Viability Appraisal for the South Norfolk Village Clusters Housing Allocations Plan (VCHAP), including Nutrient Neutrality commentary

Valuation Date: late Autumn 2022

Report Date: December 2022

Details regarding the author and accountabilities

This Report has been prepared by Norse Consulting (NCGL) 5, Anson Road, Norwich, Norfolk, NR6 6ED on behalf of South Norfolk Council.

The parameters and terms of engagement for this assessment were agreed August 2022, updated October 2022 with further revision December 2022.

The assessment has been prepared by Tracey Powell who is a member of the Royal Institution of Chartered Surveyors (RICS) and an RICS 'Registered Valuer' (the Practitioner).

The surveyor can confirm on behalf of NCGL that they have complied with the RICS professional standards and guidance, England – Financial viability in planning: conduct and reporting 1st edition, May 2019 as far as she was able to, and where any deviance may have occurred this is referred to within the body of the report.

The practitioner can confirm that:

- She has remained objective, impartial and reasonable,
- There are no known conflicts of interest,
- Confirmation of instructions have been complied with,
- There is no performance related or contingent fee relating to this commission,
- With the exception of confidential material used to assess viability inputs the material used is available,
- This is an assessment of notional Typologies,
- Where possible the practitioner has provided commentary with justification and evidence with regard to the appraisal inputs but where a high degree of practitioner judgement has been made, this has been stated,
- Commentary the approach to 'Benchmark Land Value' has been provided, and
- Limited Sensitivity Analysis has been undertaken, commentary is provided.

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Date:	13 December 2022	Date:	13 December 2022

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Purpose of this Viability Appraisal

1. The focus of this report is to update the viability appraisal for three rural typologies from the Greater Norwich Local Plan (GNLP) Viability Appraisal and assess the impact of emerging Local Plan requirement, as well as the requirement for development within certain parts of the plan area to be 'nutrient neutral'.

2. It is important to note that South Norfolk forms part of the Greater Norwich Development Partnership (GNDP) area and much of the text and approach in this Viability Appraisal follows the principles which underpin the work previously undertaken for the Partnership in the preparation of Viability Appraisals available here - https://www.gnlp.org.uk/local-plan-examination-local-plan-examination-document-library/b-evidence-library

3. This Viability Appraisal has therefore been prepared to support the South Norfolk element of the proposed Local Plan with focus on Village Clusters.

Background and Context

4. South Norfolk Council is preparing the VCHAP to allocate sites for at least 1,200 new dwellings in the Village Cluster settlements in South Norfolk. Sites identified as 'Preferred' at the Regulation 18 stage of the VCHAP were spread across a wide range of rural settlements, but all ranged in size from 12 to 50 dwellings. These sites correspond to three of the typologies used for the GNLP Viability Assessment, as detailed in the General Approach below.

5. The VCHAP Viability Assessment has been updated to take account of the most recent available information, and is focused on data for South Norfolk rather than the wider Greater Norwich area.

6. During the spring of 2022 along with all other local planning authorities in Norfolk, the Council received a letter dated 16 March 2022 from Natural England concerning nutrient pollution in the protected habitats of the River Wensum Special Area of Conservation and the Broads Special Area of Conservation and Ramsar site. The letter advised that new development within the catchment of these habitats comprising overnight accommodation has the potential to cause adverse impacts with regard to nutrient pollution, this includes all new homes within the catchments, including those being allocated/reallocated by the VCHAP.

7. The implications for Greater Norwich including South Norfolk are that all development in river catchments potentially impacting on protected waterways in the River Wensum and the Broads Special Areas of Conservation (SACs) must be nutrient neutral. The links above identify the catchment areas and are subject to ongoing review.

8. Nutrient neutrality requires development involving 'overnight accommodation' to demonstrate that there are mitigation measures in place to ensure that no more nutrients will flow into the protected waterways. This is to prevent pollution of these protected habitats which results partly from excessive fertilisation from sewage-derived nitrates and phosphorous.

9. All affected Councils are in the process of formulating their strategy for managing the process to enable landowners and developers to comply with policies to achieve Nutriment Neutrality developments. For the Councils latest position please see here

10. This Viability Appraisal seeks to understand whether, following a reassessment of costs and revenue of the notional Typologies, a 'surplus' is generated to enable either a Nutrient Neutrality Tarif to be levied for 'off' site mitigation, that a proposed development has sufficient capacity to cover any increase in 'on' site mitigation costs, or, a combination of both 'on' and 'off' site costs.

11. What this Viability Appraisal does not do is assess what the level of Tarif or what costs associated with any on site mitigation measures might be, this will be the subject of further study in due course.

12. During the preparation of this Viability Appraisal in the consideration of the potential impact of Nutrient Neutrality requirements on viability, the opportunity was taken to update all costs and revenue where possible in order to align inputs as at the general valuation date.

Viability Assessment Framework

13. The key publications and guidance considered in the preparation of this Viability Appraisal remain the same as those publications considered for the GNDP 2020 Viability Appraisal.

    These were:

- National Planning Policy Framework 2019 (NPPF) (previously 2012)
- Planning Practice Guidance (PPG) 2019 and any subsequent updates
- Viability Testing Local Plans: Advice for planning practitioners. Local Housing Delivery Group chaired by Sir John Harman June 2012 (the Harman Report)
- RICS Professional Guidance, England 1st Edition: Financial viability in planning (GN 94/2012)
- RICS Financial viability in planning: conduct and reporting. 1st Edition, May 2019

Statement regarding the current economic climate

14. While it is not a requirement for this document to advise the reader of the impact on the economy on matters arising from Brexit, Covid19 or the conflict between Ukraine and Russia, it is very clear that the impact of one or a combination of all three matters are significantly impacting on the world economy and therefore on the local economy to a lessor or greater extent.

15. Given the significance of these world events including national politics at the time of writing this report it is important to underline how such events can impact directly on viability of future housing developments at the local level.

16. This impact can manifest itself in many ways:

    <u>On market revenue</u> – the affordability of housing in the event of continuing inflation rises in the costs of living in particular energy costs, the potential increase in mortgage interest rate and reduction in lending to first time buyers, wages not increasing at the same pace as costs of living, the residual impact of the covid lockdowns and restrictions and general austerity measures.

    <u>On development costs</u> – the supply of goods and services had been significantly impacted by both Brexit and Covid, these are largely resolving themselves however the costs associated with goods and services increased throughout this period and continue to do so now mainly due to the war in Ukraine which has had a direct impact on energy costs. It is highly likely that the true impact of rising costs are not yet fully known.

General Approach Taken

17. The approach in this viability appraisal to update development costs and revenue associated with the 3 relevant notional Typologies defined in the 2020 Viability Appraisal supporting the proposed Greater Norwich Local Plan (GNLP VA), these are:

    Typology 1 (Typology 1 in the GNLP VA) – South Norfolk Village Clusters 12 dwellings
    Typology 2 (Typology 2 in the GNLP VA) – Main Town / Service Village 20 dwellings
    Typology 3 (Typology 5 in the GNLP VA) – Main Town / Service Village 50 dwellings

18. While the costs and revenue will be updated the principles or rationale underpinning the assessments will be the same as those applied in the 2020 Viability Appraisal supporting the Greater Norwich Local Plan and the subsequent addendums prepared.

19. It should be noted that the South Norfolk approach to the impact of Nutrient Neutrality on viability is to assess whether a 'surplus' is achieved once all costs and revenue have been assessed rather than the GNDP approach where a specific sum under the heading of Nutrient Neutrality Tarif was applied within the appraisal itself see Addendum 1 relating to proposed Nutrient Neutrality Tarif: May 2022.

20. Please note that should any of the principles referred to above change following the completion of the Planning Inspectors recommendations then these appraisals may also require adjustment accordingly.

21. The updated costs and revenue are assessed during the summer and late autumn 2022 and further considered at the time of finalising this report on the basis of economic changes. Further commentary if provide in Appendix A.

Application

Methodology

22. The basic methodology or accepted practice has not altered. Given that this underpins the approach to the assessment of the Typologies, this section is re stated below.

23. The RICS professional guidance Financial viability in planning: GN 94/2012 states:

    '*It is accepted practice that a residual valuation model is most often used.*

    This approach uses various inputs to establish the Gross Development Value (GDV) from which the Gross Development Cost is deducted.

    GDC can include a Site Value as a fixed figure resulting in the developer's residual profit (return) becoming the output which is then considered against a benchmark to assess viability. Alternatively, the developer's return (profit) is an adopted input to GDC, leaving a residual land value as an output from which to benchmark viability i.e., being greater or less than what would be considered an acceptable Site Value.'

24. The 2020 Viability Appraisal assesses:

    - the site or land value as a fixed cost where the value assessed is the benchmark land value,
    - depending on the Typology, the developers profit for market housing is assessed at 17.5% or 20% of revenue, 6% of revenue for all Affordable dwellings irrespective of tenure type, and
    - once the above has been established, the workbooks for each Typology will identify either a surplus or deficit.

25. With regard to this Viability Appraisal the 'surplus' or 'deficit' is assessed following the cost and revenue update. Any surplus identified can then inform the reader whether in principle there will be sufficient capacity to meet any Nutrient Neutrality Tarif or 'on' site mitigation measures proposed by the future planning policy. What this appraisal does not do is assess what a suitable Nutrient Neutrality Tarif or additional costs under this heading might be. See point 9. Above.

Process Undertaken

26. Stages 1 and 2 of a 3 stage process has not altered from the 2020 Viability Appraisal.

27. It should be noted that the usual 'testing' of viability at Stage 3 has not been undertaken. See the summary and conclusions sections below.

Professional Input and Judgement

28. This is as the 2020 Greater Norwich Viability Appraisal previously referred to.

Gross Development Value (GDV)

Market Revenue – Residential Market, Research and Data applied

29. An assessment of market revenue rates has been assessed over the late summer and early autumn of 2022 using a variety of web-based platforms. The comparable evidence has been considered and then applied at a high level given the notional and general nature of these assessments. See Appendix D.

30. It should be noted that since the market assessment the future economic outlook is in a state of flux perhaps more than had been anticipated. When this this commission commenced the local market appeared to be static in terms of new commissions, sales and revenue per sqm being achieved, it was generally considered that revenue would fall over the following few months but no one could say for certain at that time. First time buyers were known to have been particularly badly affected following lenders being perhaps overly cautious in lending to this demographic.

31. The following are the headlines from the RICS Residential Market Report September 2022:

- *New buyer enquiries fall for a fifth month in succession*
- *Indicators on new instructions and agreed sales also remain negative*
- *Limited supply supporting a modest rise in prices for now, although the pace of growth has faded markedly in the latest results*

'The September 2022 RICS UK Residential Survey results remain indicative of the sales market losing momentum, with the outlook for interest rates and the uncertain macro picture more broadly taking a toll on activity. Indeed, at least in terms of the initial reaction, the impact from the expected rise in mortgage rates over the coming six months is anticipated to outweigh any potential boost from the recently announced cut to Stamp Duty. For the time being, house prices are still edging higher across the country, underpinned by the lack of stock available. Nevertheless, the pace of growth has moderated noticeably according to the latest survey feedback, while twelve-month expectations have now turned negative.'

Going forward, twelve-month price expectations have now turned negative, with respondents citing the expected further substantial rises in mortgage rates as a factor putting pressure on the market over the year ahead. At the national level, a net balance of 18% of respondents now foresee a dip in prices over the coming twelve months, down from a reading of +3% last time out.'

9._web_-september_2022_rics_uk_residential_market_survey_tp.pdf

32. The latest RICS Residential Market Report for October 2022 states:

- *Downward trend in buyer enquiries and sales gains further traction*
- *National house price growth grinds to a halt*
- *Demand remains robust across the lettings market, driving rents higher*

'The October 2022 RICS UK Residential Survey results point to a further deterioration in market conditions over the month, with the fall in buyer demand and agreed sales gathering pace. On the back of this, house price growth has now ground to a halt at the national level.

With respect to house prices, the latest results show a considerable slowing in momentum. The national net balance for house prices moderated to -2% in October, down from a figure of +30% previously. As such, this brings to an end a sequence of 28 positive monthly readings beforehand, with the latest result indicative of house price growth grinding to a halt. Furthermore, when disaggregated, respondents in areas such as East Anglia and the South East of England are now reporting some pull-back in prices (posting net balances of -31% and -16% respectively).

Looking ahead, the net balance for the twelve-month price expectations series sank to -42% in the latest findings, falling from a reading of -18% last time. When viewed at the regional/country level, respondents across all parts of the UK are now (on balance) of the opinion that prices will see some degree of decline over the year ahead.'

33. As a consequence of the above a high degree of caution will continue to be attached to revenue levels. See Appendix A for further commentary.

Affordable Housing Revenue – Research and Data applied

34. No change to the principles from the 2020 Greater Norwich Viability Assessment, which anticipates a policy compliant level of affordable housing.

35. Please note that there may have been changes in approaches made by Registered Social Landlords since the publishing of the 2020 Viability Appraisal when considering proposed affordable products at the date of this report.

Gross Development Costs (GDC)

36. The principles underlying the Development Costs applied to each Typology are as provided in the 2020 Viability Appraisal.

37. Each cost item has been updated. Please see Appendix A: Summary of Revenue and Costs for details.

Outcome - Findings

38. In these viability appraisals the approach taken is that any surplus generated will be available for costs associated with Nutrient Neutrality whatever they might be.

39. Each typology has been appraised and the calculations are located in Appendix B.

40. The outcome and findings are summarised in the table below.

Table 1: Summary Surplus/Deficit where build costs £1,265 per sqm	**Typology 1**		**Typology 2**		**Typology 3**	
No. Dwellings:	12		20		50	
Gross Area:	0.67	Ha	1.15	Ha	1.82	Ha
	1.65	*ac*	*2.85*	*ac*	*4.50*	*ac*
Developers Profit:	20%	Mkt	20%	Mkt	17.5%	Mkt
	6%	AH	6%	AH	6%	AH
Surplus Generated:	**£266,645**		**£448,645**		**£1,980,833**	
Per dwelling	£22,220		£22,432		£39,617	
Per Ha	£397,978		£390,126		£1,088,370	
Per acre	*£161,603*		*£157,419*		*£440,185*	

Sensitivity Analysis

41. While it is usual to undertake sensitivity analysis to gauge where a scheme or development viability thresholds might lie such as testing revenue by increasing or decreasing by plus or minus 5% and / or testing land values applied or any other element of the costs applied depending on what you are seeking to demonstrate or identify, this appraisal assesses in isolation:

    1. the current BCIS Build Cost rate for Q4 (base appraisal), and
    2. an inflated original BCIS Build Cost (sensitivity testing).

    The inflated original BCIS Build Cost is undertaken as an attempt to replicate what might actually be happening in the market at the valuation date rather than just apply a Build Cost which is highly likely to lag behind actual market conditions.

42. It is therefore the Core Build Cost which can be said to have been sensitivity tested in this instance.

43. Both approaches however require a high degree of caution and further specialist investigative work relating to build costs may be considered appropriate.

44. Table 2 below identifies the impact of higher Build Costs as explained above.

Table 2: Summary Surplus/Deficit where build costs £1,482 per sqm	**Typology 1**		**Typology 2**		**Typology 3**	
No. Dwellings:	12		20		50	
Gross Area:	0.67	Ha	1.15	Ha	1.82	Ha
	1.65	*ac*	*2.85*	*ac*	*4.50*	*ac*
Developers Profit:	20%	Mkt	20%	Mkt	17.5%	Mkt
	6%	AH	6%	AH	6%	AH
S or D Generated:	**£77,107**		**£91,342**		**£560,822**	
Per dwelling	£ -		£ -		£11,216	
Per Ha	£ -		£ -		£308,144	
Per acre	*£ -*		*£ -*		*£124,627*	

45. Typology 3 continues to generate a surplus while Typology 1 and 2 now show a deficit.

46. Based on the surplus sums generated when using October 2022 BICS build costs there would be no need to undertake sensitivity testing. However, taking the December 2020 BICS build costs and indexing them to October 2022, it is likely that some further sensitivity testing to other elements of the calculations may be required in the future, particularly if the BICS costs rise to a similar degree.

47. Given that the indexed figures are likely to represent a 'worst case' and that the fluctuations are over the relatively short term compared to the timescales for the VCHAP itself, it is not considered necessary to undertake further sensitivity testing regarding build costs at this stage.

48. In addition to the limited testing of the Core Build Costs, the level of developers' profit has also been considered in order to assess how a lower market housing profit, but well within the accepted 15% to 20% range, might impact on viability.

49. The base appraisals apply the following:

    Typology 1 – developers profit at 20% (base appraisal)
    Typology 2 – developer profit at 20% (base appraisal)
    Typology 3 – developers profit at 17.5% (base appraisal)

    Typology 3 is already applying 17.5% developers profit therefore no additional appraisal or assessment is required.

    For comparison Typology 1 and 2 will apply 17.5% developers profit.

    The outcome is shown in Table 3 below.

Table 3: Summary Surplus/Deficit where the Developers Profit is 17.5%	**Typology 1**		**Typology 2**		**Typology 3 – no change to the base appraisal**	
No. Dwellings:	12		20		50	
Gross Area:	0.67	Ha	1.15	Ha	1.82	Ha
	1.65	*ac*	*2.85*	*ac*	*4.50*	*ac*
Developers Profit:	17.5%	Mkt	17.5%	Mkt	17.5%	Mkt
	6%	AH	6%	AH	6%	AH
S or D Generated:	**£341,145**		**£563,020**		**£1,980,833**	
Per dwelling	£28,429		£28,151		£39,617	
Per Ha	£509,172		£489,583		£1,088,370	
Per acre	*£206,756*		*£197,551*		*£440,185*	

50. As expected, Typology 1 and 2 will generate a higher surplus. Typology 3 surplus remains as the base appraisal.

51. However, in order to make the adjustments to the developers profit a meaningful comparison, a fourth appraisal for each Typology needs to be undertaken.

52. This will be by applying the indexed inflated core build costs and a reduction in developers profit to Typologies 1 and 2 only. Typology 3 will remain as shown in Table 2.

Table 4: Summary Surplus/Deficit where build costs £1,482 per sqm and DP at 17.5%	**Typology 1**		**Typology 2**		**Typology 3 – no change to the CBC increases**	
No. Dwellings:	12		20		50	
Gross Area:	0.67	Ha	1.15	Ha	1.82	Ha
	1.65	*ac*	*2.85*	*ac*	*4.50*	*ac*
Developers Profit:	17.5%	Mkt	17.5%	Mkt	17.5%	Mkt
	6%	AH	6%	AH	6%	AH
S or D Generated:	**£2,175**		**£23,559**		**£560,822**	
Per dwelling	£ -		£1,178		£11,216	
Per Ha	£ -		£20,486		£308,144	
Per acre	*£ -*		*£8,266*		*£124,627*	

53. By increasing the core build costs as discussed above and reducing the developers profit to 17.5% Typology 1 deficit reduces but still based on the data applied will not generate any surplus to enable additional costs to be applied such as a Nutrient Neutrality Tarif or other on-site mitigation works.

54. Typology 2 under the same circumstances indicates that a small surplus is generated and available for additional costs to be applied however this is very small and whilst the sites are likely to be viable, additional costs such as those associated with addressing nutrient neutrality may be difficult to absorb.

55. There are no changes to Typology 3 where a reasonable surplus is generated with the increased core build costs and a 17.5% developers profit.

Conclusion

56. Given the surplus sums generated for each appraisal based on the data inputs identified and rationalised in Appendix A, the conclusion is that there is sufficient capacity to cover costs associated in complying with a future Nutrient Neutrality policy as part of the emerging Local Plan. However, when the original Core Build Costs are increased based on indexation between production of the GNLP Viability Appraisal and autumn 2022, then two of the Typologies show a deficit.

57. When the developers' profit is reduced from 20% to 17.5% for Typology 1 and Typology 2, the impact on viability is lessoned when applied to the inflated core build costs as would be anticipated, however, the impact of a reduced developers profit does not necessarily generate a sufficient surplus in Typology 2 to allow for exceptional costs, such as addressing nutrient neutrality, to be covered, while Typology 1 remains in deficit, albeit at £2,175 (which is less than £200 per dwelling). However, as noted at para 48 above, an accepted developers' profit is within the range of 15% to 20%, and the scenarios above are tested at the mid- and upper-points of this range.

58. In addition to the commentary regarding the core build costs, any additional increases in other costs experienced, or a fall in revenue, will further impact on development especially smaller schemes where any economies of scale will be difficult to sustain.

59. This is a particularly challenging economic environment and South Norfolk alongside the rest of the Country will continue to experience such conditions which are unlikely to alter in the short to medium term. As a consequence, all data inputs into these appraisals are likely to alter over a shortened period of time and therefore a high caution should be exercised.