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Our ref: 250220 Land Adjacent to Oak
Cottage, Boorley Green
FVA_Rebuttal Letter_v0.1

Your ref:

Dear Liz,

28 February 2025

Land Adjacent to Oak Cottage, Winchester Road FVA - REF: F/24/97945

Further to our recent exchange of emails, we write in response to the rebuttal letter submitted by the Applicant's viability consultant, Alder King (AK), dated 12th February 2025.

Our independent FVA Review, dated October 2024, concluded that the proposed scheme was viable and produced a surplus of £412,354 in an entirely private scenario. This differed from the AK FVA undertaken in July 2024, which showed an entirely private scheme to be unviable with a deficit of -£201,645.

Following our review, AK have made a number of amendments and undertaken updated appraisals. However, the conclusion of their rebuttal remains the same as their July 2024 FVA, in that the proposed scheme is unviable in an entirely private scenario.

AK's rebuttal letter has provided an update in regard to their position on the following inputs:

- Benchmark Land Value (BLV);
- Base Build Costs;
- S106 & BNG Contributions; and;
- Developers Return

Below we address each of these elements, along with the additional evidence submitted in support of their position. The Viability PPG¹ and RICS Professional Standard² are clear that the onus is on the Applicant to demonstrate why a decision-taking FVA is required and whether particular circumstances exist that justify a departure from policy. Hence, where no additional information / new market evidence has been submitted in support of the inputs above, we have referred back to our original review and called upon our experience of undertaking other FVAs.

At the end of this letter, we set out our latest position in respect of the above inputs and undertake an updated appraisal.

Benchmark Land Value (BLV)

In our FVA, we adopted a BLV of £394,000. This reflected a reduction of £16,000 on AK's adopted BLV (£410,000). AK and ourselves were aligned in the Existing Use Plus Premium (EUV+) methodology adopted in determining the sites BLV. However, in our assessment we adopted a slightly different approach to arrive at the EUV+ for the site, which resulted in a lower BLV.

¹ Paragraph 007

² RICS, 2021. Assessing Viability in Planning under the National Planning Policy Framework 2019 for England. Paragraph 3.8.3

In AK's rebuttal letter they acknowledge that the difference in approach is minimal and, in an effort to reach an agreement on viability, they are prepared to accept the BLV of £394,000. We therefore conclude that the BLV for the site has been agreed at £394,000.

Base Build Costs

Both AK's and our FVAs adopted build costs from the RICS Building Cost Information Service (BCIS) database. In both assessments separate rates for the retirement flats and detached houses. We summarise the adopted BCIS rates in both FVAs below:

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- Supported Housing - 3-Storeys, October 2024, 10-year period (14 samples):
Median Rate: £1,740 psm
- Estate Housing - 2-Storey Generally, October 2024, 10-year period (360 samples):
Median Rate: £1,515 psm

Alder King

- Supported Housing - 3-Storeys, June 2024, default period (44 samples):
Median Rate: £1,810 psm
- Estate Housing - Semi-Detached, June 2024, default period (356 samples):
Median Rate: £1,594 psm

The differences between the rates adopted reflected a reduction of c. £358,000 compared to the build costs adopted in our original FVA review.

In AK's rebuttal letter, they state that the cost for the houses can be agreed. As such, we have maintained the build rate adopted in our FVA (£1,515 psm) for the proposed housing units.

The main discrepancy in regards to the base build cost is therefore the rate adopted for the retirement apartments. AK note that BCIS confirm sample sizes below 20 should be used with caution and that at a sample size of 14, the 10-year rate adopted in our FVA is unreliable. As such, in AK's updated appraisal they have maintained their original build rate for the retirement apartments (£1,810 psm).

As of February 2024, BCIS disclose a build rate of £1,846 psm for 3-Storeys Supported Housing (generally), based on a 10-year period (sample of 12). Based on the default period (AK's adopted period), BCIS disclose a rate of £1,854 psm (sample of 40). This shows that since AK's FVA in July 2024, build rates reported by the BCIS have increased by c. 2% (£1,810 psm July 2024). Since our FVA Review in October 2024, the build rate reported by the BCIS and adopted in our FVA has increased by c. 6%.

Therefore, in the interest of reaching an agreement, we have adopted the build rate adopted by AK in their updated appraisals for the retirement apartments (£1,810 psm). For clarity, the build costs adopted in both AK's and our updated appraisals are now aligned.

We do again note that the RICS Guidance on viability in planning advocates the use of a detailed, quantified cost estimate for site-specific assessments. We would expect that an elemental and site-specific cost plan may result in higher costs than the BCIS estimate currently adopted in the Applicant's assessment. It is therefore assumed the BCIS approach has been favoured to improve viability.

S106 & BNG Contributions

As part of our initial FVA, we sought to clarify the estimated S106 contributions that would be expected in respect of the proposed scheme. In an email dated 11th October 2024, the Council stated that the following index linked contributions would be sought:

- S106 Contributions: £315,453.30
- Nitrates & Administration Fee: £110,450.00
- BNG: £100,000

As part of our FVA we included the above contributions amounting to £525,903 in our appraisals, these allowances were £133,181 higher than the contributions included in AK's initial assessment (£392,722).

AK's rebuttal letter states that they have been provided with further details on the S106 and BNG contributions sought and list the following updated contributions which amount to £449,315:

- BNG: £150,000
- Nitrates: £139,432.12
- Solent SPA: £30,925
- New Forest SPA: £128,967.86

AK state that the following contributions which amount to £271,301.23 are also required but only subject to viability:

- Community Infrastructure: £98,947.02
- Public Open Space: £54,211.95
- Public Art: £30,895.26
- Sustainable Transport: £51,895
- Traffic Regulation Order: £12,000
- Health: £17,652
- S106 Monitoring Fee: £5,700

In AK's rebuttal, they have undertaken 2no. updated appraisals, only the contributions amounting to £449,315 included and another one with all additional contributions (£271,301.23) also included.

In an email dated 13th February 2025, the Council have confirmed to us the following S106 & nitrates contributions sought, which are index linked to December 2024:

- Community Infrastructure: £98,947.02
- Public Open Space: £54,211.95
- Public Art: £30,895.26
- Sustainable Transport: £51,895.00
- Traffic Regulation Order: £12,000.00
- Health: £17,485.00
- S106 Monitoring Fee: £5,700.00
- New Forest Recreational Disturbance Mitigation: £128,967.86

- Solent Recreational Disturbance Mitigation: £30,816.42
- Nitrates: £117,743.75
- BNG: £150,000

The above contributions amount to a total of £698,662 and correspond with the contributions included in AK's rebuttal, we do however note that the nitrates contribution stated by the Council (£117,743.75) is lower than the contribution included in AK's appraisal (£139,432.12).

For the purpose of our updated appraisal, we have adopted the contributions sought by the Council, as per their email dated 13th February 2025.

Developer's Return

AK's FVA adopted a market sale residential profit allowance of 20%. In our FVA, we identified that we consider this allowance to be unreasonable and adopted a revised return of 17.5% on GDV.

In regards to the profit, AK's letter has stated they are maintaining their adopted allowance of 20%. In support of their allowance, AK have listed a number of points regarding the risk associated with retirement flatted developments. Specifically, AK state,

'It has been held at numerous Appeals and third-party assessments that retirement flatted development is at the upper end of the risk profile.' To support this, AK have included an extract from an appeal decision in Sale (3325034 - 2023), where the Inspector states 'I therefore agree with the Appellant that a profit of 20% of gross development value should apply.'

We acknowledge the points stated by AK for retirement flatted developments, as well as the extract from the appeal decision. For the retirement apartments at the proposed scheme, we are therefore willing to accept the 20% developer's profit margin.

However, as the 2no. detached houses as part of the proposed scheme are not retirement housing and will be sold on the open market, we have maintained the 17.5% on GDV developers profit assumption adopted in our FVA.

Finance Rate

To support their adopted finance rate (8.0% debit rate & 2.0% credit) in AK's FVA (July 2024) they noted that the Bank of England (BoE) base rate at the time of their assessment was 5.25%. At the time of undertaking our FVA (October 2024), the BoE base rate was 5.00%.

As of 17th February 2025, the BoE interest rate has lowered again to 4.50%, therefore reducing 0.50% since our FVA in October 2024. To reflect these changes to interest rates, we have reduced our adopted finance debit rate to 7.50% from the 8.0% rate previously adopted in our FVA.

Appraisal Outcomes

Given the changes to the various inputs discussed above, we have undertaken updated appraisal testing an entirely private scenario of the proposed scheme. The outcome of this updated appraisal compared to the outcome of our FVA in October 2024 can be seen in Table 1 below.

Table 1 – Aspinall Verdi Updated Appraisal Outcome

Scenario	FVA (October 2024)	Rebuttal Letter (February 2025)
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Entirely Private	+£421,354	-£541,738
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Despite improvements to the adopted finance rate, our updated appraisal now shows the same fundamental outcome as AK's appraisal, in that a 100% private scenario is unviable. This change in viability from the conclusion in our FVA dated October 2024 are due to increases in the retirement apartment build costs, changes to the developers return and increases to the overall S106 contributions sought.

We note that while the scheme is shown to be unviable in planning terms with the target returns (20.0% for the retirement apartments & 17.5% for the houses), the scheme is still shown to be deliverable with a net profit of 16.56% on GDV.

We have undertaken a sensitivity analysis of an entirely private scheme with no affordable housing, to identify how varying costs and values would impact the viability of the proposed scheme.

Table 2 – Private Scenario Sensitivity Analysis

Sales Values	Construction: Gross Cost					
		-2.50%	-1.25%	0.00%	1.25%	2.50%
	-2.50%	-£573,793	-£722,776	-£872,063	-£1,021,350	-£1,170,638
	-1.25%	-£409,156	-£557,765	-£706,638	-£855,925	-£1,005,212
	0.00%	-£244,519	-£393,128	-£541,738	-£690,500	-£839,787
	1.25%	-£79,882	-£228,491	-£377,101	-£525,710	-£674,362
	2.50%	£84,333	-£63,854	-£212,464	-£361,073	-£509,683

This analysis has shown that for the proposed scheme to become viable in planning terms, construction costs would have to decrease by approximately 2.5% and market sale values would have to increase by the same percentage (2.5%).

Given that the outcome of our updated appraisal and accompanying sensitivity analysis shows the proposed scheme could become viable with relatively minor changes in costs and values, we also recommend a viability review mechanism is included within the Section 106 agreement. This will allow the council to benefit from any favourable uplifts in viability.

I trust the above is clear, but do please let me know if you have any comments or questions.

Yours sincerely,



Parm Dosanjh MRICS MRTPI
Executive Director

Encs. Appendix 1 – AVL Updated Appraisal

2502 Land Adjacent to Oak Cottage
Updated Appraisal
February 2025

Development Appraisal
AspinallVerdi
27 February 2025

APPRAISAL SUMMARY**ASPINALLVERDI**

2502 Land Adjacent to Oak Cottage
Updated Appraisal
February 2025

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Retirement Market Units	52	34,624	447.09	297,692	15,480,000
Houses Market Sale Units	<u>2</u>	<u>2,238</u>	402.14	450,000	<u>900,000</u>
Totals	54	36,862			16,380,000

NET REALISATION**16,380,000****OUTLAY****ACQUISITION COSTS**

Fixed Price	394,000			
Fixed Price		394,000		
			394,000	
Stamp Duty			7,200	
Effective Stamp Duty Rate	1.83%			
Agent Fee	1.00%	3,940		
Legal Fee	0.75%	2,955		
			14,095	

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
Build Costs	50,687	166.94	8,461,930	
Externals Allowance		8.00%	676,954	
Contingency		5.00%	456,944	
				9,595,829
Other Construction Costs				
Part L & O	54 un	4,000.00 /un	216,000	
Empty Property Costs			177,137	
				393,137
Section 106 Costs				
Section 106 Costs			430,919	
Nitrates			117,744	
BNG Credit			150,000	
				698,663

PROFESSIONAL FEES

Professional Fees	8.00%	748,391	
			748,391

MARKETING & LETTING

Retirement Marketing & Agent		5.00%	774,000	
House Marketing & Agent		3.00%	27,000	
Sales Legal	54 un	750.00 /un	40,500	
				841,500

Additional Costs

Market Sale Profit	17.50%	157,500	
Retirement Units Market Profit	20.00%	3,096,000	
			3,253,500

APPRAISAL SUMMARY**ASPINALLVERDI****2502 Land Adjacent to Oak Cottage****Updated Appraisal****February 2025****TOTAL COSTS BEFORE FINANCE** 15,939,114**FINANCE**

Debit Rate 7.500%, Credit Rate 2.000% (Nominal)

Land 53,820

Construction 481,063

Other 447,741

Total Finance Cost 982,623

TOTAL COSTS 16,921,738**PROFIT****(541,738)****Performance Measures**

Profit on Cost% -3.20%

Profit on GDV% -3.31%

Profit on NDV% -3.31%

IRR% (without Interest) 3.40%

Profit Erosion (finance rate 7.500) N/A