

Summary Proof of Evidence



Liss Forest Nursery, Petersfield Road, Greatham

PINS Appeal Reference: APP/Y9507/W/23/3314274

South Downs National Park Authority Reference: SDNP/21/04848/FUL

Summary Proof of Evidence

Mr Matthew Spilsbury, MRICS MRTPI

Subject: Viability

21st April, 2023

1. Introduction

- 1.1 This document represents a summary of the proof of evidence and updated financial viability assessment prepared by Matthew Spilsbury BA (Hons), MSc, MRICS, MRTPI of CBRE Ltd ('CBRE') as instructed by Cove Construction Ltd, Peter Catt, Vincent Catt and Neil Catt ('the Appellants').
- 1.2 This has been prepared in respect of an appeal against refusal of planning permission from South Downs National Park Authority ('SDNPA') of planning application (ref: SDNP/21/04848/FUL) for: the following, constituting the proposed development
"Development of 37 dwellings (including affordable homes), alterations to existing access onto Petersfield Road, hard and soft landscaping, drainage and all other associated development works."
- 1.3 The Appeal Site is Liss Forest Nursery, Petersfield Road, Greatham, GU22 6HA.
- 1.4 I, Matthew Spilsbury, am a Senior Director in the National UK Planning & Development department of global property consultancy CBRE and I am a dual qualified Chartered Surveyor and Chartered Town Planner. The focus of my professional advice is to provide analysis of the financial viability of land and development sites from the promotion and plan-making stages through to underpinning planning applications and thereafter. I also have experience in providing advice on matters including land acquisitions, commercial disputes, affordable housing strategy, enabling development and optimum viable use of heritage assets and financial cases to secure public sector funding for projects.
- 1.5 I have substantive experience in providing professional advice to landowners, investors, promoters, house builders and Local Planning Authorities on financial viability and deliverability nationwide regarding both residential and non-residential sites and development schemes. This includes schemes ranging from small-scale residential sites to new settlements in Worcestershire and Oxfordshire.
- 1.6 I have consequently given professional advice on a wide range of development projects, including at Section 78 Appeals, as well as appearing extensively at Local Plan Examinations in Public and Community Infrastructure Levy ('CIL') Examinations acting for a wide range of private development sector clients and landowners.
- 1.7 I am familiar with both the Appeal Site and surrounding area. I am presently acting in respect of another previously developed site for residential led development within the South Downs National Park ('SDNP') in Lewes. I have also advised on sites for development in Arun District, Southampton, New Forest National Park, Bournemouth, Brighton and Hove, Hastings, Horsham, Guildford, Reading and Swindon.
- 1.8 I have an understanding of the relevant planning policy context and associated issues relating to this Appeal.
- 1.9 This proof of evidence contains an updated financial viability assessment ('FVA') as compared to the previous versions, in support of the Appellant's case. This is required to take account of the agreement at the Case Management Conference ('CMC') to set a baseline date for determining data inputs as being 31st March 2023. It also reflects subsequent discussions between CBRE and SDNPA's viability advisor Bruton Knowles ('BK') in seeking to reach a position of common ground on disputed matters.

2. Viability Assessment Methodology and Appraisal Inputs

- 2.1. Pursuant to submission of the parties' respective Statements of Case, discussions have progressed between CBRE and BK in seeking to reach a position of common ground on matters in dispute.
- 2.2. The parties have assessed the financial viability of the Appeal Site on two primary basis:
 - the Policy Compliant development scenario, which incorporates 48.6% affordable housing (18 units) at a policy compliant tenure mix. This addresses Part 1 of Policy SD28 of the South Downs Local Plan ('SDLP') (CD4.1).
 - the Proposed Development, which includes an affordable housing contribution of 21.6%, delivered as 8 x shared ownership units.
- 2.3. A Viability and Affordable Housing Statement of Common Ground was submitted to the Inspector on behalf of the parties on 14th April 2023 (CD9.3).
- 2.4. This has reduced the matters in dispute to the following five points:
 - The gross development value ('GDV') of dwelling plots assuming their open market sale (other than plots 11, 13, 23 and 28 which are agreed).
 - The cost to be attributed to the developer for residential sales agency fees and marketing of open market sales units.
 - The cost to be attributed to legal (conveyancing) fees for the developer's disposal of open market sales units.
 - The risk-adjusted developer's profit margin to be applied to the development as a percentage (%) of the GDV of open market sale units.
 - The benchmark land value ('BLV') to be adopted as a threshold above which the residual land value (RLV) of the proposed development is deemed viable, and below which it is deemed unviable.
- 2.5. Table 2.1 provides a succinct summary of the respective positions of CBRE and BK on the forementioned disputed matters.
- 2.6. As required by PPG Viability (CD5.1), it also provides comparison to the input applied within the viability assessment evidence base that underpinned the local plan, and brief commentary. In this case that is the Local Plan and Affordable Housing Viability Assessment ('LPAHVA') 2017 (CD5.2).

Table 2.1: Matters of Dispute Between the Parties and Comparison to LPAHVA

Viability Input	LPAHVA Assumption	CBRE Assumption	Bruton Knowles Assumption	CBRE Comment
Open Market GDV (Sales Values) – Proposed Development	£218 - £395/ft ² (Note: typology based, not site-specific)	£440/ft ²	£456/ft ²	Sales values have altered since the LPAHVA was prepared and this has been surpassed by current market comparable evidence and the Parties have applied specifically to the Appeal Site.
Sales Agent & Marketing Fees	3.00% of Open Market GDV	3.00% of Open Market GDV	2.00% of Open Market GDV	LPAHVA adopts 3% allowance for marketing costs, which includes show homes and agent fees. CBRE consistent with this assumption.
Sales Legal Fees	0.5% Sales Legal Fees of Open Market GDV	£1,000/unit	£850/unit	The 0.5% allowance in the LPAHVA is considerable higher than the £1,000/unit adopted by CBRE, which is supported by market evidence.
Developer's Profit	20% of Open Market GDV	20% of Open Market GDV	18.5% of Open Market GDV	I provide further comment on this within Section 5 of my proof of evidence.
Benchmark Land Value ('BLV')	EUV+20%	EUV+20%	EUV+10%	LPAHVA applies a BLV of Existing Use Value ('EUV') + 20% landowner premium on previously developed sites. CBRE adopt a consistent approach.

3. Viability Results and Conclusions

- 3.1. The approach to viability testing follows the cascade process set out within Strategic Policy SD28 of the SDLP (CD4.1). This includes the two primary bases referenced in section 2, plus additional two scenarios in order to address the cascade process.
- 3.2. The results are summarised in Table 3.1. Supporting analysis is provided below.

Table 3.1: Updated Viability Appraisal Results

Viability Appraisal	Residual Land Value	Benchmark Land Value	Surplus/Deficit
Scenario 1 (Policy Compliant) – 48.6% affordable housing at a policy compliant tenure split	-£936,217	£1,195,000	-£2,131,217
Scenario 2 – 48.6% affordable housing with tenure adjusted to provide 18 x shared ownership units)	-£72,688	£1,195,000	-£1,267,688
Scenario 3 (Proposed Development) – 21.6% affordable housing (8 x shared ownership units)	£458,207	£1,195,000	-£682,688
Scenario 4 – 100% open market sales	£804,696	£1,195,000	-£390,304

Source: CBRE Analysis

- 3.3. The first scenario (Scenario 1) represents the **Policy Compliant development scenario** and incorporates 48.6% affordable housing (18 units) at a policy compliant tenure mix. This addresses Part 1 of Policy SD28 of the SDLP (CD4.1).
- 3.4. The Scenario 1 appraisal produces a Residual Land Value ('RLV') of -£936,217, falling significantly below the Benchmark Land Value ('BLV') of £1,195,000.
- 3.5. A second scenario (Scenario 2) has been prepared that continues to incorporate 48.6% affordable housing (18 units), but as stipulated within bullet (i) under paragraph 7.65 of the SDLP (CD4.1), this reduces the proportion of rented affordable tenure homes in favour of intermediate housing that best reflect local need.
- 3.6. To assess the maximum impact of the tenure adjustment, all 18 x affordable units are delivered as shared ownership tenure units.
- 3.7. Whilst the Scenario 2 appraisal produces an RLV of £72,788, which continues to fall significantly below the BLV, it shows a considerable reduction in the viability deficit (an improvement of £863,429) when compared to the RLV in Scenario 1. This is a direct result of the inclusion of additional shared ownership units.
- 3.8. The shared ownership units generate a higher GDV than the affordable rent units, which are included within the policy compliant tenure mix. Specifically, the shared ownership units generate an average value of £281.25/ft² (62.5% of open market GDV) and the affordable rent units generate an average value of £196.74/ft² (44.5% of open market GDV). The shift to shared ownership tenure therefore increases the contribution that the affordable units makes to the overall scheme GDV, which improves the RLV to the benefit of scheme viability.
- 3.9. The result of Scenario 2 confirms the logic behind the cascade mechanism in bullet (i) under paragraph 7.65 of the SDLP (CD4.1) whereby the replacement of affordable rented homes with shared ownership homes increases scheme viability. The purpose of this is to allow more affordable housing units to be delivered than if other affordable housing tenures were also included within the scheme mix. This is demonstrable by comparing the RLVs generated by the Scenario 1 and Scenario 2 appraisals, as I have described above.

- 3.10. Subsequently, following the process stated within bullet (ii) under paragraph 7.65 of the SDLP (CD4.1), a third scenario has been prepared which maintains the adjustment in favour of shared ownership tenure whilst reducing the overall percentage of housing provided as affordable units.
- 3.11. The third scenario (Scenario 3) represents the **Proposed Development scenario** and includes a reduced affordable housing contribution of 21.6%, delivered as 8 x shared ownership units.
- 3.12. The Scenario 3 appraisal produces an RLV of £458,207, which whilst a significant improvement over Scenario 1 and generating a positive land value, still falls below the BLV.
- 3.13. A fourth scenario (Scenario 4) has been prepared which removes the provision of affordable housing altogether.
- 3.14. The Scenario 4 appraisal produces an RLV of £804,696, which reduces the deficit against the BLV, but remains short of meeting or exceeding it.

Sensitivity Analysis

- 3.15. In accordance with section 2.9 of the RICS Professional Statement (CD6.12), a process of sensitivity testing has been undertaken by analysis of the impact of adjustment to revenue and costs on the RLV of the Proposed Development appraisal (i.e. Scenario 3).
- 3.16. Recognising the sensitivity of the residual method to inputs includes upward and downward movement to ensure that both optimistic and pessimistic scenarios can be taken into account. I have set the upward and downward ranges applied in the context of wider market factors, and then conducted analysis of the results by way of reference to market evidence and trend data.

Stand Back

- 3.17. The RICS Professional Statement (CD6.12) advocates that, following a detailed component review of the inputs into a financial viability assessment and running the appraisal, to stand back is to consider the modelling output(s) objectively, and with the benefit of experience, given the complexity of the proposed scheme.
- 3.18. This incorporates reaching a viability judgement, which is to reach a considered view on the outcome of and an accompanying explanation and interpretation of viability calculations, having regard to risks and suitable returns.
- 3.19. Firstly, it is stated that this may often be assisted by reviewing the sensitivity analysis.
- 3.20. Reflecting on the results of the viability modelling and sensitivity testing, whilst also being mindful of the current ongoing macro-economic headwinds and uncertainty facing the residential market, I am of the opinion that there is risk to viability and accordingly I do not consider either the inputs to, or the results of the viability testing to be either unduly pessimistic or overly optimistic as at the baseline date of 31st March 2023.
- 3.21. Secondly, whilst the PPG Viability (CD6.1) does not recommend introducing comparable analysis of land transaction data for any other purpose than informing BLV, the RICS Guidance Note ('GN') - Assessing viability in planning under the NPPF 2019 for England (CD6.13) does refer in paragraph 4.1.8 to undertake a 'sense check', and states it should be recognised that such an exercise in this context is being conducted for planning purposes. This should only be undertaken where such evidence exists and such evidence should conform to the required validation criteria of RICS GN – Comparable Evidence (CD6.14).

- 3.22. I have sought to obtain evidence of land transactions that confirm to the requirements of RICS GN – Comparable Evidence (CD6.14). I have not been able to independently identify evidence of singular or multiple land transactions that meet the criteria in RICS GN – Comparable Evidence (CD6.14).
- 3.23. I also disagree that weight should be placed upon the evidence provided by Bruton Knowles of the singular land transaction in Ramsdean Road, Stroud (SDNPA planning reference SDNP/18/01777/FUL) as it is my professional opinion that this does not meet the criteria set out within RICS GN – Comparable Evidence (CD6.14).
- 3.24. In the case where comparable evidence is lacking, RICS GN – Comparable Evidence (CD6.14) confirms within section 7 that this should not prevent the undertaking of a valuation, but that a wider range of indicators should be drawn upon. This could include further indirect evidence, for example, local or national economic data that can indicate trends to give guidance towards, rather than direct evidence of, value.
- 3.25. I have therefore had regard to wider evidence that provides guidance on the matter of land transactions. Consideration of this indirect evidence supports my arrival at a judgement that the risks to development viability have increased over the period since the planning application for the Appeal Site was submitted, and that residual land values are under downward pressure as a result. This is consistent with the results of my viability appraisals prepared in undertaking an updated financial viability assessment of the proposed development.

Conclusion

- 3.26. It is my professional opinion that the policy compliant development of the site is financially unviable, and that based on residual land value appraisal, there would be justification for the proposed development to provide no affordable housing.
- 3.27. Instead, in maintaining the offer of 8x shared ownership affordable units despite the results demonstrating that this represents a challenge to financial viability, the Appellants are doing so at their own commercial risk to developer return.
- 3.28. Via sensitivity testing and wider consideration of market evidence referenced in my stand back analysis and in Section 5 of my full proof of evidence, I have reached a judgement that that my approach is reasonable and balanced in this regard, being neither unduly optimistic or pessimistic, noting also that I consider that risk to viability is weighted to the downside in the current market.
- 3.29. The Appellants are therefore seeking to act in accordance with PPG Viability (CD6.1), whereby the process should help to, *‘...strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.’*¹
- 3.30. It is for the developer to mitigate this risk. This reflects the requirements of PPG Viability (CD6.1).

¹ Paragraph: 010 Reference ID: 10-010-20180724

4. Statement of Truth and Declarations

- 4.1. My full proof of evidence provides my statement of truth and declarations in accordance with my obligations as a chartered surveyor and chartered town planner.