

**Development
Appraisal
Report**



Sherston Mixed Use Development

Sopworth Lane
Sherston
Wiltshire

Executive Summary

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Background

Seymour Surveyors Ltd (SSL) is a building and quantity surveying private practice regulated by the Royal Institution of Chartered Surveyors (RICS) based in Tetbury, Gloucestershire.

In June 2016 SSL tendered for the provision of a financial viability study for a site in Sherston with the potential of new housing and community facilities. Following award of the tendered works, SSL prepared a first draft of the report in August 2016. The draft was updated between September and December 2016 as additional information was made available by the various stakeholders. The final version was reviewed in January 2017 by members of the Neighbourhood Plan Committee for presentation at a public meeting.

This executive summary provides a commentary to the approach and summarises the findings of the appraisal. The full report includes detailed figures for sales revenue and costs of development. However, due to the commercially sensitive nature of these figures this summary does not provide such detail.

Viability Testing

The viability of any project is dependent upon the land owner's willingness to release the site for development. The 'Threshold Land Value' (TLV) is the price above the 'Existing Use Value' (EUV) at which point the landowner is likely to be willing to release the land for development.

Sir John Harman, chair of the Local Housing Delivery Group, stated in his 2012 report 'Viability Testing Local Plans' that;

"An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered."

The financial viability of any development project is subject to a significant number of influences which may include housing demand, market conditions, site limitations and planning requirements. As Sir John Harman noted, the expectations of landowners and developers will also impact the potential viability. Each site involves a unique combination of influences and, as a consequence, outcomes are not always predictable.

To establish a criterion for the viability of the potential development in Sherston the author used evidence and findings from the research report for the RICS by Neil Crosby & Peter Wyatt dated April 2015. The report, 'Financial Viability Appraisal in Planning Decisions: Theory and Practice', considered thirty-two detailed viability models that were presented to planning authorities through the appeals process. These models were reviewed by the Homes & Communities Agency (HCA) to establish a benchmark 'uplift factor' (i.e. a multiplier of the Existing Use Value to reach the Threshold Land Value). The HCA stated that 'for greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value.' This benchmark has been used as the envelope in which the development has been assessed as financially viable.

Methodology

The calculations within the viability report followed the process detailed within the Homes & Communities Agency Development Appraisal Tool (adapted to fit the project).

As recommended within the RICS guidance note (2012b refers), this appraisal followed the 'Residual Land Value' (RLV) approach. This requires the development value to be assessed from which the cost of the build plus other contributory costs are taken including an allowance for the developer's profit leaving a sum that is available to the landowner.

Development Parameters

The report considered a development of residential housing to include forty-five units with a mix of two, three, four and five bedroom properties. Wiltshire Council have stipulated that the development should include an allocation of 40% affordable houses as well as a contribution towards the Community Infrastructure Levy. Further considerations included a contribution towards educational facilities and provision for improvements to off-site foul sewerage infrastructure as well as the upgrading of the highway access via Sopworth Lane.

Included within the assessment are the following:

- 45 housing units incorporating a mix of property sizes
- 40% affordable housing included
- Affordable houses to be 2 & 3 bed
- Open market houses to be 3, 4 & 5 bed
- Provision of a 500m² GP Surgery
- Contribution to educational facilities
- Contribution to play park facilities
- Contribution towards the Community Infrastructure Levy (CIL)

- Upgrading of Sopworth Lane from new site entrance to Court Street
- Sustainable drainage systems
- Upgrading works for foul water sewerage
- Roads, footways, lighting & landscaping to the site
- Provision for utilities (water, electricity, telecoms)
- Professional fees
- Contingency allowance on build costs
- Developer's margin, planning, finance, legal & marketing costs

The report calculated the Residual Land Value (RLV) for the site based upon the above criteria.

Report Metrics

House Numbers

The report considered a development of forty-five houses with a mix of 3, 4 & 5 bed open market houses together with 2 & 3 bed affordable houses. Consideration was given to alternative housing numbers whilst maintaining the 40% affordable requirement. It was found that a higher RLV could be achieved using greater numbers of 5 bed houses, however, to provide a balanced development it was considered an even mix of properties was advisable. The report assumes that housing is restricted to the North-East section of the plot, i.e. North of the high-pressure water main. This provides a total area available for housing of approximately 18,000m².

House Size

Gross internal floor area for the various houses was advised by James Pyle & Co (JP&C) based on an understanding of local requirements. These areas were compared to published survey data for the Commission for Architecture and the Built Environment (CABE) and found to be comparable to national averages.

House Sale Price

The sale price of property can be highly variable particularly in an uncertain market. The effect on the economy of the vote to leave the EU is yet to be established and other unknown future events may also have an impact on property prices. However, Sherston remains a popular location and house prices generally carry a premium. Sales valuations were provided by JP&C and checked against current local market for similar properties. The valuation of affordable houses was discounted by a proportion identified by JP&C.

Build Costs

Construction costs for the house building have been based upon square metre rates that reflect current market figures. It is likely that the developer of the land would engage either a single builder or multiple contractors to undertake the build work.

These cost rates therefore include for the building contractor's preliminary costs, overheads and profit. The rates used are in line with SPON'S building prices per square metre and the experience of the author in the local market. Allowances were included for professional fees at rates recommended in SPON'S and for contingency.

Build costs take account of the local architecture with design expected to include locally sourced rubble walling with ashlar quoins and reconstituted stone roof tiles providing for a traditional 'Cotswold' look. The affordable housing costs reflect the inclusion of these design points but with slightly lower cost alternatives such as render on blockwork for exterior walls & concrete roof tiles.

Whilst it is likely that a housing association would undertake the building of the affordable units, it has been assumed for the purpose of the report that costs are likely to be the same or similar as if a single developer completed the whole of the project.

External Works & Infrastructure Costs

These costs would remain relatively static for the development regardless of changes to the housing mix. It has been assumed that the ground is stable and does not require remediation. Surveys would be required to establish whether any archaeological remains are on the site, an allowance has been made for the survey but it has been assumed that nothing would be found. Similarly, ecological surveys would be included to investigate the presence of bats & reptiles and an allowance has been included for this and some minor works for relocation. Further allowances have been included for land drainage, sustainable drainage systems, upgrading of services, street lighting, visitor parking and landscaping. Costs were based on estimated quantities at rates established from previous projects and allowances plus contingency.

Contribution & Statutory Payments

A sum has been included for a contribution towards extending the educational provision in the village, the figure was advised by Wiltshire Council. Highway improvements to Sopworth Lane and the junction with Court Street were based on the author's estimate from recent local experience.

The provision of a new GP surgery was included with a gross internal floor area of 500m², build costs were advised by experts in the provision of healthcare facilities and cross checked against figures from the Department of Health ('Healthcare Premises Cost Guides').

It has been assumed that the building of the GP surgery will be funded as part of the development costs. On completion, it is expected that the building will be owned and maintained by Wiltshire Council for a period of ten years. At the end of this period responsibility for the building will be transferred to Sherston Parish Council (or similar). Maintenance of the building will be funded by an annual rent provided by the NHS.

The value of the GP surgery as an asset is not factored into the report calculations however this should not be overlooked as significant benefit to the community.

A contribution towards the Community Infrastructure Levy was included based on advice from Wiltshire Council. An allowance to cover the cost of legal fees relating to the above was also included.

Other Costs

Site purchase costs, planning fees, financing and marketing charges were included based on published figures, expert advice and the author's experience of recent projects. Many of these are variable dependent upon finalised land and house prices, however the figures used broadly reflect the anticipated costs.

Developer Return

The Developer's Return used in the report is based upon planning appeal evidence from the RICS research report. Statements from six national housebuilders identified their net profit margin targets. These figures ranged from 17% to 28% of Gross Development Value (GDV). It was noted that larger schemes carried greater risks and therefore warranted higher returns. The Sherston development in comparison to those within the evidence base is a small project and should therefore involve less risk. The developer's return within the appraisal is aligned to the findings of the research report.

Phasing

For this proposed development, it is assumed that the construction will be carried out in phases. The first phase would be the ground works and infrastructure. Next would be the GP surgery and approximately 50% of open market housing followed by 50% of the affordable housing. Construction of the remaining open market housing and affordable housing would follow. The phasing of the works helps to minimise the amount and cost of borrowing for the project.

The inflationary effects of the phasing of the project have been excluded from the report. It has been assumed that both the rates of inflation on the sales and the build costs would be similar. Current economic predictions support this position with most commentators forecasting a period of low growth. Interest earned on positive cash in the bank has not been included.

Existing Use Value (EUV)

The EUV was based on similar property on the market at the date of the report. The calculated average is marginally above the national average for Q2 2016 (source Farmland Index, Knight Frank).

Appraisal Risks

1. Site owner unwilling to sell property
2. Property sales market suffers a downturn
3. Housing Association requirements in excess of the allowances made

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4. Ground requires remedial action
5. Archaeological remains discovered
6. Under-estimate of cost for service connections
7. Increase of estimated work required to handle foul & surface water drainage
8. Highway improvement scope creep
9. Insufficient contingency for build costs
10. Cost of borrowing increases

Conclusion

Based on the above development parameters, including 45 houses and a 500m² GP surgery, the report concludes that the project is financially viable sitting at the midpoint of the Threshold Land Value benchmark envelope.