Viability Report

Land at Pondtail Farm, Langhurstwood Road, Horsham, West Sussex

Turner Morum LLP

26th February 2025

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1. BACKGROUND AND RELEVANT EXPERIENCE

1.1. The applicant has instructed Turner Morum LLP ('TM') of 32 – 33 Cowcross Street, London, EC1M 6DF, to undertake a viability assessment of their proposed application scheme located in Horsham. This report has been prepared by Tom Hegan MRICS who is a Partner at TM and Kat Seager MRICS who is a Senior Surveyor.

1.2. I regularly advise across the whole of the UK on the value and potential of major tracts of development land and infill urban development focusing specifically on development sites within the London Boroughs & the South East. I am currently instructed by a number of Local Authorities, Landowners, Housing Associations and Developers and have extensive experience in this field. I also provide Expert Witness evidence at planning appeals and Local Plan Examinations. Full details of some of our recent case experience can be viewed at **Appendix 6.**

2. PROPOSED SCHEME

2.1. I was appointed by the applicant to undertake a viability assessment in regards to their development on the site at Pondtail Farm, Horsham. The proposed scheme is for:

"Full planning application for 304 residential units, parking, retail unit, public car park, public open space and strategic landscaping"

3. SITE LOCATION & DESCRIPTION

3.1. The subject site is located at Pondtail Farm, Horsham. The site area equates to 14.31 ha or 35.36 gross acres. A location plan can be viewed as per **Appendix 1**.

4. METHODOLOGY & VIABILITY GUIDANCE

4.1. I have carried-out a development appraisal adopting a bespoke residual valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as **Appendix 2**. This appraisal model follows the same principles and methodology as other toolkit models such as Argus or the HCA Toolkit.

4.2. In undertaking this viability, I am aware and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)*. I am also aware of viability guidance documents such the *RICS Assessing viability in planning under the NPPF 2019 for England (2021),* the Planning

Practice Guidance (PPG) on Viability published following updates to the National Planning Policy Framework (NPPF).

4.3. In carrying-out this assessment, I have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information. We are not aware of any conflicts of interest in relation to this assessment.

4.4. In preparing this report, I have not agreed any 'performance-related' or 'contingent' fees. We address this report to Riverdale Developments Ltd only and it should not be reproduced without prior consent. This report has been provided for its stated purposes and singular use of the named clients and may not be relied upon by any third party.

5. RESIDUAL APPRAISAL METHODOLOGY

5.1. The widely accepted approach for assessing the viability of sites at the planning application stage and the plan-making stage is to produce a residual appraisal which generates a Residual Land Value (RLV) output. This RLV is then compared with an appropriate Benchmark Land Value (BLV) which is usually an Existing Use Value (EUV) or an Alternative Use Value in certain cases.

5.2. The simple premise is that where the RLV exceeds the BLV, a surplus is generated and the scheme can be considered "viable". However, if the BLV exceeds the RLV, a deficit is produced and the scheme can be considered technically "non-viable".

5.3. The simplified structure of a viability assessment can be summarised as follows:

Gross Development Value (GDV)

Minus

Developer Costs

Minus

Developer Profit

Equals

Residual Land Value (RLV)

Minus

BLV / EUV

Equals

Surplus/Deficit (Viable/Non-Viable)

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

6. APPRAISAL SCENARIOS

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

- **Appendix 2 Tab 1A –** Appraisal showing the viability of the 304-unit proposed scheme with 40% affordable housing (122 units) with a 70/30 split as Affordable Rent and Shared Ownership respectively (85 affordable rented dwellings & 37 shared ownership).
- **Appendix 2 Tab 1B –** Appraisal showing the viability of the 304-unit proposed scheme with 30% affordable housing (91 units) with a 70/30 split as Affordable Rent and Shared Ownership respectively (64 affordable rented dwellings & 27 shared ownership).
- **Appendix 2 Tab 1C –** Appraisal showing the viability of the 304-unit proposed scheme with 20% affordable housing (61 units) with a 70/30 split as Affordable Rent and Shared Ownership respectively (43 affordable rented dwellings & 18 shared ownership).
- **Appendix 2 Tab 1D –** Appraisal showing the viability of the 304-unit proposed scheme with 10% affordable housing (30 units) with a 70/30 split as Affordable Rent and Shared Ownership respectively (21 affordable rented dwellings & 9 shared ownership).
- **Appendix 2 Tab 1E –** Appraisal showing the viability of the 304-unit proposed scheme with 0% affordable housing

6.2. I will now explain the various appraisal inputs as they appear in the residual appraisal analysis, in sequential order:

7. APPRAISAL INPUTS

GROSS DEVELOPMENT VALUE ('GDV')

7.1. Market revenues for the residential units are based upon research of comparable schemes and advice from the McLaren Clark Consultancy ("MCC"). On this basis, my appraisal analysis

assumes average market revenues of c. **£469** per square foot. The MCC report is included as **Appendix 3**.

7.2. The affordable revenues are included based upon standard industry benchmark percentages of Open Market Value ("OMV"), with the affordable rent values included at 45% of OMV – which is equivalent to **£211 per ft2**, the shared ownership values are included at 65% of OMV – equivalent to **£305 per ft2**. On the basis of a 70% affordable rent / 30% shared ownership tenure split, the blended affordable housing revenue equates to c. **51% of OMV**.

7.3. The proposed scheme also includes a commercial unit which I have included at **£250k**, which reflects a Serviced Land Value receipt.

7.4. Based on these revenue assumptions, the scheme GDV totals some **£110.79m** based upon 40% affordable housing and **£144.67m** at 0% affordable housing.

DEVELOPMENT COSTS

7.5. Fees and marketing costs are included at **3%** of the Market Housing GDV, and the cost of disposing of the affordable units to a Registered Provider is included at **0.5%** of affordable GDV, as per standard industry benchmarks. A **3%** disposal cost is also applied to the non-residential element of the scheme.

7.6. Standard construction costs are derived from the Royal Institution of Chartered Surveyors (RICS) Build Cost Information Service (BCIS) with standard construction costs included as per the latest lower quartile average figures (Q1 2025) derived from the default range of results. As per BCIS guidance, to the base construction costs additional allowances are made for locational weighting (1.11 – Horsham, West Sussex).

7.7. A breakdown of the standard construction costs is included at **Appendix 2 Tab 3**. The aforementioned allowances result in standard construction costs of **£165 per square foot** for Estate Housing – Generally and **£210 per square foot** for Flats – Generally. A 15% net to gross adjustment is then applied for the apartments, before the plot external costs are included based upon a 10% adjustment to the BCIS costs, with contingency then reflected at 5%.

7.8. I understand that 109 single garages are proposed within the scheme, which I have included at £10k per unit (**£1.09m** total) and 3 single car ports at £7.5k per unit (**£22.5k** total).

7.9. Allowances have then been included for the latest building regulations for Part L at £4k per unit and Part F at £6k per unit, totalling **£3.04m**.

7.10. An allowance for Technical Fees is included at **8%** of the Standard Build Cost, which reflects the costs associated with Architects, Quantity Surveyors, Engineers, Project Management and other technical / professional consultancy fees. By way of comparison, the suggested allowance for professional fees in the Horsham Local Plan Viability Report (November 2023) is 10%.

7.11. Developer Profit is reflected at 20% (of GDV) for the Market Housing and 6% (of GDV) for the affordable housing. I have also included an allowance of 15% which is applied to the GDV of the non-residential unit. These assumed returns are within industry accepted industry parameters, and the above allowances result in a blended return of **16.9%** on GDV in the policy compliant model.

7.12. The abnormal and strategic infrastructure costs are based upon cost advice provided by Allen Dadswell. This cost plan assessment deals with the costs not covered by BCIS and / or the external works allowance, totalling **£31.326m**. Full details of the cost plan can be viewed as per **Tab 4 of Appendix 2** and **Appendix 4**.

7.13. The **S106** contributions have been included at **£3.328m** – as advised by my client. The **Community Infrastructure Levy** ("CIL") has been calculated based on market and garage GIA, totalling **£3.9m** at 40% affordable housing, and increasing to **£6.03m** for the scheme at 100% market housing. During the course of the application process, should either of the assumptions on CIL/S106 prove to be inaccurate, the appraisal analysis would need to be amend accordingly.

7.14. Finance costs have been calculated using a quarterly cashflow to reflect the finance costs for each residual appraisal scenario. This can be seen as per **Tab 5A – 5E of Appendix 2** and reflect the details of the particular scheme including the build rate of the residential units and the particular infrastructure timings.

7.15. The cashflows adopt the assumption that construction will commence on site within Q2 Year 1 (this is assumed to be following a period of site preparation) and will be completed by Q3 Year 4. Residential sales are assumed to begin in the quarter post completion; at a rate of 13 market units per quarter. The affordable dwellings are assumed to be disposed of

proportionately to the market units, albeit I have also assumed a 20% golden brick payment – which I consider to be optimistic in present market conditions.

7.16. The cashflow works on a finance rate on debit of **7.5%**, which TM believe is conservative, given that the current Bank of England Base Rate is 4.5%. The outturn finance costs adopted within my analysis equate to c. 4.1% of development costs, which based of recent experience, is a fairly conservative outturn figure for a cash-intensive development of this nature.

8. BENCHMARK LAND VALUE

8.1. The structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an adopted Benchmark Land Value (BLV). If the RLV exceeds the Land Value, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the Land Value, a deficit is produced and the scheme should be considered "Non-Viable".

8.2. The issue of what is deemed to be an appropriate BLV for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate BLV. For the purposes of this analysis, I have adopted a BLV of **£100k per gross acre**. The adopted land value is below the latest Horsham DC Local Plan Viability Study (November, 2023), undertaken by Aspinall Verdi which recommends between £300k - £350k per gross acre. Needless to say, a higher BLV figure could therefore have been justified.

8.3. I have then made allowances for Stamp Duty Land Tax (SDLT) at the prevailing rates (equating to 4.70%) and Agent/Legal fees at 1.75% of the total BLV. After making these allowances, the total BLV adopted for the purposes of this assessment equates to some **£3.764m**.

9. SUMMARY CONCLUSIONS

9.1. Based on the assumptions as outlined in this report, the summary conclusions for the viability assessment are shown in the schedule below:

AH %	GDV	Development Costs	RLV	BLV	Surplus/ Deficit	Viable/ Non-Viable
40%	£110,785,669	-£127,131,227	-£16,345,559	£3,764,180	-£20,109,739	NON-VIABLE
30%	£119,155,137	-£130,650,428	-£11,495,291	£3,764,180	-£15,259,471	NON-VIABLE
20%	£126,817,594	-£135,879,892	-£9,062,298	£3,764,180	-£12,826,478	NON-VIABLE
10%	£135,953,608	-£138,128,266	-£2,174,658	£3,764,180	-£5,938,838	NON-VIABLE
0%	£144,672,967	-£142,867,851	£1,805,116	£3,764,180	-£1,959,064	NON-VIABLE

9.2. It will be noted from the above summary table that the scheme shows as technically non-viable even when the level of affordable housing is reduced to 0% affordable housing.

10. SENSITIVITY ANALYSIS

10.1. In order to consider the viability of the proposed scheme, I have undertaken a sensitivity analysis by varying the level of affordable housing to try and achieve the break-even position (where the RLV is equal to the BLV). In this instance, as per **Tab 1E**, I have reduced the affordable housing to 0%, however even with this reduction the scheme still shows a deficit, and the scheme is therefore (technically) non-viable with any affordable housing.

10.2. In order to assess the viability further, I have undertaken further sensitivity analysis in order to test the impact of revenue & cost variations on the viability of the scheme, by up to a 10% variation. This enables one to observe the impact on the overall viability conclusions. This assessment is summarised in the table below – using appraisal model **Tab 1D** of **Appendix 2** as the benchmark:

Tab 1D						
SENSITIVITY TABLE		Market Revenues – GDV				
		-10%	*-5%*	*0%*	*5%*	*10%*
Total Cost	*10%*	-£30,851,897	-£23,658,399	-£17,023,562	-£10,547,518	-£4,298,185
	5%	-£24,664,594	-£17,926,223	-£11,421,311	-£5,109,713	£891,691
	0%	-£18,852,054	-£12,295,104	-£5,938,838	£101,428	£5,947,151
	-5%	-£13,190,389	-£6,767,963	-£692,548	£5,177,558	£10,911,151
	-10%	-£7,634,177	-£1,486,523	£4,407,965	£10,149,835	£15,796,578

11. CONCLUSIONS

11.1. It will be noted from the above summary table and the appraisal analysis included as **Appendix 2**, the subject scheme is considerably in deficit, even when the affordable is reduced to zero. On this basis, all development scenarios should be considered technically 'Non-Viable'.

11.2. However, I'm advised that my client is prepare to take a 'commercial decision' to proceed with the scheme with **10% affordable housing**, provided that the deficit does not increase any further. The **£5.94m** viability deficit essentially represents an amount of 'usually obtainable' developer profit that my client is essentially prepared to forego in this instance, in order to see the scheme proceed.

11.3. I believe the conclusions of my assessment are especially apparent when one considers the conservative nature of my appraisal assumptions; in particular the lower quartile BCIS costs for a location with market revenues of c. £470 per square foot, the scheme finance costs – particularly the cost of debt at 7.5%, and the BLV, which is conservative in comparison with the LPA's own BLV recommendations.

11.4. I trust this provides a suitable summary; I would welcome the opportunity to discuss my findings with you at your earliest convenience.

Thomas Hegan MRICS

February 2025