

4.60. As per the requirements of the Planning Practice Guidance the next step is to apply a suitable premium uplift, to reflect the planning policy contributions associated with the scheme and also abnormal costs. RH arrive at a figure of £3,680,000. This is a premium uplift of just under 5%. In our experience uplifts typically range from 5% to 30%, dependent on the nature of the scheme. RH's allowance is therefore at the bottom end of expectations, so is not considered to be overstated. Taking into account the nature of the existing property on site, and also the associated abnormal costs with the proposed development RH's benchmark land value is considered to be reasonable and has been accepted in our appraisal.

5. Appraisal results and conclusions

5.1. As stated above, we have considered 2 scenarios as follows:

Scenario 1 – applies the Ribble Valley (small sample) BCIS rates
Scenario 2 – applied the Lancashire (large sample) BCIS rates

5.2. Please see attached our Scenario 1. With nil affordable housing and nil S106 contributions the scheme returns a residual land value of £2,535,776. As this is below the agreed benchmark land value of £3,680,000 this scenario is technically unviable even before any planning policies are factored into the appraisal.

5.3. Please see attached our Scenario 2. Again, with nil affordable housing and nil S106 contributions the scheme returns a residual land value of £2,807,648. As this is below the agreed benchmark land value of £3,680,000 this scenario is also technically unviable even before any planning policies are factored into the appraisal.

5.4. Having considered the above modelling we concur with the applicant's conclusion that the scheme is shown to be unviable, even before any planning policy contributions are factored into the assessment. The main reason for the poor viability outcome is because of the high existing use value associated with the existing dwellings on site.

5.5. However, this does raise the question of why the applicant is pursuing this development when a higher value could be attained by simply selling the existing buildings (our modelling showed a land value of circa £2.5million to £2.8million, whereas the existing use value of the existing buildings is around £3.5million).

5.6. Our conclusions remain valid for 6 months beyond the date of this report. If the implementation of the scheme is delayed beyond this time-frame then market conditions may have changed sufficiently for our conclusions on viability to be adjusted. Under this scenario we would strongly recommend the scheme is re-appraised.

Yours sincerely

David Newham MRICS
Director
CP Viability Ltd