For: Wiltshire Council

Review of Applicant Submitted Viability Position

Devizes Community Hospital
New Park Road
Devizes
Wiltshire
SN10 1EF

May 2023

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DixonSearle Partnership

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Executive Summary

i. Dixon Searle Partnership (DSP) has been commissioned by Wiltshire Council (WC) to carry out an independent review of the 'Financial Viability Assessment' (FVA) submitted on behalf of the applicant by Montagu Evans LLP (ME) in relation to the proposed development at Devizes Community Hospital, New Park Road, Devizes, Wiltshire, SN10 1EF.

ii. We have reviewed the submitted commentary and assumptions. The table below summarises the areas of agreement and disagreement. Here, the negative (red text) figures represent areas where our viability review process has found suggested savings (cost reductions) and positive (black text) figures represent increased cost assumptions compared with those submitted.

Item	DSP comment	Applicant's submitted assumption	DSP assumption	Difference (£)
GDV (residential)	Agree that the submitted sales values are suitably placed with reference to local evidence	£350/ft²	£350/ft²	-
GDV (commercial)	Agree that rental and yield assumptions are suitable given the location, with reference to local evidence. However have also tested the effect of an increase of 50% in capital value in order to 'stress-test' viability and note that this does not affect viability outcomes.	£162/ft² capital value	£162/ft² capital value	-
Scheme timings	The stated construction and sales timings are considered to be suitable. Precise timing of costs has not been specified therefore DSP have applied standard assumptions within our appraisal.	6-month lead-in, 18 months construction. 50% off-plan sales and remainder sold at a rate of 6 per month.	6-month lead-in, 18 months construction. 50% off-plan sales and remainder sold at a rate of 6 per month.	-
Construction Costs	Gardiner and Theobald Cost Consultants (G&T) have reviewed the submitted cost plan on behalf of the Council and consider the costs to be overestimated. G&T esimate costs to be £10.816 million including demolition and contingency (and excluding professional fees). We have applied G&T's estimate in our appraisal.	£12.014 million	£10.816 million (based on estimate from G&T)	-£1,198,000
Fees and contingency	DSP agree that the submitted percentage rates (applied to relevant costs) for fees and contingency are suitable, however these have been applied to lower build costs as per G&T's estimate, therefore the allowances in £ within our appraisal are lower.	Fees of £1,201,400 and contingency of £571,000	Fees of £1,081,600 and contingency of £515,000	-£ 175,800
S106 and CIL costs	The Council has provided DSP details of the requirements for S106 contributions. These exceed the submitted amounts by £140,000 therefore we have increased the costs within our appraisal accordingly. We also note that a higher amount of CIL might be chargeable - by our calculation an additional payment of c. £48,000 would be required. This is for the Council to confirm and we have not adjusted this in our appraisal.	Total of £500,948.	Total of £640,948.	£ 140,000
Finance costs	DSP agree that the submitted assumption based on 100% debt finance at 7.0% interest is a suitable proxy for the finance arrrangements on this project. We have not adjusted this assumption in our appraisal, however the costs in our appraisal are lower therefore over the course of the project the finance costs are lower.	7.0% interest rate, total finance cost of £795,512	7.0% interest rate, total finance cost of £722,481	-£ 73,031

Table continued on following page…

Item	DSP comment	Applicant's submitted assumption	DSP assumption	Difference (£)
Sales and marketing costs (residential)	Agree that the submitted assumptions are within expected parameters overall.	2.75% on GDV in total including legal fees	2.75% on GDV in total including legal fees	-
Agent's/legal fees for disposal of commercial unit	The amounts involved are negligible in the context of the scheme viability and do not affect the outcome.	1.5% of annual rent	1.5% of annual rent	-
Profit allowance (Developer margin)	Whilst we do not necessarily agree with the stated profit target/allowance, our appraisal based on a 100% market housing scheme, i.e. with nil affordable housing, indicates a profit of £1,781,973 therefore does not reach what would typically be considered a minimum level (being below the 15% to 20% GDV range suggested by the NPPF).	£3,105,412	£2,329,059 (minimum based on 15% GDV)	-£ 776,353
Benchmark Land Value	We disagree with the submitted Benchmark Land Value. We do not consider the submitted comparables to be suitable evidence since they are transactions based on purchase for redevelopment rather than for continuation of existing use and therefore do not follow the principles of the PPG. An Alternative Use Value based on conversion to a Care Home has been suggested however this has not been fully costed/assessed as required by the PPG. We have considered various methods of assessing the existing use value, concluding that the submitted value of £1.75 million in existing use is signficantly overestimated. We have tested our appraisal results against a nil land value.	£1,750,000	Scheme residual value tested against a nil land value.	-£1,750,000

iii. Overall, we consider that the scheme costs are overestimated by c. £3.8 million based on the above areas of difference. However, our appraisal based on the DSP assumptions noted above which we have run on the basis of nil affordable housing, indicates a residual profit of £1,781,973, equating to a relatively low 11.48% of GDV (gross development value), before any land value is taken into account. Our appraisal indicates therefore that the scheme does not reach the lower end of the range suggested by the PPG (Planning Practice Guidance) - 15% GDV and this is on the basis of a nil BLV (benchmark land value).

iv. Therefore, our appraisal indicates that the scheme is unlikely to be able to support a contribution to affordable housing based on current costs and values.

v. We have carried out sensitivity testing which indicates that the market sale scheme would likely need to achieve an increase in values of at least 14% from the submitted and agreed sales values levels and/or a reduction from our (lower) assumed build costs before a level of profit is achieved that would generally make the scheme proceedable by accepted parameters.

vi. However, given that the scheme is at outline stage and the details of the design, final layout, materials etc will be subject to a Reserved Matters planning application which could be several years hence, and where a significantly below policy-compliant affordable housing element is agreed, in our view it would also be appropriate (and fairly typical in our experience) for the Council to consider including a mechanism for further viability review at a later stage, once these details are known. This could further explore any improvement in the relationship between the development values and costs and if this supports a different view in time, ensure this is captured.

vii. The full report that follows provides the detail, subject to the notes and limitations also set out (those apply to the entire report and this brief summary).

Executive summary ends

1. Notes and Limitations

1.1.1. The following does not provide formal valuation advice. This review and its findings are intended purely for the purpose of providing our client Wiltshire Council with an independent check of, and opinion on, the planning applicant's viability information and stated position in this case. In the preparation of this review Dixon Searle Partnership has acted with objectivity, impartiality, without interference and with reference to appropriate available sources of information.

1.1.2. This document has been prepared for this specific reason and should not be used for any other purpose without the prior written authority of Dixon Searle Partnership (DSP); we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned. To the extent that the document is based on information supplied by others, Dixon Searle Partnership accepts no liability for any loss or damage suffered by the client.

1.1.3. We have undertaken this as a desk-top exercise as is appropriate for this stage and level of review. For general familiarisation we have considered the site context from the information supplied by the Council and using available web-based material.

1.1.4. So far as we have been able to see, the information supplied to DSP to inform and support this review process has not been supplied by the prospective / current planning applicant on a confidential basis. However, potentially some of the information provided may be regarded as commercially sensitive. Therefore, we suggest that the Council and prospective / current or subsequent planning applicant may wish to consider this aspect together. DSP confirms that we are content for our review information, as contained within this report, to be used as may be considered appropriate by the Council (we assume with the applicant's agreement if necessary). In looking at '*Accountability*', since July 2018 (para. 021 revised in May 2019), the published national Planning Practice Guidance (PPG) on viability says on this; '*Any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'*

1.1.5. Dixon Searle Partnership conducts its work only for Local Authorities and selected other public organisations. We do not act on behalf of any development interests. We have been and are involved in the review of other planning stage proposals within the Wiltshire area, but to date DSP has not provided strategic level viability assessment work to the Council.

1.1.6. In any event we can confirm that no conflict of interests exists, nor is likely to arise given our approach and client base. This is kept under review. Our fees are all quoted in advance and agreed with clients on a fixed or capped basis, with no element whatsoever of incentive/performance related payment.

1.1.7. Image sources: All photographs used in this report were taken on site visit of 27 April 2023 unless otherwise indicated.

2. Introduction

2.1.1 Dixon Searle Partnership (DSP) has been commissioned by Wiltshire Council to carry out an independent review of the 'Financial Viability Assessment' (FVA) dated 7 November 2022 and supplied to the Council on behalf of the applicant by Montagu Evans LLP (ME). This is in relation to the proposed development at Devizes Community Hospital, New Park Road, Devizes, Wiltshire, SN10 1EF.

2.1.2 The FVA has been submitted in support of an outline planning application (ref. PL/2022/08744) which seeks permission for '*Outline application (all matters reserved except for access) for part conversion and part redevelopment of the Devizes Community Hospital site to provide up to 58 no. residential dwellings (Use Class C3) and circa 67.7sqm flexible commercial unit (Use Class E), including the retention and conversion of two original buildings to the east of the site, with associated landscaping and parking'*.

2.1.3 Wiltshire Council's Core Strategy Policy 43 (Affordable Housing) requires 30% of the proposed new homes to be provided as affordable housing, with a tenure split of 60% Affordable Rent, 15% shared ownership and 25% First Homes. Therefore to be policy compliant the scheme would have to provide 10 homes for Affordable Rent, 3 homes for shared ownership and 4 homes as First Homes. However we understand that the applicant is seeking to apply vacant building credit which according to their calculations would reduce the affordable housing requirement to 20% (see calculation below, provided to DSP on 17 February 2023).

Calculating VBC (where NO net gain)			
Step 1: Select Affordable Housing Zone			
Affordable Housing Zone	Total Proposed Housing Units	Full Policy Affordable Housing Units to be provided on-site	Full Policy off-site Commuted Sum
30%	58	17.4	
40%		0	
Step 2: Insert Floorspace (sq.m)			
Gross Total Proposed Floorspace (sq.m)	Gross Existing Vacant Floorspace (sq.m)	Net Increase in Gross Floorspace (sq.m)	Net Increase in Floorspace as a proportion of Gross Total Proposed Floorspace
4935	1491	3444	0.69787234
Step 3: Affordable Housing Requirement after VBC is applied			
Affordable Housing Zone	Affordable Housing on-site after VBC is applied	Commuted Sum payable in-lieu of on-site Affordable Housing after VBC is applied	
30%	**12.14297872**	**£0.00**	
40%	**0**	**£0.00**	
Note: Number of Units required on-site should be rounded to the nearest whole unit			

2.1.4 The FVA has been submitted with the intention of assessing *'the maximum reasonable amount of affordable housing that the proposed development is able to provide'.*

2.1.5 In presenting their viability position, the applicant has supplied to the Council the aforementioned 'Financial Viability Assessment' (FVA) together with appendices including existing floorplans, photographs of existing buildings, proposed scheme plans, a printed copy of the submitted viability appraisal, details of commercial transactions with reference to the proposed commercial unit, and a budget cost plan from Johnson Associates (UK) Limited (JAUK) dated 20 September 2022.

2.1.6 DSP has also separately been provided with a budget costing exercise comparing the JAUK cost estimate with BCIS mean and upper quartile rates. Wiltshire Council has also provided DSP with an asbestos survey for the site, details of S106 contribution requirements, and a Vacant Building Credit calculation. Wiltshire Council separately commissioned Gardiner and Theobald Cost Consultants (G&T) to undertake a review of the submitted build cost estimate. G&T's report was completed on 10 May 2023 and its findings have been considered within this report.

2.1.7 For context, DSP has also had sight of the documents contained within the Council's online planning application files.

2.1.8 We have considered the assumptions individually listed within the FVA and provided our commentary based on those whilst also carrying out sensitivity testing where our opinion differs from that of the applicant's agent.

2.1.9 This report does not consider planning policy or the wider aspects in the background to or associated with the Council's consideration of this scenario. DSP's focus is on the submitted viability assumptions and therefore the outcomes (scope to support land value and profit) associated with that aspect of the overall proposals.

2.1.10 For general background, a viable development could be regarded as the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value (i.e. existing use value plus a reasonable premium) for the landowner and a market risk adjusted return to the developer in delivering that project. The Government's Planning Practice Guidance (PPG) on Viability sets out the main principles for carrying out a viability assessment. It states:

'*Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return…Any viability assessment should follow the government's recommended approach to assessing viability as set out in this National Planning Guidance and be proportionate, simple, transparent and publicly available. Improving transparency of data associated with viability assessment will, over time, improve the data available for future assessment as well as provide more accountability regarding how viability informs decision making…In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to* *secure maximum benefits in the public interest through the granting of planning permission'*.[1]

2.1.11 The submitted development appraisal has been run in a way which takes account of the benchmark land value (BLV) (assumed here at £1,750,000) of the site and assesses the level of additional residual potentially available in excess of that after allowing for a fixed developer's profit (assumed at 20.0% GDV, therefore £3,105,412).

2.1.12 The submitted viability appraisal has been run on the basis of nil affordable housing provision and this 100% market housing scenario, as presented, indicates a negative residual value of -£2,508,503 before the above-noted BLV is taken into account. Therefore after allowing for the assumed £1,750,000 BLV the scheme indicates a deficit of -£4,258,503. Overall, as presented, the appraisal indicates that the scheme will make a loss of -£1,153,091 and would therefore not be considered deliverable/proceedable under normal circumstances.

2.1.13 The FVA includes a sensitivity analysis, testing a 10% increase in residential sales values alongside a 10% decrease in total construction costs. Even this improved scenario indicates a residual value of only £105,833 and therefore a deficit of -£1,644,167 against the assumed BLV; therefore an 'actual' profit, taking into account this deficit, of £1,769,259 or 10.37%, which remains below what would typically be considered a reasonable developer margin. The FVA does not comment on whether this is considered an acceptable position by the applicant – it goes on to conclude that '*this viability appraisal therefore demonstrates that the development is unable to viably support any affordable housing'.*

2.1.14 This review does not seek to pre-determine any Council positions, but merely sets out our opinion on the submitted viability assumptions and outcomes to inform the Council's discussions with the applicant and its decision making; it deals only with viability matters, in accordance with our instructions.

2.1.15 DSP's remit is to review the submitted information to assess whether the stated viability scope available to support planning obligations (for affordable housing and/or other matters) is the most that can reasonably be expected at the time of the assessment. Our

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

brief does not go as far as confirming what should be the outcome where schemes are stated or verified as being non-viable per se, based on a viability submission or any subsequent review. It is for the applicant to decide whether there is sufficient justification to pursue a scheme, financially. While an absence of (or insufficient level of) planning obligations will be a material consideration, we are not aware that proof of positive viability is in itself a criterion for acceptable development under current national policy. The Council may wish to consider these matters further, however.

2.1.16 In this context, Wiltshire Council requires our opinion as to whether the viability figures and position put forward by the applicant are reasonable. We have therefore considered the information submitted. Following our review of the key assumptions areas, this report provides our views.

2.1.17 We have based our review on the submitted FVA and the premise that the viability of the scheme should be considered based on the assumption of current costs and values. We then discuss any variation in terms of any deficit (or surplus) created from that base position by altering appraisal assumptions (where there is disagreement if any).

2.1.18 We have not been provided with a 'live' electronic copy of the applicant's appraisal, therefore we have created an appraisal in Argus Developer using the appraisal summary and FVA commentary provided. ME's summary does not include the full cash flow/finance details therefore we are unable to precisely recreate their appraisal, however by running an appraisal on a profit outturn basis (with a fixed land value of £1), using the same assumptions and construction costs distributed in a typical 'S-Curve' we have produced an appraisal which results in similar finance costs and a residual profit of £576,719. When the assumed 20% profit (£3,105,412) is deducted this results in a deficit of £2,528,693 which is within £20,000 of the deficit indicated by ME's appraisal. Therefore we have used this as the basis for our trial appraisal, making adjustments as per the discussion in section 3, below.

2.1.19 This assessment has been carried out by Dixon Searle Partnership, a consultancy which has a great many years combined experience in the development industry working for Local Authorities, developers, Housing Associations and in consultancy. As consultants, we have a considerable track record of assessing the viability of schemes and the scope for Local Authority planning obligation requirements. This expertise includes viability-related work carried out for many Local Authorities nationwide over the last 20 years or so.

2.1.20 The purpose of this report is to provide our overview comments with regard to this individual scheme, on behalf of the Council - taking into account the details as presented. It will then be for the Council to consider this information in the context of the wider planning objectives in accordance with its policy positions and strategies.

2.1.21 In carrying out this type of review a key theme for us is to identify whether, in our opinion, any key revenue assumptions have been under-assessed (e.g. sales value estimates) or any key cost estimates (e.g. build costs, fees, etc.) over-assessed – since both of these effects can reduce the stated viability outcome.

3. Review of Submitted Viability Assumptions

3.1 Overview of Approach

3.1.1 The following commentary reviews the applicant's submitted viability assumptions as explained within the FVA and the accompanying development appraisals.

3.1.2 Primarily the review process takes into account the fact that the collective impact of the various elements of the cost and value assumptions is of greatest importance, rather than necessarily the individual detailed inputs in isolation. We have considered those figures provided, as below, and reviewed the impact of trial changes to particular submitted assumptions.

3.1.3 This type of audit / check is carried out so that we can give the Council a feel for whether or not the presented outcome is approximately as expected – i.e. informed by a reasonable set of assumptions and appraisal approach.

3.1.4 Should there be changes to the scheme proposals relative to the details now under review, this would obviously impact on the appraisal outputs.

3.2 Gross Development Value

3.2.1 The proposal is for 58 units (20 houses and 28 flats) plus 1 x commercial unit of 67.7 m².

Gross Development Value - residential

3.2.2 ME have applied an average rate of £350/ft² across all units, following their analysis of sales comparables. Individual unit pricing has not been provided. The following table shows the proposed unit mix, and the unit values resulting from a £350/ft² assumption.

Schedule of accommodation (based on Illustrative Accommodation Schedule DH20 [5183 PA3 4 Nov 2020])							
Type	**Beds/type/persons**	**Number of units**	**Ave unit size ft2 NIA**	**Total NSA sq ft**	**Assumed value (£/ft2)**	**Assumed value (£)**	**Total (£)**
Terraced	2 bed townhouse	5	958	4790	£ 350	£ 335,204	£ 1,676,021
Terraced	3 bed townhouse	4	1077	4306	£ 350	£ 376,883	£ 1,507,531
Terraced	3 bed two storey	1	1066	1066	£ 350	£ 372,993	£ 372,993
Terraced	3 bed two storey	6	850	5102	£ 350	£ 297,532	£ 1,785,190
Terraced	3 bed two storey	4	777	3109	£ 350	£ 272,076	£ 1,088,305
New build flat	2 bed 3pp	3	694	2083	£ 350	£ 243,051	£ 729,154
New build flat	2 bed 4pp	1	807	807	£ 350	£ 282,490	£ 282,490
New build flat	3 bed 4pp	3	829	2486	£ 350	£ 290,033	£ 870,100
New build flat	1 bed 2pp	3	543	1628	£ 350	£ 189,939	£ 569,816
New build flat	2 bed 3pp	2	699	1397	£ 350	£ 244,475	£ 488,950
New build flat	1 bed 2pp	2	543	1085	£ 350	£ 189,875	£ 379,750
New build flat	2 bed 4pp	2	861	1722	£ 350	£ 301,350	£ 602,700
New build flat	1 bed pp	4	547	2187	£ 350	£ 191,363	£ 765,450
New build flat	2 bed 3pp	2	660	1320	£ 350	£ 231,000	£ 462,000
Converted flat	1 bed 1pp	2	458	915	£ 350	£ 160,125	£ 320,250
Converted flat	1 bed 2pp	2	603	1206	£ 350	£ 211,050	£ 422,100
Converted flat	2 bed 4pp	2	829	1658	£ 350	£ 290,150	£ 580,300
Converted flat	1 bed 2pp	3	581	1744	£ 350	£ 203,467	£ 610,400
Converted flat	2 bed 3pp	3	678	2034	£ 350	£ 237,300	£ 711,900
Converted flat	2 bed 4pp	4	840	3358	£ 350	£ 293,825	£ 1,175,300
				44003	**£ 350**	**£ 15,400,700**	**£ 15,400,701**

3.2.3 Based on the assumed £350/ft², the average unit values would be c. £320,000 for houses, £235,000 for new build flats and £240,000 for converted flats.

3.2.4 ME have provided comparable evidence of three schemes in Devizes:

- St Peter's School – new build houses and converted flats 0.5 miles from the site. Flats sold in 2020 and 2021 for between £269 and £364/ft². Houses advertised for between £313 and £319/ft². ME note that the houses are semi-detached and larger than the proposed houses, therefore the proposed houses are likely to achieve higher values on a £/ft² basis; there is generally (but not always) an inverse relationship between property value (when measured on a £/ft² basis) and size.
- Erghum Lane, Devizes, 2.3 miles from the site – units sold between July 2020 and January 2022 for an average of £289/ft². ME note that the houses are much larger

than those proposed and therefore the proposed houses are likely to achieve a higher value per ft².

- Cedar House, London Road, 0.6 miles from the site – units sold in 2022 – asking prices were £395,000 to £435,000 for large 3-bed houses (average advertised price of £307/ft²).

3.2.5 Average house prices in Wiltshire have increased by c. 8% per annum in recent years (a total increase of 28% since February 2020). Therefore flats at St Peter's School could be expected to sell for between £235,000 and £365,000 at today's prices (£316 to £370/ft²). The St Peter's School development is located further from the town centre than the subject site and is on a busier road than the subject site. The subject site is also better situated, being close to the canal.

3.2.6 Applying house price inflation to the Erghum Lane values indicates a range of c. £295/ft² to £350/ft² at today's values for the larger properties at that site.

3.2.7 Cedar House is a more recently completed scheme and taking into account HPI, the data provided suggests asking prices of c. £340/ft², again for larger properties than those proposed. Cedar House also benefits from proximity to the canal.

3.2.8 As well as reviewing the comparables provided, we have carried out our own review of sold and advertised prices locally, as follows:

FLATS

New build sales

3.2.9 We have reviewed sales of new build flats in Wiltshire recorded by Land Registry over the past two years, which had an average sales value of £370/ft². Only one of these sales was in Devizes, and was at the St Peter's House development mentioned above, a 700 ft² converted flat which sold for £255,000 in February 2021. Applying HPI for flats to this price in order to update the value to the date of this review, indicates a value of £279,000 (£399/ft²).

3.2.10 Looking further afield, a development in Silver Street, Trowbridge (a similar value area in terms of average house prices) was completed in 2021 and consisted of a mix of new build and converted flats. Taking into account house price inflation, a value of c. £310/ft² is indicated for this scheme.

Silver Street new build flats (source: Kavanaghs Estate Agents)

Silver Street converted flats (source: Kavanaghs Estate Agents)

St George's Works, Silver Street (Source: OntheMarket)

3.2.11 St George's Works is in a town centre location, behind shops and overlooking Trowbridge Park. With regard to this comparable, we consider the submitted values of £350/ft² average are within the expected range for the subject flats.

Sales of flats on the second hand market

3.2.12 We have also reviewed sales of second hand flats in Wiltshire over the past two years. Allowing for house price inflation this indicates an average value of £250/ft².

3.2.13 Only four second hand flats have been sold in Devizes in 2023, achieving an average sales value of £206/ft².

3.2.14 25 Combe Walk, Devizes, SN10 2HE is a 721 ft² flat sold in January 2023 for £165,000 (£229/ft²). It is a modern purpose-built flat, constructed in 2007, is in fairly good condition, and is located 1 mile from the town centre. The assumed values of c. £250,000 (£350/ft²) for similar sized flats therefore appear fairly positive even after allowing for the premium attached to new build and the superior location and setting of the proposed flats.

Advertised prices of flats

3.2.15 Finally, we have reviewed advertised prices for flats within 10 miles of the site. The only new build flats currently advertised for sale are at Clarks Mill, Stallard Street, Trowbridge, and have an average advertised price of £320/ft², with a typical 2-bed, 797 ft² apartment advertised for £279,000 (£350/ft²).

3.2.16 The average advertised price for second hand flats in Devizes is £275/ft². Assuming a 5% discount from asking price indicates c. £260/ft². The submitted prices for new build flats are over 30% above this level, again suggesting that the submitted prices are not underestimated and reflect a positive view of potential values, reflecting the location.

FLATS - Summary

3.2.17 Reviewing the above examples and with reference to the submitted comparables, we consider an assumption of £350/ft² average sales values to be a not unreasonable assumption for the flats, appropriately reflecting a new build premium, the convenient location and the attractive setting of the site.

HOUSES

New build sales of terraced houses

3.2.18 We have reviewed sales of new build terraced houses in Wiltshire recorded by Land Registry over the past two years, which had an average (HPI adjusted) sales value of £337/ft².

3.2.19 There have been 23 terraced houses sold in Devizes over the past two years. When the sale prices are adjusted for HPI this indicates an average of £338/ft².

3.2.20 The proposed houses are fairly small and looking at properties of a similar size, on two developments at Winchcombe Avenue and Old School Mews (the St Peter's School redevelopment mentioned above) which are both within 1 mile of the site, although less favourably located for access to the town the average sales value indicated is £354/ft².

Sales of terraced houses on the second hand market

3.2.21 17 terraced houses have been sold on the secondhand market in Devizes over the past six months. The average sales value was £281/ft². The highest value achieved for a property at The Cedars[2], bought brand new for £382,000 in February 2022 and sold very soon after for £400,000 (£312/ft²) in December 2022.

[2] One of the comparable sites noted by ME which had similar properties advertised for £395,000.

Advertised prices of terraced houses

3.2.22 There are seven new build terraced houses advertised for sale within 0.5 miles of the site, with an average advertised value of £330,714 (£331/ft²).

3.2.23 There are seven new build terraced houses advertised for sale within 1 mile of the site, with an average advertised value of £286,667 (£301/ft²). The submitted values of £350/ft² exceed this average by 16% which is within the expected range given the location and the premium attached to new build.

TERRACED HOUSES - Summary

3.2.24 Reviewing the above examples alongside the submitted comparables, we consider an assumption of £350/ft² average sales values to be a not unreasonable assumption for the terraced houses.

Residential GDV - Conclusions

3.2.25 Overall, we consider the submitted values at £350/ft² to be suitably placed, reflecting the premium attached to new build development, the design and the advantageous location of the site. Noting the competing properties on the market we agree that this appears to be a fairly positive view of values. We have applied the submitted values of £350/ft² average within our base appraisal.

3.2.26 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability (for example as will be seen through our above noted sensitivity test). Whilst the opposite could also occur (the sales values could fall relative to the assumptions made), that is the developer's (applicant's) risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

Gross Development Value - Commercial

3.2.27 The scheme includes 729 ft² of commercial space, to be on the ground floor of one of the converted buildings.

3.2.28 ME have included rental and sales evidence at Appendix 5 of the FVA, and have assumed the following:

- Rental value of £13.00/ft²
- Yield of 7.50%
- Capital Value of £117,768 (£162/ft²)

3.2.29 Having reviewed the submitted comparables, and the commercial property available to rent in Devizes, we consider that the submitted assumptions and resulting capital value are suitable in this case – being a lower value than would be achieved for a similar newly built unit in a High Street/main shopping area location. We note also that this is a relatively small part of the scheme and even if the capital value was assumed to be 50% higher this would add c. £60,000 to the overall GDV which is not sufficient to affect the viability outcome.

3.2.30 We have applied ME's assumptions within our appraisal.

3.2.31 It is worth noting that any improvement in the sales value assumptions (compared with a level set at the point of the appraisal) would most likely be reflected in an improvement in scheme viability (for example as will be seen through our above noted sensitivity test). Whilst the opposite could also occur (the sales values could fall relative to the assumptions made), that is the developer's (applicant's) risk and such factors need to be kept in mind in making an overall assessment of the applicant's position.

3.3 Development Timings/Project Timescales

3.3.1 Development timings included within the FVA indicate a 6-month lead-in and an 18-month construction period. 50% of units are assumed to be sold off plan with income in month one following completion, with sale of the remaining market units assumed over the following 5 months (therefore just under 6 sales per month).

3.3.2 The commercial space is assumed to be sold to an investor with income as a lump sum on completion.

3.3.3 Overall the submitted timings are considered to be suitable for the purpose and therefore we have not adjusted these. As noted in the section on construction costs and finance costs, below, the precise timing of costs have not been specified in the FVA however we have applied standard assumptions in our base appraisal alongside the stated timings which leads to a similar result to ME's appraisal.

3.4 Cost Assumptions - Construction Costs & Fees

3.4.1 The submitted build costs are based on an indicative cost estimate by Johnson Associates (UK) Limited (JAUK) dated April 2022. The total assumed construction cost is £12,014,000 which equates to £223/ft² (£2,401/m²) including all externals and abnormals. The FVA suggests that the scheme is expected to be completed to a high specification, stated in the FVA to be supportive of 'optimistic' values.

3.4.2 Our initial benchmarking exercise indicated that the submitted costs are significantly above the median level indicated by BCIS.

3.4.3 Wiltshire Council separately commissioned Gardiner and Theobald Cost Consultants (G&T) to undertake a review of the submitted cost plan. G&T attended the site visit on 27 April 2023 and have produced a report on costs, attached as Appendix 1 to this report. G&T's estimate of construction costs is £10.816 million, which as per JAUK's estimate includes demolitions, conversion, new residential and commercial construction and external works, and makes an allowance for contingency.

3.4.4 The principal difference in costs is derived from G&T's application of median BCIS rates for the base build costs, whereas JAUK have assumed upper quartile build costs. Whilst we consider that the location, setting and scheme design all support values towards the upper end of the market, if costs at an upper quartile level were to be applied this could be considered to represent a higher specification and therefore a further premium on values. We note that G&T have assumed *'a medium to high specification'* and have referred to *'similar small-scale schemes under BCIS ref. 816'*.

3.4.5 In addition, JAUK have applied additional preliminaries costs to the BCIS rates, whereas G&T correctly point out that preliminaries costs are already included within BCIS rates. This results in a difference in cost of £745,000.

3.4.6 G&T have measured and valued the external works and taken a view on Asbestos etc. within demolitions, concluding that the submitted assumptions are '*generally in line with our measured estimates and anticipated market costs'.*

3.4.7 We have applied G&T's estimate of costs within our trial appraisal.

3.5 Fees and contingency

3.5.1 The development appraisal also includes an allowance of £1,201,400 for professional fees based on 10% of works cost. This is a typical assumption and considered reasonable in this case.

3.5.2 The submitted cost plan includes a 5% allowance for contingencies. Again, this is a fairly standard assumption, and not excessive, particularly for a scheme which involves converting existing buildings. G&T have commented on the contingency allowance within their report and they consider it to be *'in line with industry norms'*.

3.6 CIL / Planning Obligations

3.6.1 £200,000 has been included within the appraisal for CIL.

3.6.2 The amount of CIL to be charged will depend on what the Council considers the relevant deduction in floor area to be for the existing buildings. The CIL regulations indicate that the floor area of parts of buildings that have been in continuous use, if the intended use matches a use that could have lawfully been carried out without requiring a new planning permission, can be offset against the proposed floor area. This is a matter for the Council to consider.

3.6.3 Assuming that the whole existing floor area of 2,999 m² can be offset against the proposed 5,003 m² GIA, we calculate the CIL charge to be as follows:

CIL rate of £85/m² x 2,004 m² net increase in floor area x BCIS TPI Jan 2023(379)
Divided by
BCIS TPI 2015 (260)
= £248,303

3.6.4 A total of £300,948 has been included for S106 contributions, based upon the following estimated amounts:

- Waste and Recycling - £5,278
- Early Years Contribution - £95,670
- Secondary School Contribution - £200,000

3.6.5 As at 13 January 2023, the following contributions were stated by the Council to be required:

- Waste and Recycling: £7,387
- Education:
  - Early Years contribution as not enough spare capacity: £105,132
  - Secondary contribution as not enough spare capacity: £206,460
- Highways
  - £10k to the implementation of the Devizes wayfinding strategy
  - £150k off site contribution towards the delivery of walking and cycling schemes identified in the Devizes LCWIP
  - Green travel vouchers being offered to households of £300 / £150 where the lower figure is for those households with an occupant entitled to concessionary travel.
  - A Travel Plan monitoring fee of £7500 (£1500 pa over 5 years).
  - £500 towards physical map amendment and printing for both walking and cycling maps

3.6.6 Therefore if these contributions are secured there would be an additional c. £140,000 cost to include in the appraisal. In order to test this we have increased the S106 costs assumption within our appraisal to £490,000 total. We have not adjusted the CIL assumption, however we note that it is likely to be higher than the £200,000 estimated by the applicant; although as will be seen from our conclusions, any difference in the CIL owed is unlikely to alter the viability outcome/scope for affordable housing.

3.6.7 Wiltshire Council will need to confirm the relevant amounts. It should be noted that any change in the chargeable sum(s) would have an impact on the overall viability of the scheme as viewed through the appraisal – a reduction in the CIL cost assumption would improve the viability outcome and an increase (or inclusion of S106 contributions) would pull it downwards (looking at the effect of this assumption only). In all such reviews, we assume that all requirements that are necessary to make a scheme acceptable in planning terms will have to be included.

3.7 Development Finance

3.7.1 Typically, in the recent period we would expect to see finance rates of 6.0-7.0%, with those assumptions representative of the costs inclusive of all fees. However, we have begun to see higher rates being offered in the market and discussion with lenders indicates that whilst finance rates do not directly follow changes in the bank base rate, the recent increases (with the bank rate now at 4%) have put upward pressure on the cost of debt.

3.7.2 Finance costs have been included within the development appraisal using a 7.0% interest rate, which we consider to be a suitable assumption at the current time, being within parameters currently seen. As noted in 3.4, above, we do not have the precise details of the payment timings and cashflow. Finance costs (as submitted) amount to a total of £778,798 (a total of 6.7% of the stated construction cost).

3.7.3 Overall these costs are within the range seen currently. We have assumed construction costs to be spread using an 'S-curve' and have applied 7.0% finance costs across the project.

3.8 Sales and Marketing

3.8.1 Sales and marketing costs of 2.5% in total have been included in the appraisal, as well as 0.25% for legal fees. These allowances are within typical parameters and we have applied the same in our trial appraisal.

3.8.2 Agents' and legal fees relating to the commercial unit have been assumed at a total of 1.5% of the annual rent. The amounts involved are negligible and do not affect the viability outcome.

3.9 Developer's Risk Reward – Profit

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

3.9.2 The PPG, as above, although silent in terms of decision making, does set out a range of between 15% and 20% on GDV for market housing; lower for affordable housing in relation to plan making. Given that the NPPF and PPG expect planning applications to be consistent with the plan making stage, it is therefore also appropriate to assume that the range 15% - 20% on GDV (lower for affordable housing) may be considered application at the decision taking stage.

3.9.3 In this case, the submitted appraisal makes an allowance of 20% profit on GDV (residential and commercial). It is worth noting that the scheme as presented produces a profit of 3.9% GDV before any land value is taken into account (and a loss, once the assumed BLV is taken into account).

3.9.4 We do not agree that a 20% profit, at the upper end of the range suggested by the NPPF, should be applied across the board in this case. The scheme can be brought forward in separate phases if necessary, allowing an exit strategy or altering of timing/phasing in reaction to market conditions. The site is well located and the proposed scheme is not particularly high risk, being a mixture of houses and low-rise flats in a pleasant setting (close to the canal), therefore where properties are likely to sell well. We consider that an assumption closer to the middle of the 15% to 20% range would be more appropriate for the residential units. That said, the market at the time of writing is uncertain, with falls in house prices having been seen at the start of 2023, and with the consensus being that prices are likely to stagnate or fall over the coming year.

3.9.5 Typically a lower profit assumption is applied to commercial units (with 15% generally seen as a suitable maximum allowance).

3.9.6 In order to best assess the overall viability position, taking into account land value, we will run our trial appraisal on a residual profit basis, with the output indicating the amount (and % of GDV) available to cover both developer profit and a suitable Benchmark Land Value – discussed below.

3.10 Benchmark Land Value

3.10.1 In all appraisals of this type, the base value (value of the site or premises – e.g. in existing use) is one of the key ingredients of scheme viability. A view needs to be taken on land value so that it is sufficient to secure the release of the site for the scheme (sale by the landowner) but is not assumed at such a level that restricts the financial capacity of the scheme to deliver suitable profits (for risk reward), cover all development costs (including any abnormals) and provide for planning obligations as a part of creating sustainable development. This can be a difficult balance to reach, both in terms of developers' dealings with landowners, and Councils' assessments of what a scheme has the capacity to bear.

3.10.2 The RICS (Royal Institution of Chartered Surveyors) guidance note: 'Assessing viability in planning under the national Planning Policy Framework 2019 for England' (1st Edition, March 2021) took effect from 1st July 2021 and replaces the previous (RICS 2012) guidance note. Its emphasis reflects the Planning Practice Guidance (PPG) on Viability as noted below, and the PPG will remain the primary source of guidance in this field – viability in planning.

3.10.3 The 2021 RICS guidance states that:
'The BLV should not be expected to equate to market value. [...] The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers' contributions can be assessed. It should be set at a level that provides the minimum return at which a reasonable landowner would be willing to sell'

3.10.4 It goes on to state:
'The BLV is a benchmark value against which the developer contributions can be assessed. Once those contributions have been set, land markets should take the level of policy requirements in to account, just as all markets should take all relevant factors that affect value into account. PPG paragraph 013 states that 'Landowners and site purchasers should consider policy requirements when agreeing land transactions. This means that the actual price paid for a site cannot be used to reduce developer contributions.'

3.10.5 The revisions to the Viability PPG and the new NPPF (latter updated 19th February 2019, May 2019 and most recently in July 2021 in other respects) now very clearly advise that land value should be based on the value of the existing use plus an appropriate level of premium or uplift to incentivise release of the land for development from its existing use. With regard to how land value should be defined for the purpose of viability assessment it states: '*To define land value for any viability assessment, a benchmark land value should* *be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner*.'

3.10.6 The guidance defines existing use value as: *'the first component of calculating benchmark land value. EUV is the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield. Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.'*

3.10.7 It states that a Benchmark Land Value (BLV) should:

- *'be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.'*

3.10.8 The guidance further states that: *'Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.'* It goes on to state: '*Policy compliance* *means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement.)'*

3.10.9 With regard to assuming an alternative use value to determine BLV the guidance states: *'For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other than other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'*

3.10.10 It is therefore clear that the only acceptable approach to defining a benchmark land value for the purposes of a viability assessment, is the EUV+; or, exceptionally, AUV.

3.10.11 In this case, the BLV is based on the existing use value of the property as C2 space of 32,279 ft². The site is stated to extend to 2.08 acres (0.84 hectares).

3.10.12 ME have assumed an EUV of £1.6 million, and have applied a c. 10% premium leading to a BLV of £1.75 million (£55/ft²). The BLV equates to £841,346 per acre, or £2.08 million per hectare.

3.10.13 The Devizes Community Hospital has been *'declared by the Clinical Commissioning Group as being surplus to the needs of the local NHS and no longer suitable to meet the modern healthcare requirement of Devizes and the surrounding area[3]'*, hence the development of the new Integrated Care Centre. The site has now been completely vacated, with the last remaining occupants leaving in February 2023.

3.10.14 ME have considered three examples of *'Medical and School C2 Sales Evidence'*. However in our view these do not all make particularly suitable comparables:

- 11 Milway Road, Andover. This former nursing home/assisted living facility sold in July 2021 for £1.4 million and was purchased for conversion to 36 studio flats as a 'Co-living' build-to-rent scheme. As such the value of £85/ft² is likely to include some hope value for redevelopment and would not therefore be considered an existing use value.

- South Newton Hospital, Warminster, is the closest comparable, having been sold for hospital use and is currently a hospital/rehabilitation centre. The sale price was £37/ft² - however it is unclear whether there would be demand for a similar use at the Devizes Community Hospital site. Furthermore, we do not have details of the condition of the South Newton Hospital when sold therefore it is difficult to compare with the (dilapidated) condition of much of the Devizes site.

- St Peter's Junior School in Marlborough, Wiltshire. Stated to be purchased by Sherbourne St Peter's Limited. The company in question is a development company which purchased the site for redevelopment (stated at the time to be for conversion to a hotel, restaurant and gym), and has subsequently secured planning permission for residential and commercial (PL2021/005599). The achieved price of £149/ft² therefore includes some element of hope value which it is difficult to disaggregate from the overall price paid.

3.10.15 We note that another NHS property, Southgate House (former CCG Office Headquarters in Devizes), has also been declared surplus to requirements and has been marketed for

[3] Source: https://www.devizeshospitalredevelopment.com/

commercial use, with *'no interest from potential commercial occupiers[4]'*. The site is now being put forward for residential development of 44 units.

3.10.16 The FVA also considers 'Care Home Class C2 Evidence' although does not rely on this in the submitted assessment of BLV; stating only that the assumed EUV is '*conservative given the site could be lawfully operated under a C2 care home use which would achieve a significant premium'.* A C2 care home use would in our view be an alternative use value. Even if planning permission were not required, having inspected the buildings it is clear that significant works would be required to bring the buildings up to the standard of a modern care home – of a similar order to the costs required to build out the proposed scheme. It is not suitable for use as a care home in its existing layout and condition. A suitable assessment of AUV would require the applicant to put forward an appraisal of the values/costs of such a scheme. This has not been done and therefore we have disregarded this in our view of BLV.

3.10.17 In our view, the existing use value of the site is very low, and the site is arguably a liability at present. NHS Property Services describe the site as *'disused'* and *'no longer fit for purpose'* and rather than refurbish the existing buildings for medical use has chosen to provide a new health centre elsewhere with a build cost of £10.9 million.

3.10.18 Having said that, the reality is that no landowner will part with a site for nil value; the value in this case derives mainly from the incentive required to release the land for development (i.e. is mainly within the landowner premium), in our view.

3.10.19 We have seen similar NHS disposals/developments, with BLV assumed at a rate of £10 to £30/ft² depending on the size and location of buildings being disposed of. Applying the upper end of this scale would lead to an BLV of £968,370. This would equate to a BLV of £1.15 million per hectare – still a relatively high value for a site that is not currently in use.

3.10.20 Applying the £37/ft² achieved for South Newton Hospital Ltd would lead to a BLV of £1.2 million (£1.4 million per hectare). This assumes that the whole site could be sold for use as a hospital (and that the cost to a potential purchaser of bringing the buildings up to a useable standard would not exceed the potential site value)

[4] See comments on NHS website: https://www.southgatehousedevizes.com/

3.10.21 It is also possible that some of the more recently used parts of the site which are in useable condition could be let at low rents to a community organisation or similar. As can be seen from the site photographs at Appendix 2, this use would require substantial investment in redecorating/refurbishing that would have to be carried out by the lessor (making this an AUV) or lessee (with downward effect on rental value).

3.10.22 We note that the most recent VoA assessment of the current rateable value of the site is £39,350, as follows:

Property

Devizes Community Hospital, New Park Road, Devizes, Wilts, SN10 1EF

Valuation | Help with current valuation

Valuation

Current rateable value (1 April 2023 to present)

£34,250

This is the rateable value for the property. It is not what you pay in business rates or rent. Your local council uses the rateable value to calculate the business rates bill.

Estimate your business rates bill

Valuations for this property

Valuations		Effective date	Rateable value
CURRENT	**1 April 2023 to present**	1 April 2023	£34,250
PREVIOUS	1 April 2017 to 31 March 2023	1 April 2017	£27,500

Property

Ruh At Devizes Community Hospital, New Park Road, Devizes, Wilts, SN10 1EF

Valuation | Help with current valuation

Valuation

Current rateable value (1 April 2023 to present)

£5,100

This is the rateable value for the property. It is not what you pay in business rates or rent. Your local council uses the rateable value to calculate the business rates bill.

Estimate your business rates bill

Valuations for this property

Valuations		Effective date	Rateable value
CURRENT	1 April 2023 to present	1 April 2023	£5,100
PREVIOUS	17 September 2021 to 31 March 2023	1 April 2017	£3,800
PREVIOUS	1 April 2017 to 16 September 2021	1 April 2017	£4,000

3.10.23 Applying a yield of 10% to the VoA assumed rental income of £39,350 would lead to an EUV of £393,500. With a landowner premium this would indicate a BLV of c. £450,000.

3.10.24 Overall we consider that the BLV of £1.75 million is likely to be significantly overestimated. Having inspected the property, much of it does not appear to be in a lettable condition (see site photographs in Appendix 2) and it is clear from the NHS's decision to vacate the site that the buildings are not suitable for use as a modern medical facility.

3.10.25 As noted in the discussion on profit at 3.9, above, we will run our trial appraisal on a residual profit basis, with the output indicating the amount (and % of GDV) available to cover both developer profit and land value, taking an overall view on whether the outcome meets or exceeds a suitable profit/land value.

4. Summary and Recommendations

4.1.1 The submitted approach to assessing the viability of the proposed development appears to be appropriate overall in terms of the principles in use, in our opinion.

4.1.2 Many of the assumptions also appear fair at this stage. However, there are aspects that we have queried or where a difference of opinion exists. These include:

- Appraisal outcome and overall land/profit position – as a general point, the presented position is that the proposed scheme makes a significant loss. On the basis of the submitted assumptions, the scheme is not deliverable/proceedable, even without the inclusion of affordable housing. This outcome also seems at odds with the stated intention of NHS property services to realise income from sale of the site, to contribute to the costs of health provision elsewhere. As presented, the proposed scheme generates neither any land value nor development profit.

- Build costs – the submitted build costs significantly exceed the median rates indicated by BCIS. Costs have been reviewed by Gardiner & Theobald, whose report is attached as Appendix 1. G&T's estimate is c. £1.2 million lower in total than the applicant's cost consultant's estimate. We have applied G&T's estimate in our trial appraisal.

- S106 contributions – based on information provided by the Council, we have included an additional c. £140,000 cost in our appraisal for S106 contributions, increasing the overall S106 allowances from £300,948 to £490,000 in total.

- Developer profit – the assumption within the submitted appraisal is a 20% GDV profit across all residential and commercial units. We consider this assumption to be excessive. It is worth noting that taking into account the negative residual value (as presented) the submitted appraisal produces a profit of 3.9% GDV before any land value is taken into account (and a loss, once the assumed BLV is taken into account).

- Benchmark Land Value – we consider the submitted BLV of £1.75 million (£2.08 million per hectare) to be unrealistically high given that the site has been declared to be no longer fit for purpose, is disused; and with various buildings being in need of significant refurbishment work to make them fit for letting/occupation.

4.1.3 We have run our trial appraisal on a residual profit basis, with the resulting outcome representing the amount available to cover developer profit and a suitable land value. We will consider the results in this context.

4.1.4 The submitted viability appraisal has been run on the basis of nil affordable housing provision and this 100% market housing scenario, as presented, indicates a negative residual value of -£2,508,503 before any land value is taken into account. The profit allowance within the submitted appraisal is 20% GDV (£3,105,412). Therefore taking into account the deficit, the profit indicated by the submitted appraisal is £596,909, or 3.9% of GDV.

4.1.5 Our trial appraisal (a summary of which is attached as Appendix 3), also run on the basis of nil affordable housing, indicates a residual profit of £1,781,973 which equates to 11.48% of GDV, again before any land value is taken into account. Our appraisal indicates therefore that the scheme does not reach the lower end of the range suggested by the NPPF/PPG (15% GDV).

4.1.6 Therefore, our appraisal indicates that the scheme is unlikely to be able to support a contribution to affordable housing based on current costs and values.

4.1.7 Viewing the above results, whilst applying DSP and G&T's assumptions results in a more positive view of the viability of the scheme than that of the applicant, the scheme remains a long way from what would typically be considered a reasonable level of market profit.

4.1.8 We have carried out sensitivity testing which indicates that the market sale scheme would have to achieve values in excess of £400/ft² average and/or a reduction in the assumed build costs before a level of profit is achieved that would make the scheme proceedable by accepted parameters. It can be assumed that the applicant is willing to accept a sub-optimal profit, or hopes to achieve efficiencies in the build cost via the usual methods of value engineering.

4.1.9 The issues with viability are principally thought to be inherent in the estimated sales values at this location not being high enough compared with the likely costs of development – which include the cost of preserving existing buildings.

4.1.10 However, given that the scheme is at outline stage and the details of the design, final layout, materials etc will be subject to a Reserved Matters planning application which could be several years hence, and where a significantly below policy-compliant affordable housing element is agreed, in our view it would also be appropriate (and fairly typical in our experience) for the Council to consider including a mechanism for further viability review once these details are known – ensuring also that any improvement in the relationship between costs and values over time is captured.

4.1.11 As additional information for the Council, it should also be noted that Paragraph 65 of the revised NPPF and recent Appeal precedent indicates that that major developments (i.e. of 10+ dwellings) are expected to provide at least 10% of the proposed homes as 'affordable home ownership' units. The Council may wish to consider the implications for this scheme / application.

4.1.12 We need to be clear that our review is based on current day costs and values assumptions as described above, based on the current scheme as submitted. A different scheme may of course be more or less viable – we are only able to review the information provided.

4.1.13 No viability appraisal or review can accurately reflect costs and values until a scheme is built and sold - this is the nature of the viability review process. In this sense, the applicant and their agents are in a similar position to us in estimating positions – it is not an exact science by any means, and we find that opinions will usually vary.

4.1.14 The RICS guidance notes that *'Development risk'* reflects: *'The risk associated with carrying out, implementing and completing a development, including site assembly, planning, construction, post-construction letting and sales'* and that *'The return for the risk is included in the developer return and the PPG makes it clear that it is the developer's job to mitigate this risk, not plan makers and decision takers'.* This is all part of the usual development process. Furthermore, in reflecting the PPG the RICS guidance notes: *'PPG paragraphs 007 and 009 reflect on the impact of market cyclicality during the life of the plan. Paragraph 007 gives market downturns as one example of the justification for a site-specific FVA, but it is restricted to "a recession or similar significant economic change". This implies the exclusion of normal market cyclicality, which is embedded in the level of developer return'.*

Review report ends

May 2023

Appendix I – Cost review report from Gardiner and Theobald

Appendix 2 – Site photographs

Appendix 3 – Summary of DSP scheme appraisal