

Viability Report

Land at Newmarket Road Royston

Turner Morum LLP

12th July 2024

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1. BACKGROUND AND RELEVANT EXPERIENCE

- 1.1. My name is Thomas Hegan of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2010 following the award of an Honours degree in Real Estate Valuation and Management from the University of West England, Bristol – in 2005.
- 1.2. In 2007 I joined the practice of Turner Morum Chartered Surveyors and was made a Partner in 2013. I am a specialist in the field of development site appraisals and associated subjects. Some of the work I am currently undertaking or have recently undertaken is attached to this statement as Appendix 6.
- 1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land. I am currently instructed by a substantial number of Local Authorities, Landowners, Developers and Promoters, and I have extensive experience in this field. I am an Accredited Expert Witness and have previously provided Expert Valuation Evidence. I have successfully undertaken the Advanced Professional Award in providing Expert Witness Evidence & am also an RICS Registered Valuer.
- 1.4. The applicant has instructed Turner Morum LLP ('TM') to undertake a viability assessment of their proposed application scheme located in Royston, North Hertfordshire. This report has been prepared by Tom Hegan MRICS who is a Partner at TM and Theo Copley who is a Development Surveyor.

2. PROPOSED SCHEME

- 2.1. TM were appointed by the applicant to undertake a viability assessment in regard to their proposed development on the site at Newmarket Road in Royston. The proposed scheme comprises some 325 residential dwellings, and was the subject of a previous planning consent, for the scheme including 22% affordable (which is one of the scenarios I have modelled, as examined below).

3. SITE LOCATION & DESCRIPTION

- 3.1. The subject site is located at Newmarket Road in Royston. The gross site area equates to 14.4 ha. or 35.6 acres. A location plan can be viewed as per Appendix 1.

4. METHODOLOGY & VIABILITY GUIDANCE

- 4.1. I have carried out a development appraisal adopting a bespoke residual valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as Appendix 2. This appraisal model follows the same principles and methodology as other toolkit models such as Argus or the HCA Toolkit.
- 4.2. In undertaking this viability, I am aware of and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)*. I am also aware of viability guidance documents such the RICS *Assessing viability in planning under the NPPF 2019 for England (2021)*, the Planning Practice Guidance (PPG) on Viability published following updates to the National Planning Policy Framework (NPPF).
- 4.3. In carrying out this assessment, I have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information. I am not aware of any conflicts of interest in relation to this assessment.
- 4.4. In preparing this report, I have not agreed any 'performance-related' or 'contingent' fees. I address this report to Vistry only and it should not be reproduced without prior consent. This report has been provided for its stated purposes and singular use of the named clients and may not be relied upon by any third party.

5. RESIDUAL APPRAISAL METHODOLOGY

- 5.1. The widely accepted approach for assessing the viability of sites at the planning application stage and the plan-making stage is to produce a residual appraisal which generates a Residual Land Value (RLV) output. This RLV is then compared with an appropriate Benchmark Land Value (BLV) which is usually an Existing Use Value (EUV) or an Alternative Use Value in certain cases.
- 5.2. The simple premise is that where the RLV exceeds the BLV, a surplus is generated and the scheme can be considered "viable". However, if the BLV exceeds the RLV, a deficit is produced and the scheme can be considered technically "non-viable". The simplified structure of a viability assessment can be summarised as follows:

$$\begin{aligned}
 &\text{Gross Development Value (GDV)} \\
 &\quad \text{Minus} \\
 &\quad \text{Developer Costs} \\
 &\quad \text{Minus} \\
 &\quad \text{Developer Profit} \\
 &\quad = \\
 &\text{Residual Land Value (RLV)} \\
 &\quad \text{Minus} \\
 &\quad \text{BLV / EUV / AUV} \\
 &\quad = \\
 &\text{Surplus/Deficit (Viable/Non-Viable)}
 \end{aligned}$$

- 5.3. There are variations to the above methodology where the extent of the surplus is determined by measuring profit as an outturn against a target profit level; however, the principles remain the same. The above methodology is supported in guidance documents at both a national level with the PPG on Viability, and through professional bodies such as the RICS.

6. APPRAISAL MODELS TESTED

- 6.1. The residual appraisal analysis can be summarised as follows:

- Appendix 2 Tab 1A – Appraisal showing the viability of the proposed scheme with 40% affordable housing (130 units) with a 65/35 split as affordable rent and shared ownership respectively.
- Appendix 2 Tab 1B – Appraisal showing the same scheme as above but with 22% affordable housing (72 units) with a 65/35 split as affordable rent and shared ownership respectively.
- Appendix 2 Tab 1C – Appraisal showing the same scheme as above but with 15% affordable housing (49 units) with a c. 50/50 split as affordable rent and shared ownership respectively.

- 6.2. I will now run through the various appraisal inputs in sequential order as they appear in my residual appraisal analysis:

7. APPRAISAL INPUTS

GROSS DEVELOPMENT VALUE ('GDV')

- 7.1. Market revenues for the residential units are based upon research of comparable schemes and discussions with local agents. I have been provided with a full valuation report by Mr Chris Gregory of Developer Solutions. Included in the report are values ranging from £295k for

a 2 bed flat to £790k for a 5 bed detached house. On this basis, my appraisal assumes an average market revenue of c. £437 per square foot, with the full report included at Appendix 3.

- 7.2. The affordable revenues are based on benchmark percentages of Open Market Value ("OMV"). For affordable rented units this is included at 50% of OMV equating to £219 per ft² and for shared ownership at 65% of OMV equating to £284 per ft².
- 7.3. The total scheme GDV therefore equates to some £138.3m at 40% affordable housing and £159.2m at 15% affordable housing.

DEVELOPMENT COSTS

- 7.4. Fees and marketing costs in respect of the development are included at 3.25% of Market Housing Gross Development Value ("GDV"), and the cost of disposing of the affordable units to a Registered Provider is included at 0.5% of affordable GDV, as per standard industry benchmarks.
- 7.5. Standard construction costs are derived from the Royal Institution of Chartered Surveyors (RICS) Build Cost Information Service (BCIS) with standard construction costs included as per the latest median quartile figures (Q3 2024) derived from the default range of results. As per BCIS guidance, to the base construction costs additional allowances are made for locational weighting (1.08 – North Hertfordshire), Net to Gross for flats (15%), Externals (10%) and contingency (5%). A breakdown of the standard construction costs is included at Appendix 2 Tab 3. The aforementioned allowances result in standard construction costs of £170.93 per square foot for Estate Housing – Generally, £194.00 per square foot for Estate Housing – Single Storey and £227.36 per square foot for Flats – Generally.
- 7.6. It should be noted that a cost plan has been provided (as examined below) which also considered the externals costs – with markedly higher recommended costs than those I have adopted, which have been applied as a 10% addition to BCIS. It will therefore be appreciated that considerably higher external costs could have been justified, but my client is content that I include these lower external costs, with a view to swiftly concluding the viability / s106 discussions. Needless to say, had the full WTP external costs been included, the viability conclusions would have been significantly worse.

- 7.7. I have also made an allowance for the construction of the units in accordance with the latest building regulations, Part L at £4k per unit and Part F at £6k per unit totalling £3.25m.
- 7.8. An allowance for Technical Fees is included at 10% of the Standard Build Cost, which reflects the costs associated with Architects, Quantity Surveyors, Engineers, Project Management and other technical / professional consultancy fees. By way of comparison, the suggested allowance in Local Plan Viability Assessment – Update for North Hertfordshire District Council (produced by DSP in August 2016) is 10%.
- 7.9. I have then made an allowance for Developer Profit at 20% (of GDV) for the Market Housing and 6% (of GDV) for the affordable housing. These assumed returns are within industry accepted industry parameters, and the above allowances result in a blended target return of 17% on GDV in the policy compliant model.
- 7.10. The abnormal and infrastructure costs are derived from a cost plan provided by the WT Partnership Ltd (WTP). The total costs are assumed at £26.3m, equating to £81k per unit. Full details of the cost plan can be viewed as per Tab 5 of Appendix 2 and Appendix 4. As above, it will be noted that this cost plan assessment also include the plot external costs – but these have not been included within the enclose viability appraisal analysis (they have instead been included based upon a 10% addition to BCIS). This is a clearly a very challenging site due to the topography of the site, and the need for retaining walls, tree influences, etc.
- 7.11. Estimated S106 costs have been included at a cost of c. £6.5m as advised by the applicant, which is what was required by the LPA for the previously consented scheme. During the course of the application process, should the S106 contribution differ, the appraisal analysis can be updated accordingly.
- 7.12. With regard to the finance cost calculations, these have been reflected within my assessment within a quarterly cashflow for each development scenario. This can be seen as per Tab 6A – 6C of Appendix 2 and reflect the details of the particular scheme including the build rate of the residential units and the particular infrastructure timings.
- 7.13. I have assumed that residential construction will commence on site within Q2 Year 1 (following a 3-month period of site preparation / infrastructure works), and will be completed by Q4 Year 4. The cashflow adopts an 8.0% cost of debt, which I believe is reasonable in the current climate – given the current BOE base rate of 5.25%. The finance costs included within my

analysis equate to between 5.8% – 6.5% of development costs, which based on my experience, represent reasonable benchmark %s for a development of this nature.

8. BENCHMARK LAND VALUE

- 8.1. The structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an adopted Benchmark Land Value (BLV). If the RLV exceeds the Land Value, a surplus is generated and the scheme can be deemed “Viable”. However, if the RLV is less than the Land Value, a deficit is produced and the scheme should be considered “Non-Viable”. The issue of what is deemed to be an appropriate Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Existing or Alternative Use Value (EUV/AUV) as the Benchmark Land Value (BLV).
- 8.2. For the purposes of this analysis, I have adopted an EUV based on Local Plan Viability Assessment – Update for North Hertfordshire District Council (produced by DSP in August 2016). Outlined in this report are ranging values, of which I have adopted the midpoint equating to £370,000 per ha. or c. £150,000 per gross acre.
- 8.3. It is accepted in viability guidance/practice that a premium should be applied when adopting an Existing Use Value in a viability. This premium is intended to reflect the incentive required for a hypothetical landowner to sell their site. In this instance, I have not applied a premium but reserve the right to amend this position should an agreement failed to be reached on the viability.
- 8.4. I have then made allowances for SDLT (at the prevailing rates – equating to 4.8%) and Agency / Legal Fees (equating to 1.75%). After making these allowances, the final EUV adopted within the appraisal analysis totals some £5.69m.

9. SUMMARY CONCLUSIONS

- 9.1. The outturn of my analysis can be summarised as follows:

Description	No. Units	% Aff	Market Units	Aff Units	RLV	BLV	Surplus/ Deficit
40% Affordable	325	40%	195	130	-£9,447,515	£5,687,132	-£15,134,647
22% Affordable	325	22%	253	72	-£1,595,853	£5,687,132	-£7,282,985
15% Affordable	325	15%	276	49	£2,600,577	£5,687,132	-£3,086,555

- 9.2. It will be noted from the above summary table that the scheme shows as technically non-viable even when the level of affordable housing is reduced to 15% affordable housing.

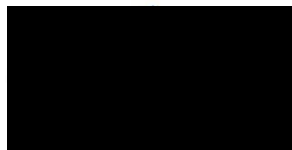
10. SENSITIVITY ANALYSIS

- 10.1. In order to consider the viability of the proposed scheme, I have undertaken a sensitivity analysis by varying the level of affordable housing to try and achieve the break-even position (where the RLV is equal to the BLV).
- 10.2. In this instance, as per Tab 1C, I have reduced the affordable housing to 15% with a c. 50/50 tenure split (between affordable rent and shared ownership), however even with this reduction in affordable housing, the scheme still shows a considerable viability deficit, and is therefore technically non-viable.
- 10.3. In order to assess the viability further, I have undertaken a sensitivity analysis which tests the impact of revenue & cost variations on the viability of the scheme at the policy level of affordable housing contribution, by up to a 10% variation. This enables one to observe the impact on the overall viability conclusions. This assessment is summarised in the table below (using appraisal model Tab 1C of Appendix 2 as the benchmark):

Tab 1C – GDV vs Total Cost						
	Surplus/Deficit	GDV				
		-10%	-5%	0%	+5%	+10%
TOTAL COSTS	+10%	-£32,462,868	-£23,726,431	-£15,892,977	-£8,257,526	-£882,012
	+5%	-£24,967,087	-£17,088,402	-£9,415,733	-£1,984,283	£5,180,925
	0%	-£18,283,827	-£10,573,941	-£3,086,555	£4,117,556	£11,107,128
	-5%	-£11,732,149	-£4,194,207	£3,044,798	£10,057,031	£16,917,567
	-10%	-£5,322,275	£1,964,065	£9,006,935	£15,876,730	£22,626,547

11. CONCLUSIONS

- 11.1. You will note from the summary table above and the appraisal included as Appendix 2 that the proposed scheme shows a viability deficit, even when the affordable housing is reduced to 15% with a 50/50 tenure split. This affordable housing scenario should therefore be considered technically 'Non-Viable', with a deficit of **-£3.086m**.
- 11.2. However, I am advised that my client is prepared to take a 'commercial decision' to proceed with this deficit, provided it does not increase any further. My client would also be happy to discuss different iterations of the scheme – looking at different affordable housing scenarios, tenure splits and / or s106 contribution amounts – provided this deficit does not increase further.
- 11.3. I believe the conclusions of our analysis are especially apparent when one considers the conservative nature of my adopted appraisal inputs, especially in regards to the plot external costs which have been included significantly below what WTP have recommended, the affordable values – which are high in comparison with amounts currently being paid in the market for s106 affordable dwellings, and the scheme finance rate, which at 8% is below what a developer would secure as a cost of development finance, given the current BOE base rate at 5.25%.
- 11.4. I hope this provides a sufficient level of information. I would welcome the opportunity to discuss the findings of my analysis with you at your earliest convenience.



Thomas Hegan MRICS