

# Financial Viability Assessment

Land at Bankfield Drive  
Holmbridge  
West Yorkshire

Orion Homes

23 February 2024

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### **Author**

Angus Swain BSc (Hons) MRICS

### **Approved By**

Philip Roebuck FRICS

## Report Disclaimer

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Version	Prepared by	Approved by	Date
<b>Financial Viability Assessment – Bankfield Drive, Holmbridge</b>	Angus Swain BSc (Hons) MRICS	Philip Roebuck FRICS	February 24

## General Caveat

The development appraisals in this report are indicative and based on a wide range of variables which are subject to change as and when scheme designs are refined, and also in response to changes in market and economic conditions. The appraisal methodology is inherently sensitive to changes in the assumed inputs where small changes to the key variables could have a significant impact on the residual output.

The results should be interpreted with this caveat in mind and the appraisals should not be interpreted or relied upon as formal valuations prepared in accordance with the current RICS Valuation – Global Standards (the “Red Book”). In addition, we highlight the following:

## Market Context

Following the initial recovery of the economy from the COVID-19 pandemic, the UK is currently experiencing heightened uncertainty due to a number of factors.

The recent political turmoil observed in the UK has compounded the impact being felt from the war in Ukraine as well as the continued lockdowns in China with the corresponding impact on the pre-existing supply chain issues. These factors have compounded inflationary pressures, with annual inflation being at a 40-year high which is resulting in higher cost of living expenses as well as an expectation of further significant increases in the base rate.

The financial markets’ reaction to the “Mini Budget” has seen heightened volatility in Government Gilt yields as well as the SONIA SWAP rates and Sterling against other currencies. The Bank of England has acted to stabilise the markets, but confidence remains thin. Economic commentators and the Rating Agencies are forecasting a decline in UK GDP with a recession widely predicted.

In recognition of the potential for property market conditions to change in response to wider political and economic uncertainty, and the impact that such could have on development appraisal variables, we highlight the importance of the date of our assessment and the market context in which it has been prepared.

## Build Costs

We are currently seeing significant variation in tendered build costs and inflationary pressures across all sectors affecting the construction industry. As a result, the build cost assumptions that have been applied in this appraisal/assessment are susceptible to short term changes which could have a material bearing on viability and/or residual land values.

Further, the build costs in the appraisal assume that appropriate cost allowances have been made to reflect all statutory and construction regulations including, but not limited to Planning, Building regulations and most recently, The Building Safety Act 2022.

## Development Finance

Development finance costs are increasing due to recent increases in interest rates and this trend is expected to continue over the coming months. Such further increases in the cost of development finance could have a material impact on viability and/or residual land values.

## Development Programme

The development programme in the viability appraisal is indicative only and assumes that all regulatory approvals, including amongst others, Planning and Building Control and specifically the additional approvals required under the Building Safety Act 2022, will all be achieved within the assumed programme period. Any changes to the development programme could have a material impact on scheme viability and/or residual land values.

## Sensitivity Analysis

As a matter of prudence, we recommend that where not already provided, sensitivities should be examined to test the effects of variations to key inputs including but not necessarily limited to Gross Development Value/Net Development Value, build costs, development finance and development programme to inform risk and decision making, prior to any investment commitments.

Given the wider market volatility, it is also recommended that changes in costs, values and programme are closely monitored and the impacts on development viability are kept under frequent, ongoing review.

## Executive Summary

This Financial Viability Assessment ('FVA') has been commissioned by Orion Homes to assess the viability of Land at Bankfield Drive, Holmbridge, based on all relevant national and local planning policy requirements.

The Planning Practice Guidance for Viability ('PPGV') (July 2018, updated May / September 2019) states that an executive summary of an FVA is to be made publicly available to promote greater transparency and accountability within the viability assessment process.

The RICS Professional Statement Financial Viability in Planning: Conduct and Reporting (1st Edition, May 2019) also states that all FVAs must be accompanied by non-technical summaries to assist non-specialists in better understanding the report.

Accordingly, an executive summary has been prepared to present the findings of this FVA in a clear and concise manner. This executive summary should, however, not be considered in isolation from the full report.

<b>Input</b>	<b>C&amp;W Assumption</b>
<b>Site</b>	<b>Bankfield Drive, Holmbridge</b>
<b>Applicant</b>	<b>Orion Homes</b>
<b>Consultant</b>	<b>Cushman &amp; Wakefield</b>
<b>Proposed Development</b>	<b>21 no. residential dwellings</b>
<b>Policy Requirements</b>	<b>20% on-site affordable housing provision</b>
<b>Benchmark Land Value</b>	<b>£486,000</b> <b>(£321,000 per net developable acre)</b>
Net Sales Area	20,181 sq ft
Gross Site Area	1.62 Acres
Net Developable Area	1.51 Acres
GDV	£5,539,951
Build Costs	£2,831,629
Abnormal Development (inc. FHS) Costs	£935,206
Contingency	£131,709
Professional Fees	£226,530
S.106	£172,353
Marketing, Disposal and Legal Fees	£112,896
Finance	£120,006
Developer's Profit	£1,057,577
<b>Residual Land Value</b> (Inc. 20% affordable housing and policy compliant S.106 contribution)	<b>(£61,000)</b>
<b>Residual Land Value</b> (Inc. nil affordable housing)	<b>£244,000</b>

## Conclusions

Our report demonstrates the scheme is unable to viably deliver Kirklees Council's full planning gain requirements when measured against our opinion of Benchmark Land Value.

**Our approach is in accordance with updated planning guidance and is supported by robust evidence. We consider our conclusions reasonable, justified and valid.**

## 1. Introduction

The following sections of this report explain the proposed scheme in further detail and how each of the value and cost inputs have been determined. We firstly provide a brief summary of the approach to the FVA, the proposed development, the key viability issues and the conclusions drawn from this FVA under the sub-headings below.

- Purpose of FVA and Approach
- Site Location(s) and Description of Proposed Development
- Relevant Local Planning Policy
- Summary of Key Viability Inputs
- Scheme/area wide Viability and Key Conclusions

### 1.1 Purpose and Information Relied On

In preparing this FVA for planning purposes, we have relied on information made available to us by the Applicant. If there are changes to the proposed scheme and/or the information relied on, this could impact on the assumptions adopted in the FVA and the resultant conclusions. We request that any changes are made known to us for review at the earliest opportunity and we reserve the right to amend our assumptions in the event of such changes.

### 1.2 Report Structure

The remainder of this report is structured as follows:

- Section 3 – sets out the mandatory reporting requirements in the RICS Professional Statement Financial Viability in Planning: Conduct and Reporting (May 2019);
- Section 4 – sets out the other relevant national viability guidance, the justification for, and the approach to the FVA;

This FVA has been prepared as at 23 February 2024 in the context of prevailing market and economic conditions. Should there be a material change to the market and/or economic climate prior to determination of the planning decision, it may be necessary to update the FVA assumptions.

### 1.3 Explanatory Note

Despite the initial recovery of the economy from the pandemic, the UK is currently experiencing heightened uncertainty due to the wider global impacts from the war in Ukraine, increased inflationary pressures with inflation being at a 40 year high and employees in several sectors threatening industrial action in response to the higher costs of living expenses. The Bank of England has increased interest rates in response to inflation resulting in higher borrowing costs.

These factors are impacting on growth and consumer confidence. In recognition of the potential for market conditions to move rapidly in response to wider political and economic changes, and the impact that such could have on development appraisal variables, we highlight the importance of the date of our assessment.

Specifically in respect of build cost inflation, C&W is currently seeing significant variation in tendered build costs across all sectors driven by supply chain shortages affecting the construction industry. As a result, the build cost assumptions that have been applied in this appraisal/assessment are susceptible to short term changes which could have a material bearing on viability and/or residual land values. As

a matter of prudence, we recommend that where not already provided, sensitivities should be examined to test the effects of such variations and that further advice should be sought to market test such cost assumptions to inform decision making and prior to any investment commitments. It is also recommended that changes in build costs are closely monitored and the impacts on development viability kept under review.

## **2. Financial Viability in Planning: Conduct and Reporting (May 2019) – RICS Professional Statement**

Cushman & Wakefield is a firm regulated by the RICS. In line with RICS requirements, we have had regard to the relevant RICS professional standards and guidance in preparing this FVA. We outline the most relevant standards and guidance within Sections 3 and 4 of this report.

### **2.1 RICS Professional Statement**

This FVA has been prepared in accordance with the RICS Professional Statement Financial Viability in Planning: Conduct and Reporting (1st edition) (May 2019). This document sets out mandatory requirements on conduct and reporting in relation to FVAs for planning in England to demonstrate how a reasonable, objective and impartial outcome should be arrived at. It also aims to support the government's reforms to the planning process announced in July 2018 and any subsequent updates.

Sections 2.1 to 2.14 of the Professional Statement set out the fourteen mandatory reporting and process requirements for all FVAs prepared on behalf of, or by applicants, reviewers, decision-makers and plan-makers.

We confirm that this FVA has been carried out in accordance with Sections 2.1 to 2.14. The mandatory reporting requirements are set out under the sub-headings below and expanded on where relevant in this FVA.

### **2.2 Section 2.1: Objectivity, Impartiality and Reasonableness Statement**

We confirm that this FVA has been carried out by an RICS member who has acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information. We further confirm that the RICS member is a suitably qualified practitioner with sufficient skills, expertise and knowledge to provide a robust and objective FVA.

The RICS member has experience in advising on FVAs across the North of England, and has an up-to-date knowledge of the planning system gained through previous viability experience and work alongside our local and national Planning Teams.

### **2.3 Section 2.2: Confirmation of Instructions and Absence of Conflicts of Interest**

The terms of engagement for this instruction are appended to the rear of this report.

We must declare any conflict of interest or risk of conflict of interest. Section 2.2 states that 'informed consent' management through the form of a declaration statement can be appropriate depending on the circumstances.

We confirm that we have no current or anticipated involvement with the subject site or the parties to the instruction. We confirm that, to the best of our knowledge, no conflict of interest, or risk of conflict of interest, arises in preparing the advice requested.

If any of the parties in this FVA identified a conflict of interest, we would immediately stand down from the instruction.

We address in greater detail in section 2.5 our previous involvement with Kirklees Council Planning Policy.

## 2.4 Section 2.3: No Contingent Fee Statement

In preparing this report, no performance-related or contingent fees have been agreed. We have previously advised the applicant on several site-specific FVAs in support other planning applications for development. Again, we do not consider that any conflict of interest, or risk of conflict of interest, arises as a result of the interests which we have disclosed.

## 2.5 Section 2.5: Confirmation Where the RICS Member is Acting on Area-Wide and Scheme-Specific FVAs

As referenced in section 2.3, Cushman & Wakefield have previously been instructed by Kirklees Council to undertake an area wide Financial Viability assessment to inform the Draft Community Infrastructure Levy Charging Schedule;

- Kirklees Local Plan and Community Infrastructure Viability Study, October 2015
- Kirklees Local Plan and CIL Viability Addendum, September 2016
- Kirklees Community Infrastructure Levy Viability Update, May 2019

We can confirm that the previous instruction has since concluded, and did not involve the subject site specifically. This previous instruction therefore does not affect our ability to act impartially and objectively.

## 2.6 Section 2.6: Justification of Evidence

All inputs into this FVA have been reasonably justified as explained in further detail throughout this report. It is noted that where the appointed reviewer disagrees with elements of the submitted FVA, the parties should always seek to resolve differences of opinion where possible.

## 2.7 Section 2.7: Benchmark Land Value

We have assessed the Benchmark Land Value ('BLV') in accordance with Section 2.7 of the Professional Statement in that we have reported the following:

- Current Use Value
- Premium
- Market evidence (as adjusted in accordance with the Planning Practice Guidance)
- All supporting considerations, assumptions and justifications adopted

Full justification for the adopted BLV is provided in Section 8 of this report.

## 2.8 Section 2.9: Sensitivity Analysis

A sensitivity analysis on key appraisal inputs is provided in Section 9 of this report, together with accompanying explanation and interpretation of the results. This enables the applicant and decision-maker to consider how changes to key variables impact on viability having regard to scheme risks and an appropriate return, and to assist in arriving at appropriate conclusions.

## 2.9 Section 2.10: Engagement

We confirm that we have advocated, and will advocate reasonable, transparent and appropriate engagement between the parties at all stages of the viability process.

This must be agreed and documented between the parties

## 2.10 Section 2.11: Non-technical Summaries

A non-technical summary is provided at the beginning of this report which includes the key figures and issues that support the conclusions drawn from this FVA.

## 2.11 Section 2.14: Timescales

We confirm that adequate time has been allowed to produce this FVA having regard to the scale of this particular project.

We further confirm that this FVA has been carried out in accordance with Section 4 – Duty of Care and Due Diligence of the Professional Statement and that full consideration has been given to the matters referenced in Section 4.

### **3. Viability Guidance and Approach to Financial Viability Assessment**

Further to the mandatory RICS reporting requirements, within this section of our report we summarise the other key national guidance pertaining to viability and how we have approached the FVA for the subject site in light of this guidance.

#### **3.1 Current Viability Guidance**

In July 2018, the government published a revised National Planning Policy Framework ('NPPF') and Planning Practice Guidance for Viability ('PPGV') which were updated in February 2019 and May 2019 / September 2019 respectively. These documents set out the key principles which should be considered when assessing the viability of development at the plan-making and decision-taking stages.

In response, the RICS has published two documents; the aforementioned RICS Professional Statement (May 2019) and the RICS Professional Standard: Assessing Viability in Planning Under the NPPF 2019 For England (March 2021).

The RICS Professional Statement sets out the mandatory FVA requirements on conduct and reporting as covered in Section 3. The RICS Professional Standard provides requirements and expectations for how the RICS expects its members to produce, and interpret, the results of FVAs under the NPPF and PPGV.

We have had full regard to the relevant national and RICS guidance in preparing this FVA. It is noted, however, that despite the recent updates to the guidance, there still remains considerable ambiguity and subjectivity in terms of the approach to FVAs and the assessment of key inputs.

The most pertinent aspects of the guidance are summarised under the sub-headings below and expanded on where relevant in this FVA.

#### **3.2 Application of the Red Book and Related RICS Guidance**

The RICS Professional Standard confirms that FVAs are not valuations as such but contains significant valuation content which are within the jurisdiction of the RICS Valuation – Global Standards ('the Red Book') and other RICS mandatory statements / professional guidance. All RICS members carrying out FVAs must therefore adhere to these provisions

The RICS guidance note further advises that all FVAs for planning purposes are carried out under the NPPF / PPGV which is regarded as the 'authoritative requirement' in the Red Book. This means that the government's technical requirements on the assessment of viability take precedence over any other RICS professional statements and guidance, including any valuation-based requirements in the PPGV which take precedence over any other valuation basis or approach set out in the standards, however Red Book professional standards still apply.

RICS members undertaking FVAs for planning purposes must therefore adhere to:

- Statutory and other authoritative requirements (including the NPPF and the PPGV);
- The RICS Professional Statement Financial Viability in Planning: Conduct and Reporting; and
- PS 1 and PS 2 of the Red Book.

We confirm that we have complied with these requirements in preparing this FVA for planning purposes. In respect of PS1 and PS2 of the Red Book, we acknowledge in summary the following points of compliance in respect of this FVA:

- This FVA is prepared for assessing viability of development to assist with planning matters, either plan/policy making, or decision taking. The FVA therefore constitutes an exception from valuation technical and performance standards ('VPS') 1 – 5 of the Red Book, and is not a formal valuation;
- We confirm that all individuals who have contributed to this FVA have acted in accordance with the RICS Rules of Conduct and the RICS Global Professional and Ethical Standards;
- We have had full regard to the need to act independently and objectively at all times, in a professional and ethical manner free from any undue influence, bias or conflict of interest; and
- We collectively have sufficient professional qualifications, current knowledge of the relevant markets, and the experience, skills and understanding to undertake the FVA competently.

### 3.3 Viability Principles

As set out in the RICS guidance note, LPAs will have objectives to secure appropriate contributions from development to meet the community and infrastructure needs within their local area. The RICS guidance further states that other stakeholder expectations need to be considered as part of the viability process; namely developers who will expect to make a suitable return, and landowner expectations which are crucial in ensuring the voluntary release of land for development.

The purpose of an FVA is to estimate whether a proposed development, when accounting for policy compliant levels of developer contributions, can provide:

- A minimum reasonable return to the landowner (defined as the EUV plus a premium); and
- A suitable return to the developer.

If the FVA illustrates that the scheme is not viable with full policy requirements, the decision-maker will need to consider whether to adjust the developer contributions, having regard to all the particular circumstances in the individual case.

The RICS guidance (paragraph 2.3.14) advises that the decision-maker will need to:

*“make their judgements bearing in mind the two major policy imperatives of ensuring maximum development contributions and the delivery of land for development”.*

The RICS guidance (paragraph 2.4.6) further states that a proper understanding of viability is essential to ensure that:

- Land is realistically priced and released for development to achieve plan delivery;
- All reasonable costs of construction related to the development have been accounted for; and
- Developers can obtain appropriate market risk-adjusted returns for delivering development.

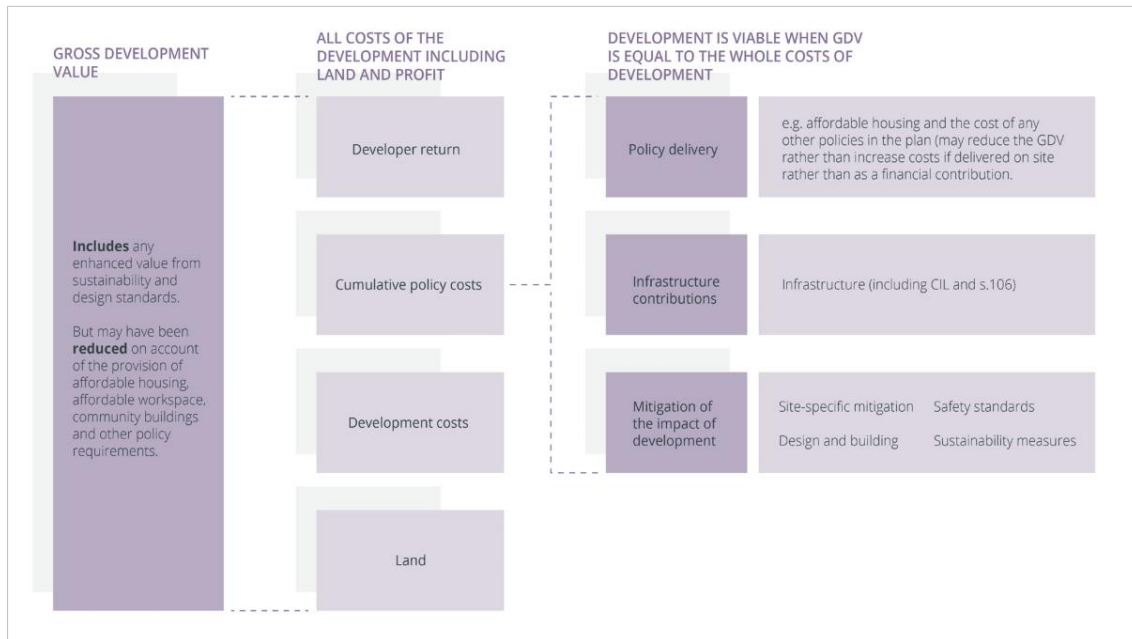
### 3.4 Viability Framework

The PPGV (Paragraph 10) defines an FVA as follows:

*“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’.

The FVA process reflects a residual appraisal framework as shown in the diagram below and further explained in the Valuation of Development Property (October 2019) RICS guidance note:



Source: RICS Guidance Note *Assessing Viability in Planning Under the National Planning Policy Framework 2019 for England* (March 2021)

## 4. Site Overview

### 4.1 Site Location

Holmbridge is an attractive village located within the administrative area Kirklees Council, located near the town of Holmfirth (1.5 miles). The village is served by the A6024, which provides access to Huddersfield to the north (7.5 miles), Sheffield to the southeast (23 miles) and Manchester to the west (25 miles). The town is served by the local bus services, with the nearest train station located at Brockholes, which is situated along the Penistone Line, which runs from Huddersfield to Penistone, before joining the former Great Central Railway Line from Manchester to Sheffield.

The settlement is characterized by its traditional stone-built houses, epitomised by the landmark St David's Church. Holmbridge boasts traditional pubs and local shops which serve the local population.

### 4.2 Site Description

The site is agricultural in nature, and is rectangular in shape, with a sloping topography from south to north. The site is bounded by estate housing to the north and east, and agricultural land to the south and west.

We are advised that the gross site area extends to 1.62 acres.

### 4.3 Development Proposal

We have been advised that access for the scheme is proposed on the eastern boundary via Bankfield Drive.

The proposed scheme extends to a net developable site area of 1.51 acres.

### 4.4 Proposed Schedule of Accommodation

The proposal comprises a total development of 21 no. dwellings. We have set out the proposed mix below.

#### Accommodation Schedule

House type	Type	Storeys	Beds	No.	NSA	Total NSA
Edinburgh	Semi-Detached/End Terraced	2	2	4	749	2,996
Edinburgh	Terraced (Mid)	2	2	1	749	749
Preston	Semi-Detached	2	3	4	873	3,492
Bamburgh	Semi-Detached	2	3	8	1,002	8,016
Gosford	Detached	2	4	2	1,161	2,322
Cheltenham	Detached	2	4	2	1,303	2,606
<b>Total</b>				<b>21</b>		<b>20,181</b>
<b>Average</b>					<b>961</b>	

## Summary

The proposed development comprises a Net Sales Area of 20,181 sq ft across 21 no. dwellings, reflecting a blended average unit size of 977 sq ft. The mix comprises five no. 2-bed dwellings (24%), 12 no. 3-bed dwellings (57%) and four no. 4-bed dwellings (19%).

From our experience of the residential development land market, and undertaking viability assessments across the region, new-build schemes currently range in development density between 14,000 sq ft and 16,000 sq ft per net developable acre, or 12 to 15 dwellings per acre, depending on product mix and market area.

The net developable area of 1.51 acres reflects a density of 13,365 sq ft, or 13.91 units, per net developable acre, which is considered within the anticipated range for a scheme of this scale in terms of unit numbers, with a slightly lower sq ft density.

## 5. Planning Overview

### 5.1 Planning Policy

The site falls within the administrative area of Kirklees Council. The Kirklees Local Plan was adopted in February 2019, setting out planning policy required across the plan period of 2013 to 2031. The Local Plan is split into two documents; Part 1 'Strategy and Policies' and Part 2 'Allocations and Designations'.

The site is also subject to those policies set out within the Holme Valley Neighbourhood Plan (2021 – 2031). This plan aims to ensure that all development is carried out in a manner which preserves the character of the area, recognising the landscape, heritage, and local identity.

The subject site is allocated for housing development within the Allocations and Designations document under Local Plan ID HS183, with an indicative capacity for 23 no. dwellings.

### 5.2 S.106 Requirements and Community Infrastructure Levy

Kirklees Council planning policy seeks delivery of 20% affordable housing on all sites of 10 dwellings or more, across a mix of size and tenures.

Kirklees Council has opted not to adopt CIL whilst the government have announced the intention to replace CIL with the nationally set infrastructure levy.

We have been informed by our client that, from discussions with the council, they anticipate that the scheme will be liable to pay S.106 contributions toward the following items;

Item	Cost
Biodiversity Net Gain	£125,313
Public Open Space	£47,040
<b>Total</b>	<b>£172,353</b>

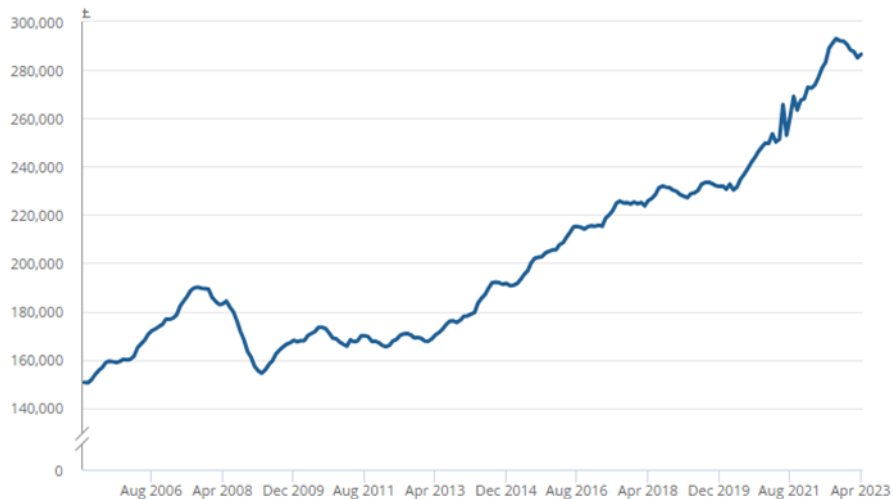
**Based on the proposed development of 21 no. dwellings, Kirklees Council therefore seeks delivery of 20% affordable housing, amounting to 4 no. dwellings, and £172,353 of S.106 contributions.**

## 6. Residential Market Overview

### 6.1 UK Housing Market

Since the easing of lockdown restrictions in early 2021, the residential market gained momentum during 2021 and H1 2022, which has subsequently meant a sharp price rise in most UK locations.

Average house price, UK, January 2005 to April 2023



The above graph highlights how steeply house prices have increased over the course of 2021 and 2022, assisted by a strong employment market, government incentives, low interest rate environment and lack of supply of new build housing have all led to sustained house price growth. This has, however, tapered off in 2023, with increased cost of borrowing leading to a drop off in activity across the UK housing market as a whole, with many national housebuilders reporting lower than average sales rates.

Following Russia's invasion of Ukraine in February 2022, the UK and wider global economy has witnessed a sharp rise in the cost of living specifically fuel and energy prices together with general consumer goods.

Anecdotally, from speaking with our experience of dealing with regional housebuilders, we have noticed that a two-tier market has been emerging, seeing a drop off in sales rates of the more premium product (above say ~£500k), and rates of sale of lower priced products seeming to persist in good locations. A lot of housebuilders have been doing a lot more "dealing" in order to maintain demand and sales, offering more incentives such as part exchange, deposit contributions etc.

To control inflation, the Bank of England increased interest rates to 5.0% in June 2023, and once more to 5.25% in August 2023. The residential market is extremely sensitive to interest rate rises with monthly mortgage payments becoming more expensive for many households. Housing market activity has continued to slow, as rising interest rates, high inflation, and a weaker economy impact buyers' confidence.

- Mortgage interest rates have been particularly affected by the economic climate, with rates on a 2-year fixed 90% LTV mortgage reaching 5.7% in December 2023.
- Mortgage approvals experienced a monthly increase of 4.6% in November 2023. Approvals remain 17.1% below the same time last year and 23.6% below pre-pandemic levels.

- Sales decreased by 1.2% in November 2023, reflecting sales agreed earlier in the year when mortgage rates were slightly lower. Sales remain 21.5% below the same time last year and 18.9% below pre-pandemic levels.
- In September 2023, house prices experienced an annual decline of 1.8%, a slight improvement over the last month.

In addition, the above demand-side challenges, in respect of wider viability challenges, there have been a number of increasing challenges relating to the construction of housing in the UK. As previously aforementioned, due to the wider global macroeconomic factors, not only has demand been impacted from the cost-of-living crisis, wider supply-chain issues have been realised within the construction industry, with build costs increasing significantly over the past 24-36 months, which has had a direct impact on the UK construction market.

In addition to the impact on build costs caused by wider macroeconomic issues, the UK development market has also been hit by a number of new regulatory constraints, which have, in their own right, led to increases in the cost of construction. These include introduction of new Part L of Building Regulations, which set out that all new homes must produce 31% less carbon emissions than previous regulations, as well as the consideration of Biodiversity Net Gain requirements, which is in place to ensure developments leave habitats for wildlife in a better state than it was before development, which from January 2024 will require 10% Biodiversity Net Gain on all sites. There is also the impending Future Homes Standards which, in 2025, will provide more onerous requirements for developers, ensuring that all new homes will produce 75%-80% less carbon emissions than under 2021 regulations.

Given the recent upward trend in the Bank of England base rate highlighted above, the cost of finance has considerably increased since the previous assessment. Finance rates vary based on the type of development finance available, however for a scheme of this nature, C&W would consider an appropriate finance rate assumption to be 8.00% on debt finance although, anecdotally, we are aware of 8.50-9.00% debt finance rates for similar schemes.

The above overview provides a clear picture of the problems which the UK residential market has faced over recent years. The remainder of the report looks to provide more site-specific evidence of the level of scheme viability in the context of the local area.

## **7. Stage One: Residual Land Value**

To establish the viability of the proposed scheme we have adopted the residual approach, which involves calculating the Gross Development Value (GDV) of the development on completion and deducting all costs associated with bringing the scheme forward, including an element of developer's profit.

### **7.1 Gross Development Value**

In accordance with planning policy guidance, to establish achievable revenues for the proposed scheme we have assumed delivery by a hypothetical housebuilder. We have undertaken research on new-build and second-hand sold prices in the locality, taking care to select developments and properties which are most closely comparable to the subject site.

#### **7.1.1 New-build Revenue Analysis**

The most relevant evidence for establishing likely sales revenues on new-build schemes is other comparable new build developments. Evidence should come from schemes within the immediate vicinity of any site being considered or, if this is not possible, schemes situated within neighbouring areas where house prices are comparable.

The key benefits of utilising new build evidence are:

- Accurate floor areas can be verified through information included on house builder websites, from floor plans submitted as part of the planning application for a site, or from data drawn from the Energy Performance Certificate (EPC) register.
- New build housing is more homogenous than second-hand stock, with specification typically similar across schemes and prior to alterations and additions by individual homeowners.
- Values can therefore be accurately compared on a rate per sq ft basis.
- Can be compared as a like-for-like in regard for quality and finish at the point of sale.

When utilising new-build evidence, it is important to note that housebuilders frequently offer incentives to purchasers or negotiate discounts against quoted asking prices to achieve sales.

Not all sales incentives offered by developers to secure plot sales are accounted for within the figure quoted at HM Land Registry (HMLR), most notably, part-exchange. For the purpose of comparing net sales revenues on a like-for-like basis, the price quoted on HMLR should therefore be discounted to allow for additional sales incentives, typically in the order of 3-5% depending on market area. For the purposes of this report, we have applied a discount of 5% from the gross revenues sourced from HMLR.

Note that in analysing sales evidence we have relied upon HMLR data and floor areas contained within the EPC Register. As such, we are reliant upon the accuracy of this data. While there may be some margin of error, the comparables do nonetheless provide good evidence for likely achievable values at the subject site and are in-line with our expectations of value based upon our market knowledge.

We have utilised the following new build evidence to inform our assessment of achievable revenues.

- 1. The Woodlands – Prestige Homes**
- 2. Deyne Brook Court – Yorkshire Country Properties**

### 3. Stoney Bank Chase – Redrow Homes

#### 7.1.2 The Woodlands – Prestige Homes

The Woodlands by Prestige Homes is located 2.5 miles from the subject site, in the town of Holmfirth.

The scheme comprises 56 no. dwellings over a range of 3, 4, and 5-bedroom terraced, semi-detached and detached house types.

Our market research confirms that there were four no. transactions from February 2022 to October 2022.

Date Sold	No	Address	Price	Type	Storey	Sq Ft	£/sq ft
25/02/2022	5	Woodland Grove	£375,000	Semi-detached	3	1,302	£288
22/04/2022	9	Woodland Grove	£365,000	Terraced	3	1,302	£280
05/08/2022	20	Woodland Grove	£460,000	Detached	2	1,367	£337
21/10/2022	7	Summer View	£455,000	Detached	2	1,367	£333
<b>Average</b>			<b>£413,750</b>			<b>1,335</b>	<b>£310</b> <b>(£294*)</b>

*\*Indicates a 5% discount to allow for incentives*

The average blended sale price across the study period was £413,750 across 1,335 sq ft, representing an average gross revenue of £310/sq ft across a range of £280 to £337/sq ft. Sales prices ranged from £365,000 to £460,000.

However, whilst HMLR does account for most sales incentives offered by the housebuilder to the purchaser, it does not account for all financial incentives, most notably part-exchange, where the net receipt to the housebuilder may follow sometime after submission of forms to HMLR.

On this basis, we have assumed a 5% discount to the average gross revenue of £310/sq ft to establish a net revenue position. We therefore surmise the blended average net revenue equates to around £294/sq ft.

We note that of the four transactions in the study period, 50% are of 3-storey house types, with one semi-detached and one terraced. We would anticipate there to be a discount on a £ per sq ft basis when compared to 2-storey house types of similar sizes. This is reflected in the two storey house types averaging £335/sq ft (£318/sq ft net of incentives) when considered in isolation.

The site is located in Holmfirth, which is considered to be a slightly superior location, as a larger settlement, with immediate access to a greater amount of local amenity, and also benefits from proximity to Holmfirth Bus Station. We would anticipate slightly lower average revenues on the 2-storey dwellings to be achievable at the subject site.

#### 7.1.3 Deyne Brook Court – Yorkshire Country Properties

Deyne Brook Court is situated within the village of Netherthong, approximately 3 miles northeast of the subject site. Regional housebuilder Yorkshire Country Properties delivered 22 luxury homes, across a mix of 1 (starter homes), 3, 4, and 5-bedroom dwellings. The scheme is now fully sold.

Our market research confirms that there were three no. transactions from March 2022 to August 2022.

Date Sold	No	Address	Price	Type	Sq Ft	£/sq ft
22/03/2022	24	Deyne Brook Court	£725,000	Detached	2,497	£290
19/08/2022	21	Deyne Brook Court	£849,950	Detached	2,486	£342
30/08/2022	11	Deyne Brook Court	£899,950	Detached	2,788	£323
<b>Average</b>			<b>£824,967</b>		<b>2,591</b>	<b>£318</b> <b>(£303*)</b>

*\*Indicates a 5% discount to allow for incentives*

The average blended sale price across the study period was £824,967 across 2,591 sq ft, representing an average gross revenue of £318/sq ft across a range of £290 to £342/sq ft. Sales prices ranged from £725,000 to £899,950.

When applying a 5% discount to the average gross revenue of £318/sq ft to establish a net revenue position to allow for sales incentives, we surmise the blended average net revenue equates to around £303/sq ft.

We have applied limited weight to this scheme on account of its mix, with each of the units within the study period considerably larger than those proposed at the subject, so it is difficult to make meaningful comparisons between the two. The scheme at Deyne Brook Court was developed to target a different section of the market, however, the evidence provides a useful indication of achievable sales values.

#### 7.1.4 Stoney Bank Chase – Redrow Homes

Stoney Bank Chase lies 3.5 miles from the subject, occupying a fringe location to the northeast fringe of Holmfirth, to the east of the neighbouring village of Thongsbridge.

It comprises a scheme of 50 no. 3- and 4-bedroom dwellings. The scheme is delivering 20% affordable housing and is now fully sold.

Our market research confirms that there were 12 no. transactions from March 2021 to January 2022.

Date Sold	No	Address	Price	Type	Storey	Sq Ft	£/sq ft
26/03/2021	45	Stoney Bank Chase	£314,950	Detached	2	1,109	£284
28/06/2021	33	Stoney Bank Chase	£324,950	Semi-detached	3	1,389	£234
28/06/2021	29	Stoney Bank Chase	£329,950	Semi-detached	3	1,389	£238
29/06/2021	31	Stoney Bank Chase	£329,950	Semi-detached	3	1,389	£238
13/08/2021	Rowan House	Stoney Bank Lane	£436,950	Detached	2	1,539	£284
13/08/2021	Aspen House	Stoney Bank Lane	£409,950	Detached	2	1,378	£298
10/09/2021	9	Stoney Bank Chase	£324,950	Detached	2	1,119	£290
10/09/2021	11	Stoney Bank Chase	£324,950	Detached	2	1,119	£290
17/09/2021	15	Stoney Bank Chase	£381,950	Detached	2	1,292	£296

24/09/2021	The Hollies	Stoney Bank Lane	£409,950	Detached	2	1,378	£298
29/09/2021	17	Stoney Bank Chase	£359,950	Detached	3	1,389	£259
21/01/2022	2	Stoney Bank Chase	£432,950	Detached	2	1,389	£312
<b>Average</b>			<b>£365,117</b>			<b>1,323</b>	<b>£276</b> <b>(£262*)</b>

*\*Indicates a 5% discount to allow for incentives*

The average blended sale price across the study period was £365,117 across 1,323 sq ft, representing an average gross revenue of £276/sq ft across a range of £234 to £312/sq ft. Sales prices ranged from £314,950 to £436,950.

When applying a 5% discount to the average gross revenue of £276/sq ft to establish a net revenue position to allow for sales incentives, we surmise the blended average net revenue equates to around £262/sq ft.

We note that a number of the properties included with our evidence include 3 storey dwellings. We would anticipate that, due to the lower value attributed to the half-storey when compared to a 2-storey dwelling of the same size, we would anticipate lower £/sq ft values. As such, we have isolated the evidence for the 2-storey dwellings only, which disregards all of the semi-detached house types, and averages £ per sq ft values of £279, net of a 5% allowance for incentives.

We have included evidence from this scheme as it reflects the nearest scheme completed by one of the larger national housebuilders, and gives a better indication as to sales values on a more traditional estate housing scheme. Despite this, the evidence is considerably outdated, with the last transaction from January 2022. In addition, the location is somewhat incomparable, as the two sites occupy different market areas, however, shares similarities in that it is of a similar distance from Holmfirth town centre, albeit with more convenient access to Holmfirth High School at the Redrow scheme. We would anticipate achievable values in excess of those achieved at this scheme.

### 7.1.5 Second-Hand Revenue Analysis

We have also undertaken analysis of the wider second-hand market, measuring sales evidence within the locality of the subject. The area consists of a mix of estate housing from c1980s, traditional stone-built housing, and some lower quality apartments and terraced housing.

Whilst second hand evidence is not as important as new build revenues, it provides a helpful indication as to the strength of the local market area. It is to be considered, however, that there are some weaknesses with second hand evidence, in that it is not homogenous, with condition, specification and decor varying from property to property.

The below table includes a list of all second-hand transactions within a 0.25-mile radius of the site captured by HMLR from the past 12-months to date.

Our market research indicates there were six no. transactions between February 2023 and August 2023.

Date Sold	No	Address	Price	Type	Sq Ft	£/sq ft
10/02/2023	13	Hollin Brigg Lane	£291,000	Detached Bungalow	1,087	£268
16/03/2023	228	Woodhead Road	£230,000	Terraced	915	£251

29/03/2023	10	Laithebank Drive	£465,000	Detached	1,841	£253
29/03/2023	203	Woodhead Road	£385,000	Terraced	1,421	£271
04/07/2023	29	Laithe Avenue	£420,000	Detached	1,345	£312
25/08/2023	19	Dobb Top Road	£575,000	Detached Bungalow	1,830	£314
<b>Average</b>			<b>£394,333</b>		<b>1,406</b>	<b>£280</b>

The tone of £280/sq ft is somewhat comparable to the analysis of newbuild evidence, however, as aforementioned, we would expect newbuild dwellings to achieve a premium in comparison to second-hand sales due to the increased quality, on average, of the finish of a newbuild home, with a lot of products built to a higher specification, with greater energy efficiency standards, in addition to the general perception and higher value that consumers will place on a newer product. On balance, we consider a new-build premium to be in the range of 5-15%, which would support a blended average revenue of around £294 to £322/sq ft which could be achieved at the subject site.

### 7.1.6 Summary of new-build revenues

Our analysis of new-build revenues is as follows:

Development	Developer	Distance from Subject (m)	Average Price	Average Size	Gross £/sq. ft	Net £/sq. ft*	Similarity
The Woodlands	Prestige Homes	2.5	£413,750	1,335	£310	£294	Superior Location
Deyne Brook Court	Yorkshire Country	3	£824,967	2,591	£318	£303	Incomparable Development Mix
Stoney Bank Chase	Redrow Homes	0.5	£365,117	1,323	£276	£262	Somewhat comparable, Dated Evidence
Second Hand	N/A	N/A	£394,333	1,406	£280	£294 - £322**	Comparable following uplift

\*a 5% discount has been applied to the gross average revenue to account for sales incentives not captured by HMLR

\*\*denotes 5-15% uplift to reflect premium of newbuild evidence

### 7.1.7 GDV Summary – Market Housing

Holmbridge is a picturesque village located in the Holme Valley, within the Kirklees Council administrative area. The village contains basic self-containing amenity and is located 1.5 miles from the town of Holmfirth, which contains a greater offering of amenity, such as popular pubs and restaurants, as well as local and national retail occupiers. The village also benefits from being located on the doorstep of the Peak District National Park, offering residents and visitors alike ease of access to one of the most prominent UK national parks.

Due to the village's rural setting, however, the comparable sales evidence which is available is somewhat scarce. Despite this, there is some comparable newbuild evidence which we have been able to draw upon in order to reach our conclusions on achievable values.

The first scheme we have considered is The Woodlands by Prestige Homes, located in Holmfirth, which achieved average sales revenues of £294/sq ft (net of incentives). We highlighted that Holmfirth is considered to be a superior location, with greater immediate access to amenity than the subject site, in addition to public transport links. As such, we consider the subject site to be able to achieve lower values than those achieved at The Woodlands. We have made comparisons on the 2-storey dwellings only, on the basis that the evidence is somewhat skewed by the sales of some 3-storey house types.

We also considered the sales evidence at Deyne Brooke Court by Yorkshire Country Properties. This scheme, which consists of 22 luxury homes, is located in the village of Netherthong, and achieved revenues of £303/sq ft net of incentives. We consider this scheme to be incomparable in that the product delivered is of much larger, luxury dwellings, and as such no meaningful comparisons can be made between this scheme and the subject. Despite this, the scheme reflects one of the only newbuild schemes in the locality, and as such only provides a guide of achievable newbuild sales evidence.

The third newbuild scheme we have considered is Stoney Bank Chase by Redrow Homes, which is situated on a fringe location to the north of Holmfirth. This scheme achieved revenues of £262/sq ft (net of incentives), and £279/sq ft (net) when considering the two storey properties only. This scheme is considered to be the most comparable due to its fringe location and proximity to Holmfirth town centre, albeit whilst benefitting from greater access to Holmfirth High School. The scheme also reflects the most comparable in respect of product, delivering what can be considered to be more traditional estate housing. Despite this, the evidence at this scheme is somewhat outdated, with only one transaction since the start of 2022.

Due to the relative incomparability of the above highlighted schemes, we have also referenced second-hand sales in the immediate vicinity of the site. We analysed the sales evidence within a 0.25-mile radius from the subject, which demonstrated sales values of £280/sq ft. When applying an uplift of 5% to 15% to account for the associated premium with newbuild dwellings (derived from increased quality, energy efficiency etc), this indicates that the subject scheme can achieve sales revenues of £294 to £322/sq ft.

Based on the above analysis of the local housing market, we would anticipate a blended average revenue for the market sale units to be in the region of £300/sq ft.

### 7.1.8 GDV Summary – Affordable Housing

Our assessment of achievable transfer values, assuming transfer to a Registered Provider, assumes delivery of 20% affordable housing in accordance with Kirklees Council policy.

We have assumed affordable housing transfer values, mix and tenure requirements consistent with the Kirklees Council Affordable Housing SPD. On this basis the affordable mix includes First Homes, Intermediate, and Affordable Rent units.

### 7.1.9 GDV Conclusions

Having regard to our comparable evidence analysis, our assessment of achievable revenues is as follows assuming delivery of 20% affordable housing.

Note we have applied transfer values as per our analysis of the Kirklees Council affordable housing policy requirement. We have assumed a mix of 70% social rented and 30% intermediate tenure product in line with policy requirements.

#### Market Sale (80%)

House type	Type	No.	NSA	Total NSA	£/Sq Ft	Sale Price	GDV
Edinburgh	Semi-Detached /End Terraced	2	749	1498	£295	£220,955	£441,910
Edinburgh	Terraced (Mid)	1	749	749	£288	£215,712	£215,712
Preston	Semi-Detached	2	873	1746	£280	£244,440	£488,880
Bamburgh	Semi-Detached	8	1002	8016	£295	£295,590	£2,364,720
Gosford	Detached	2	1161	2322	£328	£380,808	£761,616
Cheltenham	Detached	2	1303	2606	£325	£423,475	£846,950
<b>Total</b>		<b>17</b>		<b>16,937</b>			<b>£5,119,788</b>
<b>Average</b>			<b>996</b>		<b>£302.28</b>	<b>£301,164</b>	

#### Affordable Housing (20%)

House type	Type	Tenure	No.	NSA	Total NSA	Transfer Price	GDV
Edinburgh	Semi-Detached /End Terraced	Rented	2	749	1,498	£59,913	£119,825
Preston	Semi-Detached	Intermediate	1	873	873	£104,786	£104,786
Preston	Semi-Detached	First Homes	1	873	873	£195,552	£195,552
<b>Total</b>			<b>4</b>		<b>3,244</b>		<b>£420,163</b>
<b>Average</b>				<b>811</b>		<b>£105,041</b>	

#### Total (100%)

	No.	NSA	£ per sq ft	Sale Price	GDV
<b>Total</b>	<b>21</b>	<b>20,181</b>			<b>£5,539,951</b>
<b>Average</b>		<b>961</b>	<b>£274.51</b>	<b>£263,807</b>	

Whilst the properties may ultimately be marketed for a value higher than the figures stated, our opinion of revenues represents the value we consider a housebuilder could achieve following deductions for negotiating discounts and incentives. Asking prices could be in the region of 5% higher to allow for these incentives and price negotiations.

## 7.2 Cost Assumptions

### 7.2.1 Build costs

To assess the residual land value of the proposed development, we have deducted the costs of construction from the GDV. The cost assumptions associated with identifying the value of the proposed scheme fall into two distinct sections:

- The cost of delivering the housing, including plot externals; and
- The cost of delivering the infrastructure, services, site works etc. over and above that of the traditional house building costs. These are the abnormal development costs.

The NPPF and PPG guidance states build costs should be based on appropriate data and identifies the Build Cost Information Service (BCIS) as an appropriate source. A scheme of this scale will appeal to regional housebuilders and therefore the median quartile build cost estimate is a reasonable point of reference.

The BCIS median quartile rate for general estate housing dated 30 December 2023 and rebased to Kirklees equates to £1,350/sq m (£125.42/sq ft), which includes standard plot build plus prelims.

Whilst BCIS average price data include preliminaries, it does not account for costs associated with immediate plot externals such as gardens, driveways and utility service connections. We have therefore included a 10% allowance to account for plot externals not captured within the BCIS data. This gives an 'all-in' build cost of £1,485/sq m (£137.96/sq ft).

The floor areas set out in the report are defined as Net Sales Area (NSA), which disregards integral garages in accordance with the RICS Code of Measuring Practice. However, we consider it appropriate to apportion the build cost of £137.96/sq ft against the Gross Internal Area (GIA) of the plots, which includes integral garages.

We are advised by the Client that the proposed scheme includes 4 integral garages, which reflects a GIA for the scheme to be 20,525 sq ft.

We have therefore adopted an all-in build cost of £2,831,629.

For the avoidance of doubt, this cost relates to the plot build and plot externals only and makes no allowance towards abnormal development cost items. Our approach is robust, consistent with the latest NPPF guidance and is supported by independent BCIS data.

### 7.2.2 Future Home Standards

In 2025, housebuilders will be obligated to comply with MHCLG Future Home Standards, which will aim to ensure that new homes constructed will realise a minimum of 75% carbon emissions saving when compared to 2013 Building Regulations. To achieve such savings, housebuilders will be seeking to implement heat waste saving measures, sustainable hot water systems and improved heating. This will be introduced through the improvement of insulation, triple glazing, air source heat pumps etc.

An allowance of £5,000 per unit has therefore been included to account for the anticipated uplift associated with Future Home Standards, representing an additional uplift of £105,000.

### 7.2.3 Abnormal Development Costs

Our Client has provided us with a schedule of anticipated abnormal development costs, which we have itemised within our appraisal as set out below. A more detailed breakdown can be provided upon request.

Item	Cost
Drainage	£352,581
Retaining Walls	£111,479
Dry Stone Wall Repair and Maintenance	£36,400
Works to Dry Stone Retaining Wall (To enable drainage as per Engineers Report)	£100,000
Cut and Fill	£94,000
Other	£23,350
Offsite Highways	£82,396
Drainage Attenuation	£30,000
<b>Total</b>	<b>£830,206</b>

The aggregated abnormal cost figure equates to £830,206, equating to approximately £549,805 per net developable acre and £39,534 per plot.

### 7.2.4 Professional Fees

Professional fees typically range from 6-10% of the standard build cost depending on site complexity and design challenges.

Given the scale of proposed development, we have applied Professional Fees of 8% to the standard build costs (plus externals and garages).

### 7.2.5 Contingency

In our experience, contingency allowance should range from 3-5%, depending on the risks associated with the development.

We have adopted a 3% contingency to the standard build cost and externals, garages. We have adopted a 5% contingency allowance on abnormal costs, given a greater presence of uncertainty surrounding these costs.

### 7.2.6 Finance

We have adopted a finance rate of 10% based on the land and construction cost assuming 100% debt finance, inclusive of all arrangement, monitoring and exit fees.

### 7.2.7 Marketing and Sales Fees

We have allowed 1% on GDV marketing and 1% on GDV agency fees to the private units, plus £500 per unit legal fees across all tenures.

### 7.2.8 Acquisition Costs

We have assumed standard acquisition costs, comprising Stamp Duty Land Tax at the prevailing rate, 1% agent and 0.5% legal fees.

### 7.2.9 Planning Costs

We have utilised the national Planning Portal to calculate the estimated cost of submitting the planning application for the scheme. On the basis of a full application of a scheme of 21 dwellings, this is calculated at £13,168 (inc VAT).

### 7.2.10 Sales and Build Rate

Given the location of the subject site, and the anticipated level of demand, in addition to prevailing market conditions, we have assumed a sales rate of 1.5 units per calendar month.

We have assumed the development includes a 3-month pre-construction period, followed by the unit build, with sales commencing 6 months after the start of unit build. We have assumed a 6-month post construction tail for the sale of the final units.

Our cashflow assumes a total development timeline of 17 months, or 1.4 years.

### 7.2.11 Developer's Profit

There continues to be a healthy debate across the industry around what represents an appropriate level of developers profit in viability assessments. There is no definitive answer, although the majority of guidance and appeal precedents point to a minimum profit of 20% of GDV being appropriate.

Published in July 2018, updated PPG and NPPF guidance on viability identifies an assumption of 15-20% of GDV may be considered a suitable return for developers to establish the viability of planning policies. It acknowledges that alternative figures may be suitable where there is evidence to support, depending on the type, scale and risk profile of planned development.

However, this assumption relates to planning stage viability when specific cost information is unlikely to be available.

C&W have experience in selling a range of residential development land to national and regional housebuilders and we can confirm that from our experience they do not vary their profit requirement below 20% of GDV.

Furthermore, a higher profit level is reflective of the high upfront infrastructure costs, and ongoing economic and market uncertainty resulting from the ongoing cost of living crisis, impact of Brexit, rising build cost inflation, and the war in Ukraine. These factors undoubtedly increase the risk profile and we therefore consider a profit target of 20% is a realistic expectation.

The updated NPPF guidance indicates that a lower level of profit may be accepted by the developer in respect of affordable units, as they are transferred to a Registered Provider. We consider 8% of GDV to be reasonable on affordable units.

We have therefore adopted a blended developer's profit, based on 20% on the private GDV and 8% on the affordable GDV, which is consistent with NPPF guidance. We have therefore adopted a blended profit of 19.09% on GDV based on a policy-compliant scheme.

### **7.3 Residual Land Value**

We have established appropriate appraisal input parameters to inform a residual appraisal calculation using Argus Developer software.

We have prepared a policy-compliant appraisal based on the proposed scheme and mix, which assumes policy-compliant s.106 contributions, and the delivery of 4 no. affordable units (20%). An appraisal summary is provided in Appendix A.

We have adopted market-facing inputs based on our market research and experience, and abnormal development costs provided by our client. Our inputs are supported by evidence and are considered robust and appropriate.

The residual output based on a policy-compliant position equates to a negative land value of (£85,945) (say (£61,000)).

## 8. Stage Two: Benchmark Land Value

### 8.1 Overview

To assess the viability of the proposed development, we must compare the residual land value established in Stage One with a Benchmark Land Value (BLV).

On 24 July 2018, the Government published updated National Planning Policy Framework (NPPF) and Planning Policy Guidance (PPG) in respect of viability. This introduced a new approach for assessing BLV known as Current Use Value Plus, or Existing Use Value Plus (EUV+). The guidance was subsequently amended in May 2019, which provided more clarity around the approach to establishing BLV.

The RICS released its own revised guidance in May 2019 by way of publication of Financial Viability in Planning: Conduct and Reporting, 1<sup>st</sup> Edition, which became mandatory for RICS members undertaking viability assessments in September 2019.

In 2021, the RICS then released a subsequent Guidance Note (now a mandatory Professional Standard) 'Assessing Viability in planning under the National Planning Policy Framework 2019 for England' which replaced the 2012 'Financial viability in planning' guidance note. This document sets out the method of assessing Benchmark Land Value, as per the PPG on Viability and NPPF.

To determine EUV+, guidance states we are first required to establish the EUV of the land. We must then establish the landowner premium, which is the minimum amount over and above EUV which reasonably incentivises a sale and releases the site for development. The guidance states BLV should:

- be based on EUV;
- allow for a sufficient premium to landowner(s);
- reflect the implication of abnormal costs, including infrastructure costs and professional fees; and
- be informed by market evidence, including current uses, costs and values, where possible. Market evidence should be based on policy-compliant developments or otherwise be adjusted to reflect the cost of according with planning policy.

The guidance states that the price paid for the land cannot be used to support BLV and reduce the level of planning gain delivery.

PPG also recognises it may be appropriate to establish a viable Alternative Use Value (AUV). In such instances, AUV should be evidenced by cost and value information to support the BLV. However, as the premium is implicit within the AUV, it must not be double counted.

### 8.2 Existing Use Value

Establishing EUV is the first component in assessing Benchmark Land Value. In the PPG, Existing Use Value is defined as:

*'the value of the land in its existing use. Current [Existing] use value is not the price paid and should disregard hope value.'*

The site is agricultural in nature and we therefore we consider it appropriate to assess its EUV on the basis of agricultural land values.

Agricultural land values can vary somewhat dependant on quality, location, size, etc. Agricultural land rarely transacts on the open market and therefore sourcing land evidence is challenging, however, there are a number of sources we can consider in support of our assessment.

The most recent RICS/RAU Rural Land Market Survey dated H1 2023 confirms the weighted average price based on transactions of farmland nationally is £12,970 per acre. In an article published in April 2023 by Srutt & Parker, they state that the average value of arable land in England had risen to £10,800 per acre, and that 70% of arable land transacted at over £10,000 per acre in 2022, up from 33% in 2021.

Despite this, due to the scale of the site, we would anticipate land values to be slightly higher than the average due to quantum, and due to it's suitability as paddock land, as opposed to grazing land. In the absence of directly comparable land transactions in the immediate locality of the site, we have referenced evidence a little further afield within Yorkshire.

### Sold

Address	Tender Deadline	Price	Acres	£/Acre	Status
Back Lane, Thornton	Q4 2022	£80,500	3.85	£20,909	Sold
Station Road, Queensbury	Q4 2023	£80,000	6.34	£12,620	Sold
Holme Lane, Sutton in Craven	Q3 2023	£365,000	29.24	£12,482	Sold
Lot 1 Holywell Lane, Shadwell	Q2 2022	£130,000	5.5	£23,636	Sold
<b>Average</b>		<b>£163,875</b>		<b>£14,589</b>	

The evidence above consists of sales of agricultural land, predominantly consisting of paddock/grassland. The evidence ranges considerably from £12,482 to £23,636 per acre, average £14,589 per acre. We would anticipate that, based on the above, due to the characteristics of the site, in respect of its relatively smaller size and suitability as paddock land, an appropriate existing use value of £15,000 per gross acre would be applicable.

When applied to the gross site area of 1.62 acres, this reflects an existing use value of £24,300.

### 8.3 Landowner Premium (+)

To assess the level of planning gain delivery the scheme can afford, viability guidance states we must assess a reasonable landowner premium over and above EUV which we consider would suitably incentivise the landowner to release the site for residential development having regard to the risks and anticipated returns.

Guidance states that the landowner premium should:

- provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements;
- be informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration; and
- Evidence 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.

Whilst guidance is silent on how the premium should be calculated, it acknowledges that comparable land transactional evidence can serve as a cross-check, an approach we fully support as it enables us to balance a premium uplift against the market.

In considering an appropriate uplift there are a number of sources available to us and we will provide comment on each in turn.

### 8.3.1 Planning Decisions

We have interrogated legal precedents in order to provide an indication of what may be deemed an appropriate landowner incentive, though clearly individual circumstances will dictate each case. We have focussed on decisions post-July 2018, when NPPF viability guidance was refreshed.

The 'Report on the examination of the draft North Tyneside Community Infrastructure Levy Charging Schedule', (published October 2018) discussed the principle of an appropriate premium. Here, the Planning Inspector considers the principle of applying a 20-30 multiplier to EUV for greenfield sites, as proposed by the Council's consultants. The Inspector states: 'I see little persuasive evidence that these judgements are unreasonable'.

We are also aware of an appeal decision in respect of a site in Poulton-le-Fylde, Lancashire, where the applicant submitted a FVA to support a scheme of 130 no. dwellings. To assess the BLV, the consultants argued that an appropriate uplift equates to 15-25 as a multiplier of EUV for greenfield sites. The appeal was allowed by the Planning Inspector in February 2020. We also have knowledge of a greenfield development site in Faringdon, which, upon appeal in July 2021, it was held that a 10x premium on EUV was sufficient, reflecting the 'minimum return' to incentivise a landowner to release the land for development.

### 8.4 Market Evidence

Whilst a premium should suitably incentivise the landowner to release the site for residential development, it should also have regard to the market and thus, we consider comparable land transactional evidence should serve as a cross-check, an approach fully consistent with NPPF viability guidance.

We would comment that we do not consider it appropriate to establish BLV based on a multiplier alone, as when not applied in the correct context it can be regarded as arbitrary with no regard to the market. For that reason, we consider it paramount that comparable land transactional evidence should be considered to provide an informed, holistic view of BLV adopting the EUV+ methodology. This approach is fully consistent with viability guidance.

We are aware that a local outfit, Anthony Dearnley Homes Ltd, recently purchased a 3.13-acre site in Holmfirth for the development of 6 new dwellings. The title register states that the developer paid £1,910,000 for the site, equating to c£610,000 per gross acre.

Redrow Homes paid £2,274,028 for the land associated with their Stoney Bank Chase development in May 2018. This site also previously consisted of sloping grassland, and based on a net developable area of 4.89 acres, this reflects a value of £465,000 per acre (or 30x our assessment of existing use value). The Redrow scheme benefitted from an outline planning consent at the point of purchase.

We also reference the Kirklees Draft Affordable Housing Mix SPD Viability Assessment, which indicates benchmark land values in Kirklees Rural West to be ~£400,000 per acre (£988,000 per ha).

## 8.5 BLV Conclusions

We have assessed the EUV at £24,300, reflecting £15,000 per gross acre and £16,000 per net developable acre. We consider it reasonable to assume the principle of residential use is supported at the site given its status in the adopted Kirklees Local Plan, and therefore anticipate that a hypothetical landowner would seek a premium in excess of EUV to reflect the hope value in securing a future implementable consent.

To guide a suitable premium, we have considered legal precedents and analysed key comparable land transactional evidence, an approach fully consistent with viability guidance. The transactional land evidence from Redrow's scheme at Holmfirth and the Anthony Dearnley Homes site at Netherthong reflects land values of £465,000 per net developable acre and £610,000 per gross acre respectively. The Anthony Dearnley Homes scheme provides a useful indication of land values, however, in the absence of a net developable acreage, this can only be utilised as a guide. The Redrow Homes site reflects a more comparable site, with a similar former use, consisting of sloping grassland in a similar market area. We would anticipate the land value at the Redrow scheme to be marginally better than the subject site, on the basis that it benefitted from an outline consent, as opposed to an allocation. As such we judge the land value of £465,000 per acre (~30x EUV) to be the upper limit.

As aforementioned, the site is currently allocated as proposed housing in the adopted local plan and, as such, it should be anticipated that any reasonable landowner would take this into account when considering releasing the land for development. We therefore, taking into account the evidence, the allocated status of the site, and also considering the constraints with the subject site, deem that a minimum premium of 20x EUV should be expected.

Assuming a premium uplift of 20 x the EUV of £15,000 per gross acre would reflect a BLV of £486,000 equating to approximately £320,000 per net developable acre.

A BLV at this level can be considered to be somewhat conservative with the transactional land evidence following adjustments, on the basis that the site does not have planning consent, and has considerable abnormal costs associated with delivery. We consider the principle of residential development is established by way of the housing allocation and therefore consider this level of BLV would reasonably incentivise the hypothetical landowner to release the site for residential redevelopment.

On this basis, our opinion of BLV equates to £486,000, reflecting £321,000 per net developable acre and £300,000 per gross acre.

## 9. Stage Three: Sensitivity Analysis

### 9.1 Overview

In Stage One we established the policy-compliant land value incorporating four no. affordable units (20%) is (£61,000).

In Stage Two we established a BLV of £486,000, reflecting ~£320,000 per net developable acre.

On this basis, the residual output assuming a policy-compliant position is negative, thus demonstrating the scheme is unable to viably deliver Kirklees Council's full planning gain requirements.

### 9.2 Sensitivity Analysis Approach

Development appraisals are incredibly sensitive to even the most minor of changes in certain key inputs, and in light of the recent changes in items such as build costs, market demand and revenues, and the cost of finance, we have undertaken a sensitivity analysis in accordance with the RICS Guidance Note, Financial Viability in Planning: Conduct and Reporting (effective 1 September 2019).

The below demonstrates the effect which incremental changes in build costs and revenues would have on the residual land value. Any residual value over and above the previously determined BLV of £486,000 would demonstrate a viable scheme.

#### Simple Sensitivity Analysis

		Build Cost (£/sq ft)				
		-5.00%	-2.50%	+/- 0.00%	+2.50%	+5.00%
Revenues (£/sq ft)	-5.00%	-£105,000	-£180,000	-£254,000	-£329,000	-£404,000
	-2.50%	-£9,000	-£83,000	-£158,000	-£232,000	-£307,000
	+/- 0.00%	£84,000	£13,000	-£61,000	-£136,000	-£210,000
	+2.50%	£177,000	£105,000	£34,000	-£39,000	-£114,000
	+5.00%	£270,000	£198,000	£127,000	£55,000	-£17,000

The above table demonstrates that, in the best-case scenario of achieving reduced build costs by 5.00%, and increased revenues by 5.00%, a policy compliant scheme would still fail to reach the target minimum benchmark land value which would incentivise a hypothetical landowner to release the site for development. We note, however, that as per our assessment of the UK Housing Market in Section 6, the market is currently trending in the opposite direction to this scenario. Whilst build cost inflation is slowing down, that isn't to say that costs are falling in any case.

In addition, due to rises in the Bank of England base rate, this has led to implications with mortgage affordability, and subsequently demand and sales rates, causing house prices to trend negatively in the past 12-months. For this reason, we would also highlight the effect that further rises to build costs and falls in revenues would have on the viability of the scheme. Should build costs rise by 5.00% and revenues drop at the same rate, our sensitivity analysis demonstrates that the residual land value would drop as low as approximately (£404,000).

### S.106 Scenario Testing

In addition to the above sensitivity analysis on revenue and build costs, we have also carried out scenario testing to test the level of affordable housing that could be afforded without impeding scheme viability.

We have run scenarios assuming reduced levels of affordable housing by 10% increments. Note each scenario assumes a variation to the blended profit allowance on account of the increase in private accommodation.

Affordable (%)	Private		Affordable		GDV	Land Value	BLV Shortfall (£486k)
	No.	NSA	No.	NSA			
20%	17	16,937	4	3,244	£5,539,951	£61,000	-£547,000
10%	19	18,559	2	1,622	£5,749,882	£55,000	-£431,000
0%	21	20,181	N/A	0	£6,050,578	£244,000	-£242,000

The sensitivity illustrates that, with nil affordable housing, the residual output is £244,000 (c.£161,500 per net developable acre), which reflects a £242,000 shortfall below our opinion of BLV.

## 10. Conclusions

We have demonstrated that the site is unable to viably deliver Kirklees Council's full planning policy requirements. This is on account of the assumed build and abnormal costs required to bring the site forward for residential development, when assessed against our opinion of achievable values, not being able to meet our opinion of what we consider to be the minimum amount in which a hypothetical landowner would be willing to release the land for development.

Our approach is in accordance with updated planning guidance and is supported by robust transactional evidence. We therefore consider our conclusions both reasonable and valid.

We have tested the viability of the scheme by running both simple sensitivity analysis on the changes of build cost and revenue inputs, in addition to scenario testing the amount of affordable housing the scheme could deliver when measured against our opinion of BLV. We have assessed that the scheme is still unviable at a 0% affordable housing provision.

Due to the rural nature of the scheme, and the context in which it sits in respect of local amenity and proximity to major cities and employment opportunities, the development would experience relatively lower demand, and thus a longer build out period. Couple this with considerable abnormal costs for a site of this scale (associated largely with drainage, cut and fill, and retaining walls), as well as build costs which have increased significantly post-pandemic, this leads to a scheme which is unable to reach the minimum benchmark land value required to incentivise a hypothetical landowner to release the land for development. Whilst build cost inflation has calmed from previous levels, this is still at considerably higher levels than historically experienced by housebuilders, and with house prices continuing to fall, we anticipate that there may be further negative impact on viability in the coming months.

Our appraisal concludes the scheme is unable to viably deliver any on-site affordable housing, in addition to the council's propose S.106 contributions. A more onerous requirement or additional financial burden would further reduce the incentive to the landowner and the development would be rendered unviable.

This FVA has been prepared and countersigned by:

**Angus Swain BSc (Hons) MRICS**

Surveyor  
0113 233 8838  
angus.swain@cushwake.com

**Philip Roebuck FRICS**

Partner  
0113 233 8840  
philip.roebuck@cushwake.com

**23 February 2024**

## **11. Disclaimer**

This FVA and the advice provided do not constitute a formal valuation. However, we have prepared the FVA having regard to the requirements of PS 1 and PS 2 of the current RICS Valuation – Global Standards (the “Red Book”).

The FVA is for the purposes of assessing the viability of the planning application proposals only to inform the applicant’s negotiations with the Local Planning Authority regarding levels of affordable housing and other planning contributions. The FVA and the advice provided constitute an exception from valuation technical and performance standards (‘VPS’) 1 – 5 of the Red Book.

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## **Appendix A – Policy-compliant Appraisal Summary**

Bankfield Drive, Holmbridge  
Financial Viability Assessment

Development Pro Forma  
Cushman & Wakefield  
February 2, 2024

**Bankfield Drive, Holmbridge  
Financial Viability Assessment**

**Project Pro Forma for Phase 1**

**Currency in GBP**

**REVENUE**

<b>Sales Valuation</b>	<b>Units</b>	<b>ft<sup>2</sup></b>	<b>Sales Rate ft<sup>2</sup></b>	<b>Unit Price</b>	<b>Gross Sales</b>
Edinburgh (End) (OMV)	2	1,498	295.00	220,955	441,910
Edinburgh (Mid)	1	749	288.00	215,712	215,712
Preston (OMV)	2	1,746	280.00	244,440	488,880
Bamburgh	8	8,016	295.00	295,590	2,364,720
Gosford	2	2,322	328.00	380,808	761,616
Cheltenham	2	2,606	325.00	423,475	846,950
Edinburgh (End) (Rent)	2	1,498	79.99	59,913	119,825
Preston (Intermediate)	1	873	120.03	104,786	104,786
Preston (First Homes)	<u>1</u>	<u>873</u>	224.00	195,552	<u>195,552</u>
<b>Totals</b>	<b>21</b>	<b>20,181</b>			<b>5,539,951</b>

**TOTAL PROJECT REVENUE** **5,539,951**

**DEVELOPMENT COSTS**

**ACQUISITION COSTS**

Residualized Price (Negative land)	(61,122)	(61,122)
Town Planning	13,168	13,168

**CONSTRUCTION COSTS**

**Construction**

	<b>ft<sup>2</sup></b>	<b>Build Rate ft<sup>2</sup></b>	<b>Cost</b>
Edinburgh (End) (OMV)	1,498	137.96	206,664
Edinburgh (Mid)	749	137.96	103,332
Preston (OMV)	1,746	137.96	240,878
Bamburgh	8,016	137.96	1,105,887
Gosford	2,494	137.96	344,072
Cheltenham	2,778	137.96	383,253
Edinburgh (End) (Rent)	1,498	137.96	206,664
Preston (Intermediate)	873	137.96	120,439
Preston (First Homes)	<u>873</u>	137.96	<u>120,439</u>
<b>Totals</b>	<b>20,525 ft<sup>2</sup></b>		<b>2,831,629</b>

Contingency	3.00%	84,949
Abnormal Contingency	5.00%	46,760
		131,709

**Other Construction Costs**

Drainage	352,581
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**Bankfield Drive, Holmbridge  
Financial Viability Assessment**

Retaining Walls			111,479	
Dry Stone Wall Repair/Maint			36,400	
Wall to Dob Top Rd			100,000	
Cut and Fill			94,000	
Other			23,350	
Future Home Standards	21 un	5,000.00 /un	105,000	
Offsite Highways			82,396	
Drainage Attenuation			30,000	
				935,206

**Section 106 Costs**

BNG			125,313	
Public Open Space			47,040	
				172,353

**PROFESSIONAL FEES**

Professional Fees		8.00%	226,530	
				226,530

**DISPOSAL FEES**

Sales Agent and Marketing Fee		2.00%	102,396	
Sales Legal Fee	21 un	500.00 /un	10,500	
				112,896

**TOTAL COSTS BEFORE FINANCE**

**4,362,369**

**FINANCE**

Debit Rate 10.000%, Credit Rate 0.000% (Nominal)				
Land			(8,989)	
Construction			128,994	
Total Finance Cost				120,006

**TOTAL COSTS**

**4,482,375**

**PROFIT**

**1,057,577**

**Performance Measures**

Profit on Cost%		23.59%
Profit on GDV%		19.09%
Profit on NDV%		19.09%
IRR% (without Interest)		67.64%
Profit Erosion (finance rate 10.000)	2 yrs 2 mths	

Cushman & Wakefield  
St Paul's House  
23 Park Square South  
Leeds LS1 2ND

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