ADAMS INTEGRA

South Oxfordshire District Council

Listening Learning Leading

Assessment of the report from BVA entitled:

"Response to comments received from SODC on the consultation into the proposed: Burcot and Clifton Hampden Neighbourhood Development Order"

Land north and south of Abingdon Road
Clifton Hampden
South Oxfordshire

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Contents

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Introduction

Adams Integra has been instructed by South Oxfordshire District Council to review the report entitled: "Response to comments received from SODC on the consultation into the proposed - Burcot and Clifton Hampden Neighbourhood Development Order:

Adams Integra were previously instructed by South Oxfordshire District Council to review the revised evidence submitted in support of the Burcot and Clifton Hampden Neighbourhood Development Order (NDO) on feasibility dated November 2022 compiled by Bailey Venning Associates (BVA) in conjunction with Thomas Homes which proposed the following:

> *"17 new houses, associated open space together with provision for a new surgery to serve the village, other community facilities including burial ground, landscaping, highway and other associated works"*

The conclusion of our report was as follows:

> *"The appraisal which can be found at Appendix 1 for the proposed 17 houses and flats (with 6 affordable units) results in a residual land value of £1,657,340.*
>
> *This is above the BLV assumed by BVA and is above the existing use value of £111,197 by a factor of 15 and clearly shows that a scheme with 40% affordable housing (6 units) would be viable.*
>
> *For completeness we have also carried out an appraisal but with the lower sales values used by BVA.*
>
> *This appraisal which can be found at Appendix 3 for the proposed 17 houses and flats (with 6 affordable units) results in a residual land value of £1,362,699.*
>
> *This is still above the BLV assumed by BVA and is above the existing use value of £111,197 by a factor of 12 and clearly shows that a scheme with 40% affordable housing (6 units) would be viable.*
>
> *It remains our opinion that this appraisal demonstrates that the proposed scheme is viable and could provide an 40% affordable housing comprising the following tenure mix as well as the other proposed contributions as outlined in the report above:*

- *two 1-bed flats for first homes*
- *two 1-bed flats for social rent*
- *one 2-bed house for affordable rent*
- *one 2-bed house for shared ownership*
- *plus a financial contribution towards the remaining 0.8 of an affordable unit.”*

Viability Guidance

In advising the Council in respect of viability, we need to have regard to published guidance. In this respect, we are considering in particular the National Planning Policy Framework (NPPF) December 2023; The Planning Practice Guidance, updated February 2024 and the RICS publication "Assessing viability in planning under the NPPF 2019" March 2021.

With regard to NPPF, we believe that paragraph 58 is particularly relevant. It states:

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

The Planning Policy Guidance goes on to say the following:

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

and

> *"Any viability assessment should reflect the government's recommended approach to defining key inputs as set out in National Planning Guidance."*

The PPG goes on to say the following:

> ***"Standardised inputs to viability assessment***
> ***What are the principles for carrying out a viability assessment?***

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.
This National Planning Guidance sets out the government's recommended approach to viability assessment for planning. The approach supports accountability for communities by enabling them to understand the key inputs to and outcomes of viability assessment."

It also goes on to look at the following:

- *How should gross development value be defined for the purpose of viability assessment?*
- *How should costs be defined for the purpose of viability assessment?*
- *How should land value be defined for the purpose of viability assessment?*
- *What factors should be considered to establish benchmark land value?*
- *What is meant by existing use value in viability assessment?*
- *How should the premium to the landowner be defined for viability assessment?*
- *Can alternative uses be used in establishing benchmark land value?*
- *How should a return to developers be defined for the purpose of viability assessment?*

Between NPPF and RICS the guidance presents a case for requiring flexibility in the face of changing market conditions, whilst affirming that development will entail an element of risk for the developer. A viability assessment needs to take both these positions into account.

The ability of the site to contribute a level of Section 106 contributions needs to be assessed through a consideration of the various inputs into the development appraisals.

Appraisal Inputs

Our responses to the BVA report (February 2024) that follow are in the same order as in the BVA report and deal with each item in turn.

The BVA report says the following:

> *In formulating my response, I need to take account of three things:*
> *• First, there are changes to the viability of the scheme that arise simply from the passage of time and, since the inspector must make a "point in time" decision, it is appropriate that this should be based upon an up-to-date view of costs and values;*
> *• Second, we have had clarification of the value arising from the doctor's surgery. Previously, we had understood that the intention was for the trust to pay a rent that rendered the development of the medical facility broadly cost-neutral. That was the position previously set out in our report. Mr Coate indicated that he was willing to accept the principle, subject to a suitably drafted condition;*
> *• Third, in reaching his conclusions, Mr Coate has taken a different approach to a number of issues than the ones I have adopted – notably in respect of values, construction costs and Benchmark Land Value. Such disagreements are normal in studies of this type but, in my view, Mr Coate's assumptions are systematically optimistic rather than representing a balanced view.*

The BVA report goes on to say the following:

> *"There are four major areas which need to be updated.*
> *• Residential values*
> *• Construction costs*
> *• Value associated with surgery*
> *• Community Infrastructure Levy*
>
> *….values in the area have been notably flat over the period since the figures were first compiled. The following table shows data from the UK Land Registry and the average transaction price in South Oxfordshire and the UK more generally since August 2022.*
> *In South Oxfordshire, we see a slight increase in values after the base date with a few peaks and troughs, rising to a high point around 5% higher than the base in September last year before falling back sharply thereafter and ending slightly lower than the starting point - with the average property prices at £506,000 rather than £517,000.*

Lest that be considered a short-term effect, it is worth placing the South Oxfordshire figures in the context of the wider housing market at the level of the region and the country. In both the region and the country as a whole, values declined very slightly over the entire period.
The inference seems clear; if the figures were correct at the time they were compiled, they will remain broadly correct now and, if anything, very slightly optimistic. However, given the passage of time it is appropriate to review the more recent data that maybe available in order to check that our broad view of value remains robust.

BVA conclude by saying the following:

In summary, the values we assumed in 2022 appear to be an appropriately optimistic in light of the most recent information. I therefore remain satisfied that an average value of £4,963/m2 is appropriate and robust. In reaching that conclusion, am taking account of the fact that the village location is likely to attract strong values – there Mr Coate and I agree. But I see no justification for the use of the upper end of the value range – especially in light of the fact that house prices in South Oxfordshire have recently reverted to the downward trend seen elsewhere in the UK over a longer period.

Having looked at the evidence again and at the current trends in the housing market it is our opinion that the open market sales values adopted by BVA are fair and reasonable. However, it remains our opinion that the sales values for the 1 bed First Floor Maisonette @ 78m2 and the 3 bed semi @ 100 m2 are slightly low.

Our pricing takes into account the fact that there would be a new build premium and that this is an attractive village development.

We have adopted the following sales values.

No of units	Type	m2	Value	£/m2
1	2 bed EOT	88	£392,480	£4,460
1	2 bed EOT	88	£392,480	£4,460
1	GF Maisonette 1 bed	61	£255,000	£4,180
1	GF Maisonette 1 bed	61	£255,000	£4,180
1	FF Maisonette 1 bed	78	£275,000	£3,269
1	FF Maisonette 1 bed	78	£275,000	£3,269
1	Semi 3 bed	100	£495,000	£4,925
1	Semi 3 bed	100	£495,000	£4,925
1	Semi 2 bed	79	£420,000	£5,316

1	Semi 2 bed	79	£420,000	£5,316
1	Semi 2 bed	79	£420,000	£5,316
1	Semi 2 bed	79	£420,000	£5,316
1	Semi (Barn Style) 2 bed	80	£470,000	£5,875
1	Semi (Barn Style) 2 bed	80	£470,000	£5,875
1	Linked Barn 5 bed	252	£1,200,000	£4,762
1	Linked Barn 5 bed	252	£1,200,000	£4,762
1	Detached Farmhouse 5 bed	323	£1,550,000	£4,799
17	Totals	1,957.00	£9,404,960	£4,806

Affordable Housing Requirement

The response from the Council's affordable housing team says the following:

> *The National Planning Policy Framework states that affordable housing provision will be sought on major development schemes of 10 or more homes, or a site of 0.5 hectares. In accordance with Local Plan Policy H9, the affordable housing provision will be 40% on any site within the district of South Oxfordshire.*
>
> *For a site of 17 units this would equate to 6.8 affordable homes in accordance with the affordable housing mix below;*

Tenure mix	***Percentage %***	***Number of units***
First Homes	25%	2
Social rent	35%	2
Affordable rent	25%	1
Home ownership	15%	1

> *Where the affordable percentage results in a part unit, a financial contribution will be sought on the part residential unit. The expectation would be for 6 units to be delivered on the site with a commuted sum payable for the 'part' (0.8) unit. An appropriate commuted sum amount will be calculated upon request.*

We have assumed the following:

two 1-bed flats for first homes
two 1-bed flats for social rent
one 2-bed house for affordable rent
one 2-bed house for shared ownership

The previous BVA report said the following:

> *"In my assessment, I had assumed that, where there is to be any discount in the level of affordable housing, the Council would expect to see as many homes as possible delivered in the form of*

Affordable Rent, typically the priority tenure. I also made the assumption that a receiving RP might pay as much as £160,000 for a one bedroom home and £180,000 for a home with two bedrooms. What I did not say explicitly, was that both valuations would entail an element of grant.

Mr Coate's appraisal is on the basis of a compliant quantum of affordable homes and, consequently, he applies a mix of tenures both Affordable Rent and Intermediate.

Mr Coate values the 1 bed Affordable Rented properties at between £89,000 and £114,000 while he estimates the value of the 2 bed affordable rented homes at £129,000.

I agree with Mr Coate that it would be more appropriate in this context to value the affordable units without recourse to grant funding, which cannot be guaranteed and will not be available unless it is "necessary".

Nonetheless, I consider his valuations of the affordable homes somewhat ungenerous. This is an expensive area and the LHA which forms the effective ceiling for Affordable rents is high (although, as I pointed out, an RP might well seek to undershoot the LHA in order to make the units more affordable to the occupants. On that basis, I started with the LHA and cut it by a modest amount to derive a rent. I then annualised the rent, deducted 25% of the total to account form management maintenance and voids and capitalised the net rent at a rate of 4.75%.

LHA	Assumed Rent	Annual Gross	Annual Net	Capital Value
£155	£147.50	£7,692	£5,769	£121,455
£184	£170	£8,865	£6,649	£139,982

In round terms, £120,000 for one bedroom units and £140,000 for units with two bedrooms."

We agreed with BVA that the values of **£120,000 for a 1-bed and £140,000 for a 2-bed** were fair and reasonable for the **affordable rented properties.**
For the **social rented** properties, we have assumed a value of **£90,000**.
We have assumed a **shared ownership value of 65% of open market value**.
For the **first homes** we have assumed a value of **70% of open market value**.

Surgery Value

The latest BVA report says the following:

> *"In our earlier modelling we were given to understand that the provision of the surgery was to be on a cost neutral basis. We had understood that the Care Commissioning Group2 would provide a rent that was, when capitalised at a suitable yield, sufficient to off-set the cost of building out the surgery. However, we now understand that that the only funding secured is "around £25,000p.a." from the BOB ICG.*
>
> *We checked that against our understanding of healthcare rents which are typically around £200/m2 but can be as much as twice that in very tight markets. We found that a rent of £240/m2 at a yield of 7% would be sufficient to cover costs and, since we found both the yield and the rent to be within normal parameters, we modelled the scheme on the basis of cost neutrality.*
>
> *Mr Coate observed that a yield of nearer to 6% would better reflect the strength of covenant for a new healthcare practice but he did not reject the principle of cost neutrality – on condition that appropriate clauses were included to enshrine this principle in the NDO. I was therefore happy to accept a yield of 6%."*
>
> *Since that time, I understand it to have been confirmed that there is no further funding available from the BOB ICG. The only rent offered in respect of the facility is the sum of about £25,000.*
>
> *Moreover, even this imprecise sum has proved optimistic – it turns out to be £24,000 including VAT. In other words, £20,000 per annum.*
>
> *Capitalising this sum at 6% implies a value of £333,333.*
>
> *This means that, instead of being cost neutral, the provision of the surgery becomes a huge burden on the development. Our assessment of the cost of constructing the buildings is almost £1.2m. Once allowance is made for contingency, for professional fees and for finance, this rises to around £1.4m.*
>
> *The net cost of providing the surgery is therefore over £1m.*
>
> *That being the case, the surgery moves from being a simple requirement for the development to being the largest single planning burden on the scheme.*
>
> *I recognise that this is unusual, and that the examination will need to satisfy itself that this is, in fact the case.*

We have considered the comments made by BVA and agree that his is now a large burden on the overall viability of the scheme. **We agree with BVA that "*the examination will need to satisfy itself that this is, in fact the case."***

Build Costs

The report from BVA says the following:

> *"Our assessment of construction cost has been based upon data published by BCIS. The Build Cost Information Service is a database of projects which means that, for any given building type, it is possible to obtain a range of different costs – lowest, highest, lower quartile, median, mean, upper quartile and highest.*
> *The data Mr Coate and I are using is drawn from the same database, and uses the same building types. I am simply updating to reflect the passage of time. Notably, whilst Mr Coate updated his allowance for the cost of residential construction, he has not published and does not seem to have updated the costs of the surgery – leaving them at the cost level identified in 2022. I mean no criticism of Mr Coate in mentioning this; both he and were assuming that the development of the surgery would be cost neutral. As we shall see, this assumption has proven not to be correct. But, at this stage, I am simply demonstrating the impact of the passage of time.*
> *As the chart below shows, between April 2023 and the date of this writing, the cost base for both development types actually fell very slightly.*
> *The reason that my cost base remains notably higher than that of Mr Coate is that he uses the median point in the data sample and I use the mean. Each of us has added 10% to our base cost to allow for the cost of servicing and on-plot externals.*
> *Clearly, the significant factor here is the choice of median or mean as the basis of costs. I shall address this question more fully in the section dealing with differences of opinion.*
> *My purpose at this stage is to note that the published cost base has fallen slightly over a period. This is despite the fact that the BCIS All in Tender Price Index and the RICS CIL index – both of which track construction cost inflation - rose significantly over the past nine months. The All-In TPI increased by over 5%."*

In our previous report the BCIS rates for Housing, mixed developments (rebased to South Oxfordshire) showed a range from a lower quartile rate of £1,403 per m^2 to an upper quartile rate of £1,762 per m^2 with a median rate of £1,563 per m^2 and a mean rate of £1,607 per m^2.

The latest BCIS rates for Housing, mixed developments (rebased to South Oxfordshire) show a range from a lower quartile rate of £1,357 per m^2 to an upper quartile rate of £ 1,752 per m^2 with a median rate of £1,537 per m^2 and a mean rate of £1,602 per m^2.

The rates for Health Centres, clinics, group practice surgeries show a range from a lower quartile rate of £2,382 per m^2 to an upper quartile rate of £3,690 per m^2 with a median rate of £3,184 per m^2 and a mean rate of £3,128 per m^2.

BCIS rates do not include for external works or contingencies. We have made an allowance of 10% for externals.

It remains our opinion that it is fair and reasonable to assume the BCIS median rate (1,537 per m^2) for a scheme such as this. We have adopted the median rate (including externals) of £1,691 per m^2.

With regards to the surgery the BCIS sample size is very low and we would recommend that a QS is instructed to carry out an assessment of the likely build costs for this element of the scheme. For the purposes of this report we have adopted the figures used in the BVA report.

The BVA report goes on to say the following:

> *The other factor which would impact the cost of construction for future residential schemes is the planned increase in the standards set out in building regulations.*
> *These would not be captured in the BCIS data, which is based upon historic tenders. For the purposes of this exercise, I have made allowance for:*
>
> • *Decarbonisation £3,800/unit*
> • *Biodiversity Net Gain - £1,000/unit*
> *The impact of these changes to standards adds around £85,000 to total scheme costs.*
> *These costs would not have been applicable at the time of Mr Coate's most recent report but they would be now and they should be included.*

We agree that these costs should be included in the appraisal.

Village Hall

The previous BVA report says the following:

> *In respect of the extension to the village hall, we have been provided with an indicative cost of £75,000. Based on the 34m2 of the extension, that works out to £2,206/m2 – although we take that to be an all-in rate.*

It remains our opinion that this is a fair and reasonable assumption.

Professional Fees

The latest BVA report says the following:

> *National guidance on the assessment of viability suggests that professional fees should be calculated based upon a percentage of the contract sum. It publishes a range of percentages for this purpose. 8-12%. The implication, of course is that the most straightforward schemes would be at the lower end of this range and the more complex schemes would be at the top.*
> *We used the middle of the range – 10% - and, in doing so, we reflected that the scheme was neither at the most complex nor the least complex end of the range of "normal" developments.*
> *Mr Coate used an allowance of 7% - i.e. outside the range.*
> *We challenged that and, in his most recent report, he has used a split assessment: 7% in respect of the residential element and 10% in respect of the surgery. In effect, he is asking us to accept a blended rate of 7.6%. The first thing to point out is that this is still outside the range in published guidance.*
> *The second question to ask is whether, form the point of view of professional fees, this is as simple and straightforward as developments can be. I would argue that it is not. I would argue that the simplest conventional schemes would consist of a small cluster of houses built using the developer's standard typologies – thus minimising design costs.*
> *This is nothing like that – the homes are one-off designs, there are multiple uses, there are the works to the village hall, to say nothing of the development route via NDO.*
> *I can find no justification for Mr Coate's use of this allowance other than the fact that it improves the viability of the scheme."*

It remains our opinion that an allowance of 7% is a fair and reasonable assumption.

We can find no reference to a "range of percentages of 8 to 12%" in any "national guidance".

It is not in the Planning Practice Guidance (PPG*) and it is not in the RICS professional standard document entitled – "Assessing viability in planning under the National Planning Policy Framework 2019 for England – first published as a guidance note in March 2021 and reissued as a professional standard document in April 2023".*

The problem with this approach is that it applies a flat percentage rate to the build costs. This bears no relation to what the actual professional fees are. For this reason, we have challenged the application of a flat 10% rate.

As stated in our previous report **- If we are provided with updated information regarding the actual level of fees (with justification) then we would be prepared to look at his again.**

CIL / S106 costs

The previous BVA report said the following:

> *"Beyond the new surgery, the extension to the village hall and the four affordable homes, we have been provided with the following costs:*
> *• Village Contributions - £200,000*
> *• Car Park - £150,000*
> *• Allotments and Cemetery - £100,000*
> *• Public Open space £125,000*
> *• Community Infrastructure Levy @ £181.09/m2 (£308,000)*
> *We understand that many of these costs are secured by the draft S106 in respect of the site but we have not been provided with a copy. One of the purposes of the two stage reporting structure is to consult on these matters and to ensure that these costs are accurate and have not been double-counted."*

The latest BVA report says the following:

> *Since our initial submissions in 2022 the levy has therefore increased from £181.09/m2 to £241.48/m2 That is an increase of 33% which not only massively outstrips the published increase in BCIS that we have reflected in our modelling between 2022 and now (6%) but also the All in TPI Index (11%) and also the specialised CIL index that BCIS publishes for the specific purpose of updating the Community Infrastructure Levy*
> *There is no opportunity here to mitigate the CIL, I mention it simply to point out that the cost of this contribution has risen far more sharply than the cost of the construction it is intended to fund and vastly more quickly than the residential values that fund it.*

We have included the above costs in our appraisal at this stage. With regards to CIL we have applied the current rate of £241.48 per m^2 to the open market units only.

Sales and Marketing costs

The BVA appraisal said the following:

> *"My appraisal used an allowance of 1% for Agency and 1.5% for marketing. Mr Coate has trimmed the marketing allowance back to 1%. The difference is minimal but the allowance (which would need to cover advertising, the dressing and staffing of a show home and any incentives) is out of line with industry norms."*

As per our comments regarding professional fees above - We can find no reference to a "the industry norms" in any national guidance.

It is not in the Planning Practice Guidance (PPG) and it is not in the RICS professional standard document entitled – "*Assessing viability in planning under the National Planning Policy Framework 2019 for England – first published as a guidance note in March 2021 and reissued as a professional standard document in April 2023"*.

We do, however, have a vast experience of assessing scheme specific viability appraisals, not just in South Oxon but across the whole of the South of England.

The allowances that we have made are in line with recent viability appraisals we have carried out in the area. It remains our opinion that a sales and marketing allowance of 2% and £1,000 per property for legal fees.

Interest

The BVA updated report says the following:

> *"Our initial report was written in 2022 – at the tail end of the long period of low interest rates, when the BoE base rate was 1.75%. We applied an allowance of 7% to cover development finance. Mr Coate's April 2023 report made no change to that assumption, despite rates rising to 4.25%. At the time of this writing, they stand at 5.4% and the bank is not yet showing signs of easing rates. To reflect this, I have increased the assumed cost of finance in our appraisals to 8%."*

The current BoE base rate has reduced to 5%.

Finance costs have been assumed based on debt finance rate 7% p.a. assuming 100% debt funding over the whole development period.
The interest rate is the cost of funds to the scheme developer; it is applied to the net cumulative negative cash balance each month on the scheme as a whole. According to the HCA in its notes to its Development Appraisal Tool (DAT) '*The rate applied will depend on the developer, the perceived scheme risk, and the state of the financial markets. There is also a credit interest rate, which is applied should*

the cumulative month end balance be positive. As a developer normally has other variable borrowings (such as an overdraft), or other investment opportunities, then the value of credit balances in reducing overall finance charges is generally the same as the debit interest charge. A zero rate of credit interest is not generally plausible and will generate significantly erroneous results in a long term scheme'.
RICS also points out that it is often the case that schemes are modelled at current costs & values i.e. ignoring inflation (as is the case here). The RICS Financial Viability in planning paper states in appendix D 4.5 says that '... *current values and costs should be used together with a* ***net*** *of inflation finance rate. Such a net of inflation rate would be much lower than a bank rate (which naturally includes inflation expectations*)'.

The 7% rate is towards the upper end of the typical level of interest charges seen in numerous viability studies and given that we have **not** applied the same rate to the credit interest overall, we are of the opinion that the finance costs do not appear unreasonable in this case.

It remains our opinion that an all-inclusive interest rate of 7% is a fair and reasonable assumption.

Timings

In modelling the development, we have assumed a 6-month lead in period and a construction period of 18 months.

Profit

The latest BVA report said the following:

> *"Again, there is published guidance on the allowable levels of profit for the assessment of viability. That guidance acknowledges that, whilst developers may use all sorts of measure of profit internally (including IRR), the assessment of viability for planning purposes should typically be undertaken using a simpler measure – a percentage of GDV.*
> *Typically, a scheme should achieve a profit of between 15-20% of GDV. That the guidance is not explicit about the circumstances in which we should use a higher or lower figure although it does say that "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."*
> *In my appraisal I applied a profit margin of 20% to the open market element of the residential scheme and 6% to the affordable element. I have not allowed any profit at all in relation to the*

surgery or in relation to the works to the village hall. That is equivalent to just over 19.1% of overall residential value.

Mr Coate has used 17.5% in respect of the open market element of the residential, 6% to the affordable element and none to the surgery. That is equivalent to 16.7% of overall residential GDV across all tenures.

Mr Coate's allowance and mine are therefore both within the broad range identified by policy – his a little lower than the mid-point and mine a little higher.

Disagreements about profit rates are always difficult to adjudicate. What I would argue is that, although guidance refers to profit as a share of GDV, developers will also think about profit as a share of cost. After all, the cost is the money they invest, and it makes sound investment since to think about profit primarily as a return on investment.

There are large elements of this scheme which make no profit at all. No allowance for profit has been made either by Mr Coate or myself in relation to the new surgery. Those works represent capital at risk which is not compensated by additional profit. In my view, this is a good reason to opt for a slightly higher measure of profit that would otherwise be appropriate.

The other reason is, of course, the state of the market and the risks inherent in operating within it.

As I have mentioned, the general direction of the housing market in England, in the south east of England and now in South Oxfordshire is very gently downwards. At the same time, there remains considerable inflation in the construction sector. As I have noted, both of the national indices on construction costs were sharply up last year whilst the BCIS index for South Oxfordshire was very slightly down. The likeliest explanation for this is that it is South Oxfordshire is the anomaly and that the downward trend locally reverts almost immediately to reflect the national picture. That being the case, there is considerable downside risk on values and, at the same time, considerable upside risk on costs. Since viability appraisals must be undertaken on a point in time basis and cannot make allowance for future trends in either costs or values, the only place to account for these risks is in the profit margin. The allowance I have made is well within the parameters set out in national guidance but is somewhat above the mid-point. The allowance Mr Coate has made is also within the parameters in guidance but falls below the midpoint.

In view of the nature of this development and the risks in the market at the time of writing, I cannot accept his view.

It is correct that, for profit levels, there is guidance in the PPG which says the following:

> *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.*

It should be noted that the PPG refers to this range for "plan making". When carrying out whole plan viability appraisals it is the norm to build in a "buffer" to ensure that the plan policies are viable for a whole range of sites.

For scheme specific viability appraisals (such as this) we take into consideration the level of risk involved in the development. That is why the profit level for the affordable element is set at a much lower figure.

It should also be noted that since the last BVA report there has been a new Government elected who have pledged to build more houses and to "kick start" the economy. Interest rates have also reduced to a current BoE rate of 5% and look likely to reduce further.
According to various websites the market is pricing in that the Bank of England base rate will fall below 5% in November 2024 and by the end of 2024 the base rate is predicted to fall to nearly 4.38% before slowly falling to around 3.14% in 2029.

It remains our opinion that a profit level of 17.5% on GDV for the open market units is a fair and reasonable assumption.

We have applied a profit level of 6% for the affordable units.

Benchmark Land Value
With regards to the BLV the comments made in our previous report dated April 2023 are still relevant and should be referred to and taken into account.

The latest BVA report says the following:

> *"Accordingly, it has long been assumed that, in order to be sure that greenfield land will come forward, we should allow not a premium of 20% but a 10-20 times multiple of present use value.*

This is another example of there being no actual guidance on this matter of what the amount of uplift should be. The 10 to 20 times figure is often referred to by assessors, but it is important to look at where this actually figure came from.

We have carried out extensive research and the **only** reference we can find is from various whole plan viability studies where the following is often quoted:

The HCA Area Wide Viability Model (Annex 1 Transparent Viability Assumptions) is the only source of specific guidance on the size of the premium. The guidance states:

*There is some practitioner convention on the required premium above EUV, but this is some way short of consensus and the views of Planning Inspectors at Examination of Core Strategy have varied. Benchmarks and evidence from planning appeals tend to be in a range of **10% to 30% above EUV in urban areas.** For **greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value.**[5]*

[5] HCA Area Wide Viability Model (Annex 1 Transparent Viability Assumptions), August 2010, Transparent Assumptions v3.2 06/08/10

The HCA Area Wide Viability model (Annex 1) August 2010 is no longer in existence and cannot be found anywhere on the internet.

It is 14 years out of date, and, in our opinion, the starting point should always be the Planning Practice Guidance.

It remains our opinion, therefore, that **careful consideration should be given to the "uplift" over the EUV** that is being applied.

The Planning Practice Guidance is quite clear that the benchmark land value should be calculated on an Existing Use Value plus uplift basis.

It says the following:

> ***How should land value be defined for the purpose of viability assessment?***
> *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. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+).*
> *In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process.*

We have carried out a residual land appraisal of the proposed development which includes the benchmark land value and the profit and shows the amount of surplus or deficit that is available for S106 contributions (including affordable housing).

What factors should be considered to establish benchmark land value?

Benchmark land value should:

- *be based upon [existing use value]*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. 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.

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

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. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

What is meant by existing use value in viability assessment?

Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).
Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.

How should the premium to the landowner be defined for viability assessment?
The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.
Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

The latest BVA report says the following:

> *In my assessment, I noted that the specific landowner in this case had made it clear what they were prepared to accept in respect of this site. They were seeking £900,000 for the 4.5ha site itself and a further £400,000 in consideration of the village shop and its associated accommodation.*
> *As I understand it, those are the terms upon which the site may be released. If those terms are not met, then the greenfield element of the site will not be released for the proposed development and the dwelling associated with the village shop will simply be sold.*
> *The reason that the two elements are linked is that this development represents the only vehicle through which money can be raised to acquire the shop from the Trust. The developer will then be required, as a condition of the deal, to hand the shop over to the community in return for a nominal sum.*
> *My task was to consider whether these were reasonable terms. In my view, they were. The shop and its accommodation was essentially being traded at fair value and then transferred to the parish council for a peppercorn sum so that it could continue to trade as a village shop. It was unreasonable to assume that the trust would simply give away the asset. And the consideration in respect of the greenfield land was at the lowest end of the possible range of expectations for greenfield land.*
>
> *To this one might accept that £200,000/ha is the allowance that we might typically make in respect of greenfield development land, whilst this land is in the greenbelt and protected.*
> *To that, pointed out that, the actual trading value of greenfield land in South Oxfordshire is far higher. So much higher that, when Aspinall Verdi undertook their testing of the viability of the local plan, they set the Benchmark Land Value in respect of greenfield sites at £750,000/ha - three and a half times higher than the benchmark I have used.*
> *Moreover, when they tested those sites – including 40% affordable housing and all the other requirements imposed by the Council, they found that RLV generally exceeded that benchmark.*
> *What I was arguing was that the release from the greenbelt was justified by the fact that the landowner was accepting less than a third of the value that a greenfield landowner outside the greenbelt might expect to achieve and that the difference was being made up in additional public benefits – the surgery, the open space, the improvements to parking, allotments and cemetery as well as the village hall.*

Mr Coate's position appears to be that he does not accept that it is necessary to achieve a premium of 10 times agricultural value because the site is in the greenbelt. He does appear to accept that there will need to be some premium over and above agricultural value but he has not found it necessary to define what that might be because, in his view, the site is able to achieve a sufficient land value even with full compliance in respect of affordable housing. However, that was before the discovery that the secured rent for the surgery will not come close to covering the cost of the surgery. The loss of over £50,000per annum in rent will surely affect his conclusion in respect of RLV and this will compel him to take a view on the acceptable premium for greenfield land in the greenbelt. Even then, it is not clear to me that the family trust in control of the land will, in fact choose to release it at the value that Mr Coate deems appropriate."

We understand the rationale behind the above reasoning from BVA. However, it is unlikely that the occupants of the village shop and its accommodation will be charged no rent whatsoever. We have still not seen any such ***"indication of value provided by Savills in respect of the property*"**.

The issue of the Village shop still needs to be resolved. At this time the BVA appraisal includes £400,000 as a land value for the village shop. It is more likely that the accommodation would be let at a reduced rate on the understanding that the village shop was kept open and functioning.

The only reference to the transfer of the village shop we can find is in the draft S106 which says the following:

2.7 The First Owner shall prior to Implementation transfer the land edged oranged and numbered '7' and subject to a lease dated 31 January 2020 and made between (1) Christoper Thomas Bremner Purvis and Rupert Michael Fleming as the Trustees of the DCL Gibbs Children's Trust and (2) Christoper and Pauline Neill on Plan X to Burcot and Clifton Hampden Community Land Trust ("BCHCLT") at nil value. The Owners shall not permit Implementation until such transfer has occurred.

It appears, from the photos of the shop from the outside and its social media presence that the shop and Post Office are thriving. The addition of an additional 17 houses to the village will only serve to increase the shop's business.

As per our previous reports, we would request that further information is provided as to why the village stores has been included in the land value equation but there is no income no income derived.

We have, again, at this stage not included this in our appraisal.

As per our previous report BVAs interpretation of our reasoning is incorrect.

What we said was that the whole of this particular site (and wider parish) is in the Green Belt is only being considered due to *"very special circumstances".* It is being argued that the development of market homes in the Green Belt is needed to deliver the new GP surgery, other facilities and financial contributions.

We went on to say that any uplift applied to the EUV needs to take into account the other costs to this development (Doctors surgery (previously nil cost), Village Contributions, Car Park, Allotments and Cemetery, Public Open space).

For viability assessments such as this it is our opinion that the site value should be assessed by means of a residual development appraisal, i.e. the land value is generally determined last, and is not a fixed input at a level unrelated to the cost of abnormals and the planning gain (S106 obligations, CIL, planning conditions).
In short, it is the requirements of this site which drive the land value.

The valuation process therefore involves judging where the value of the site would be when all of the costs of are fully reflected. This is the **Residual Land Value.**
This RLV is then viewed alongside the price at which a reasonable, hypothetical, commercially minded landowner would dispose of the land (BLV) having regard to the site's Existing Use Value ("EUV").

This has been misinterpreted by BVA as being the benchmark. This is not the case. We recognise that the Benchmark Land Value should incorporate an uplift over EUV which will provide the landowner with the necessary uplift over EUV to incentivise them to sell the land. However, it should also take into account the various costs to the development and the policies of the Council.

The latest BVA report goes on to say the following:

> *I started this section by noting that the robustness of an appraisal lies not in the approach to any one input but in the totality of inputs. One might accept a somewhat narrower margin of profit if one had confidence that the market was rising, or that the values in the model were conservative.*
> *I hope that I have shown here that my own approach is appropriately optimistic in terms of values but is broadly in the middle ground of the cost allowances.*
> *Mr Coate's approach adopts high values and low costs (despite the acknowledged positive correlation between these two allowances) he is outside the parameters established by guidance on professional fees and he is below average on profit.*
> *In addition to that, he insists that the assembly of greenbelt land should be possible at some value below £200,000/ha although he has not suggested what that value should be.*

I conclude that, whilst Mr Coate's allowances are generally within normal ranges, there is a notable bias towards optimism in each of them so that, when considered in its totality his approach is unbalanced.
That, however, was my view prior to the significant change in respect of the rent payable on the surgery."

With regards to the following comment from BVA:

Mr Coate's approach adopts high values and low costs (despite the acknowledged positive correlation between these two allowances) he is outside the parameters established by guidance on professional fees and he is below average on profit.

We do not agree that we have adopted high values and low costs. We have agreed the revised sales figures in line with BVA and we have adopted the **median** BCIS rate not the lower rate.

As pointed out earlier in this report where is no "guidance" on professional fees and our profit level assumption is not "below average". 17.5% profit on the open market units is at the midpoint of the range in the PPG.

We have carried out a revised residual land valuation which establishes a residual land value which we will then consider against a reasonable benchmark land value to establish whether the policy compliant amount of affordable housing contribution is viable.

It is clear from the above guidance that the existing use value is key, and it is our opinion that this site would have an existing use vale of £10,000 per acre.

On this point we are in agreement with BVA. Their EUV is £90,000, **our EUV £111,197.**

Conclusions

We have carried out a revised appraisal of the scheme using the inputs described above to establish the RLV of the proposed scheme with the policy compliant number of affordable houses.

The argus appraisal has been utilised to establish the Residual Land Value of the Proposed Scheme.

The appraisal which can be found at Appendix 1 for the proposed 17 houses and flats (with 6 affordable units) results in a residual land value of £626,756.

This is above the existing use value of £111,197 by a factor of 5.6 and, in our opinion, demonstrates that a scheme with 40% affordable housing (6 units) would be viable.
It is our opinion that this uplift of 5.6 times EUV, which is equivalent to an uplift of 464% (four hundred and sixty four %) is a reasonable incentive to enable the landowner to sell this site (which is in the greenbelt) for development.

It remains our opinion that this appraisal demonstrates that the proposed scheme is viable and could provide an 40% affordable housing comprising the following tenure mix as well as the other proposed contributions as outlined in the report above:

- two 1-bed flats for first homes
- two 1-bed flats for social rent
- one 2-bed house for affordable rent
- one 2-bed house for shared ownership
- plus a financial contribution towards the remaining 0.8 of an affordable unit.

End of Report
Adams Integra
October 2024

Appendix 1 – RLV of the proposed scheme with 40% affordable housing (6 affordable units).

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APPENDIX 1

Clifton Hampden
17 units, 6 Affordable units.

Development Appraisal
Prepared by David Coate
Adams Integra
09 October 2024

Clifton Hampden
17 units, 6 Affordable units.

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**m²**	**Rate m²**	**Unit Price**	**Gross Sales**
2 bed EOT	1	88.00	4,460.00	392,480	392,480
2 bed EOT	1	88.00	4,460.00	392,480	392,480
GF Maisonette 1 bed first home	1	61.00	2,926.23	178,500	178,500
GF Maisonette 1 bed first home	1	61.00	2,926.23	178,500	178,500
FF Maisonette 1 bed social rent	1	78.00	1,153.85	90,000	90,000
FF Maisonette 1 bed social rent	1	78.00	1,153.85	90,000	90,000
Semi 3 bed	1	100.00	4,950.00	495,000	495,000
Semi 3 bed	1	100.00	4,950.00	495,000	495,000
Semi 2 bed affordable rent	1	79.00	1,772.15	140,000	140,000
Semi 2 bed shared ownership	1	79.00	3,455.70	273,000	273,000
Semi 2 bed	1	79.00	5,316.46	420,000	420,000
Semi 2 bed	1	79.00	5,316.46	420,000	420,000
Semi (Barn Style) 2 bed	1	80.00	5,875.00	470,000	470,000
Semi (Barn Style) 2 bed	1	80.00	5,875.00	470,000	470,000
Linked Barn 5 bed	1	252.00	4,761.90	1,200,000	1,200,000
Linked Barn 5 bed	1	252.00	4,761.90	1,200,000	1,200,000
Detached Farmhouse 5 bed	1	323.00	4,798.76	1,550,000	1,550,000
Totals	**17**	**1,957.00**			**8,454,960**

Rental Area Summary	**Units**	**m²**	**Rate m²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Surgery	1	350.00	57.14	20,000	20,000	20,000

Investment Valuation

Surgery					
Market Rent	20,000	YP @	6.0000%	16.6667	
		PV 10mths @	6.0000%	0.9526	317,534

GROSS DEVELOPMENT VALUE **8,772,494**

APPRAISAL SUMMARY				ADAMS INTEGRA

Clifton Hampden
17 units, 6 Affordable units.

NET REALISATION				**8,772,494**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			626,756	
				626,756
Stamp Duty			20,838	
Agent Fee		1.00%	6,268	
Legal		0.75%	4,701	
				31,806
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Surgery	350.00 m²	3,403.00 pm²	1,191,050	
2 bed EOT	88.00 m²	1,691.00 pm²	148,808	
2 bed EOT	88.00 m²	1,691.00 pm²	148,808	
GF Maisonette 1 bed first home	61.00 m²	1,691.00 pm²	103,151	
GF Maisonette 1 bed first home	61.00 m²	1,691.00 pm²	103,151	
FF Maisonette 1 bed social rent	78.00 m²	1,691.00 pm²	131,898	
FF Maisonette 1 bed social rent	78.00 m²	1,691.00 pm²	131,898	
Semi 3 bed	100.00 m²	1,691.00 pm²	169,100	
Semi 3 bed	100.00 m²	1,691.00 pm²	169,100	
Semi 2 bed affordable rent	79.00 m²	1,691.00 pm²	133,589	
Semi 2 bed shared ownership	79.00 m²	1,691.00 pm²	133,589	
Semi 2 bed	79.00 m²	1,691.00 pm²	133,589	
Semi 2 bed	79.00 m²	1,691.00 pm²	133,589	
Semi (Barn Style) 2 bed	80.00 m²	1,691.00 pm²	135,280	
Semi (Barn Style) 2 bed	80.00 m²	1,691.00 pm²	135,280	
Linked Barn 5 bed	252.00 m²	1,691.00 pm²	426,132	
Linked Barn 5 bed	252.00 m²	1,691.00 pm²	426,132	
Detached Farmhouse 5 bed	323.00 m²	1,691.00 pm²	546,193	
Totals	**2,307.00 m²**		**4,500,337**	**4,500,337**
Contingency		5.00%	165,464	
Contingency on surgery		5.00%	59,553	
Village Contributions			200,000	
S106/S278			60,000	

Clifton Hampden
17 units, 6 Affordable units.

CIL	1,433.00 m²	241.48 pm²	346,041	
				831,058
Other Construction				
POS			125,000	
Car Park			150,000	
Allotments & Cemetary			100,000	
Village Hall			75,000	
Building regs enhancements	17.00 un	4,800.00 /un	81,600	
				531,600
PROFESSIONAL FEES				
Professional Fees		7.00%	231,650	
Doctor's surgery		7.00%	83,374	
				315,024
MARKETING & LETTING				
Marketing		1.00%	78,620	
				78,620
DISPOSAL FEES				
Sales Agent Fee		1.00%	78,620	
Sales Legal Fee	17.00 un	1,000.00 /un	17,000	
				95,620
MISCELLANEOUS FEES				
Open Market Profit		17.50%	1,375,843	
Affordable PRofit		6.00%	35,580	
				1,411,423
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Land			93,710	
Construction			246,539	
Other			10,002	
Total Finance Cost				350,251
TOTAL COSTS				**8,772,494**
PROFIT				
				0

Clifton Hampden
17 units, 6 Affordable units.

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.23%
Equivalent Yield% (Nominal)	6.00%
Equivalent Yield% (True)	6.23%
IRR	6.46%
Rent Cover	0 mths
Profit Erosion (finance rate 7.000%)	0 mths