



Ref: JN/Orchard Gate  
Date: 12 October 2022

Planning Department  
New Forest District Council  
Apple Tree Court  
Lyndhurst  
SO43 7PA

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Not for Publication**

Dear Mr Gilfillan

**Economic Viability Review at Orchards Gate, Dibden.**

I am in receipt of your letter dated 12 August 2022 and email to Claire Spiller dated 12 August 2022. I note in your letter attachment and email commentary that you are requesting additional information in regards my EVA reporting for the following items.

1. Evidence from comparable development land transactions.
2. A detailed cost plan be provided for external and abnormal works costs together with supporting technical surveys and quotes wherever possible.

In order to consider the above evidence, I have updated my residual valuation worksheet taking into account the latest technical reporting and quotes for abnormal works costs.

I attach the following updated residual valuation worksheets.

- Appendix A1 – Policy Compliant AH with Median Build Rates
- Appendix B2 – Policy Compliant AH with Upper Quartile Build Rates
- Appendix C – 100% private Sales with Upper Quartile Build Rates (for transactional evidence review).
- Appendix D – Beckley Walk Analysis (for transactional evidence review)

Comparable Development Land Transactions

As you will be aware the analysis of development land transactions is a secondary valuation issue under review considerations as part of RCIS Valuation Guidance. You will be well aware that the primary method for land valuation under the PPG is Existing Use Value (EUV) plus incentive to arrive at a Benchmark Land Value (BMLV). Bruton

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Knowles has already considered the appropriate BMLV for the site which I have already included for within my latest review.

However, I am happy to provide additional information to the LPA which supports the evidence which I have already provided. As you will know there are very few development sites within the New Forest and in particular sites similar to Orchard Gate in the Waterside area. Previously I included the Beckley Walk project as a comparable for private sales revenue and as the most direct comparable project this will provide a detailed analysis for the overall project as transactional evidence.

Beckley Walk included for 24 dwellings with an overall sales floor area of 1,713m<sup>2</sup>. The sales area is c20% less than Orchard Gate but it is broadly reflective of the Orchard Gate project. Beckley Walk is also a more efficient development with significantly reduced external works costs and this needs to be considered when benchmarking the projects.

Type	Type	GIAm2	No	Total GIA
1 Bed Flat	Terr	43	3	129
2 Bed Flats	Terr	58	3	174
2 Bed House	Terr	73	12	876
3 Bed House	Terr	89	6	534
<b>Total</b>			<b>24</b>	<b>1,713</b>



Beckley Walk site plan

Beckley Walk was delivered by Fresh Developments with construction work commencing in June 2019 and work completing in November 2020. Sales concluded in the second quarter of 2021.



I summarise below the out-turn costs of delivery and revenue generated on the Beckley Walk development. For a detailed analysis please refer to the residual valuation worksheet attached at Appendix D.

#### **Transactional Evidence**

##### **Beckley Walk, Totton**

		% of GDV
Build	£3,222,595	51.60%
Fees, Finance and Sales	£431,747	6.91%
Planning Contributions	£202,556	3.24%
Land & Fees	£1,519,250	24.33%
Profit	£905,524	14.50%
<b>Total</b>	<b>£6,281,672</b>	<b>100.59%</b>

**Revenue** **£6,274,995**

I note that the build costs were 51.6% of sales revenue and that this reflected a main works rate of £1,415m2 (£131sqft). I have checked the BCIS rates for Quarter 4 2020 and note that the Upper Quartile build rate was £1,415m2 (£130sqft). This evidence demonstrates that the BCIS Upper Quartile Rate is the appropriate rate for use within this viability review.

I draw your attention to the fact that the site was purchased with the benefit of detailed planning permission. As such a significant amount of pre contract fees were included in the land value which distorts the analysis. Due to delays caused by Covid restrictions there were also time delays and the cost of delivery were higher than expected and an operating profit margin of 14.5% was achieved being short of the 17.5% target margin the Developer works to.

Looking to Orchard Gate, my latest review includes for the following summary of cost and revenue. As previously set out this is a review on 100% private sales and includes for Upper Quartile build rates.

#### **Orchard Gate**

##### **Dibden - App C**

		% of GDV	Notes
Build (BCIS UQ)	£5,345,828	51.14%	
Fees, Finance & Sales	£1,155,534	11.25%	Pre cont fees now included.
Planning Contributions	£408,800	4.67%	Interest rate higher
Land & Fees	£1,308,375	14.44%	Now higher.
Profit Target	£1,655,500	17.50%	Land% reduced - higher SDLT,
<b>Total</b>	<b>£9,874,038</b>	<b>99.78%</b>	s106, fees & interest
<b>Revenue</b>	<b>£9,460,000</b>		



The Orchard Gate build costs are 51% of revenue and reflects the Beckley Walk comparable. The total build cost rate on sales area is £2,464m2 (£229sqft) and the net of abnormal works rate is £2,230m2 (£207sqft). Considering the Tender Price Index at 14% the net of abnormal works cost rate is comparable to the Beckley Walk development (£196sqft) taking into account the significant additional site infrastructure at Orchard Gate.

I also note my full EVA reporting included for additional Benchmarking evidence for the under construction Hoburne Lane development producing a net of abnormal works budget of £191sqft. This again demonstrates that the construction costs included for within my reporting are entirely accurate.

I note that the fees, finance and sales allowances are 4% higher on sales revenue for Orchard Gate than the Beckley Walk site. This is due to the inclusion of pre contract fees (included in land at Beckley Walk) and the fact that Interest Rates are now 2% higher than in 2019.

I also note that the planning gain is 1.5% higher, as a percentage of sales revenue, on Orchard Gate compared to Beckley Walk due to increased s106 and CIL contributions. I have maintained a profit margin at the industry minimum standard 17.5% on GDV in the Orchard Gate review, however I note that the Beckley Walk project did not achieve this margin.

I have included for Land Value and associated Fees at the previously reported £1.308m. The land and fee budget reflects 15% of GDV and is c9% lower than the Beckley Walk project. The reason for this is simply caused by a corresponding increase in pre contract fees, interest rates and s106 contributions.

In summary the direct Transactional evidence of Beckley walk demonstrates that the BMLV of the Orchard Gate site is entirely accurate. The assumptions as to build cost and all fees are also comparable taking into account the required adjustments. The evidence suggests that the likely build cost of Orchard Gate will reflect a rate higher than the BCIS Median Rate and be reflective of the BCIS Upper Quartile Rate.

#### External Works Build Cost Analysis

I attach (Appendix E) a detailed Cost Analysis provided by Chartered Surveyors, Ridge. This report dated July 2021 was prepared under the previous planning application for 37 dwellings. Whilst the number of dwellings has reduced the Ridge reporting considers the external works on the basis of £m2 sales floor area and as such the external works costs can be applied to the adjusted schedule of accommodation.



#### Ridge QS External Works Cost

##### Analysis

GIAm2 Sales Area	2,206m2
Ridge Ext Works Rate	£446m2
External Works Budget	£983,876
Tender Price Index Jul 21 - Oct 22	1.0797
Adjusted Ext Works Budget	<u>£1,062,291</u>

I have previously provided a detailed cost analysis for external works costs within my EVA reporting, and this is included again within my Appendix A/B/C updates. On my fully disclosed measured rates and quantities I estimate the standard external works budget to be £962,900 being approximately £100,000 lower than the Ridge estimate.

Considering the independent review by a third party Chartered Quantity Surveyor I consider my reporting to be entirely reasonable. I also note that my external works budget reflects 26% of the main works budget (BCIS UQ Rate) and this is similar to the considered external works budget for the Beckley Walk project.

I also draw your attention to the additional comparable build cost evidence previously provided which demonstrates that the main works and external works costs (net of abnormal works costs) as reported are entirely reasonable and accurate.

#### Abnormal Works Costs

Further to my EVA reporting in July 2022 I have now been able to review a number of specialist reports and can confirm the following updated abnormal works costs.

##### Abnormal Works Budget

<b>Item</b>	<b>Cost</b>	
Substation Upgrades	£87,000	Quote
E/O 1.5m Deep Strip Foundation	£51,734	Calc
E/O Block Paving @£40m2	£52,800	1,320m2
Pump Station	£80,984	Prov Sum
Capping Layer (350mm) £20m2	£47,220	2,361m2
SUDS £75m3	£20,775	277m3
Tree Works	£30,000	Prov Sum
Tree Protection £32m	£20,000	625m
Asbestos Removal	£10,000	Prov Sum
Car Charging	£25,000	Prov Sum
Demolition & Site Clearance	£50,000	Prov Sum
<b>Sub Total</b>	<b>£475,513</b>	

The Geotechnical report has identified that clay makes up the substructure of the ground and as such a range of mitigation measures will be required including extra deep foundations, SUDS, block paving and capping layers to road area.



The rates for these works are included within my reporting and are based on the recently submitted and agreed abnormal works costs for the Derritt Lane allocation site in NFDC. However, I attach the measured rate cost analysis for the extra over foundation design at Appendix F.

I also note that a substation is required and have arrived at this budget by deducting the standard connection charges from the SEC quotation (Appendix G). It is considered that the site cannot achieve a gravity system and I have included for a pumped system considering the direct cost comparable for recently agreed Lower Burgate Farm allocation site in NFDC.

Including for Abnormal works costs the total works budget for Orchard Gate is now estimated at £5,091,265 reflecting a build rate of £2,464m2 (£229sqft) on the residential sales area. Net of abnormal works costs including the garages the works budget is £4,838,815 reflecting £2,230m2 (£207sqft) on the residential sales area.

#### Policy Compliant Viability Review – App A1 with BCIS Median Build Cost

I have undertaken a review of the project with a policy compliant affordable housing mix including for the lower BCIS Median Build Rate. I attach my work sheet at Appendix A1. Please note that it has been demonstrated that the Median Build Rate is insufficient for the delivery of the site.

#### **Residual Valuation Summary**

Appendix A1  
35% AH BCIS Median

#### **Costs**

Build Costs	£4,826,378
Fees	£367,724
Planning Contributions	£336,822
Sales Costs	£195,265
Bank Charges & Interest	£440,525
Acquisition Fees & SDLT	£158,375
Profit	£1,215,715
<b>Total</b>	<b>£7,540,804</b>

#### **Revenues**

Private Sales	£6,325,000
Affordable Sales	£1,814,000
<b>Total</b>	<b>£8,139,000</b>
<b>Gross Residual (Revenue Less Cost)</b>	<b>£598,196</b>
<b>Site Value</b>	<b>£1,150,000</b>
<b>Project Residual</b>	<b>-£551,804</b>





The projects residual valuation is negative at -£551,804. The project is not viable with the policy compliant mix of affordable housing units and cannot be delivered on this basis.

### Policy Compliant Viability Review – App B1 with BCIS Upper Quartile Build Cost

I have undertaken a review of the project with a policy compliant affordable housing mix including for the higher BCIS Upper Quartile Build Rate as supported by the transactional and benchmark evidence. I attach my valuation worksheet at Appendix B1.

#### **Residual Valuation Summary**

Appendix B1  
35% AH BCIS UQ

#### **Costs**

Build Costs	£5,345,828
Fees	£407,301
Planning Contributions	£336,822
Sales Costs	£195,265
Bank Charges & Interest	£486,713
Acquisition Fees & SDLT	£158,375
Profit	£1,215,715
<b>Total</b>	<b>£8,146,020</b>

#### **Revenues**

Private Sales	£6,325,000
Affordable Sales	£1,814,000

**Total** **£8,139,000**

**Gross Residual (Revenue Less Cost)** **-£7,020**

**Site Value** **£1,150,000**

**Project Residual** **-£1,157,020**

The inclusion of higher BCIS rates results in the projects viability worsening. As set out in the evidence base, the cost of the works are likely to reflect the upper quartile range as opposed to the median rates.

### Conclusions

The transactional and benchmark evidence demonstrates that the site cannot support a policy compliant affordable housing provision. The evidence clearly supports the cost and revenue assumptions used within my viability review. This includes the approach to construction cost that reflect a BCIS upper quartile rate.



The transactional evidence also supports the Benchmark Land Value previously reported by Bruton Knowles. This assessment forms part of the 'stand back' review process of the site's appraisal in accordance with Red Book, Valuation Guidance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Newman'.

**John Newman MRICS  
Registered RICS Valuer  
Chartered Surveyor**

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Appendix A1 – Policy Compliant AH with Median Build Rates

Appendix B2 – Policy Compliant AH with Upper Quartile Build Rates

Appendix C – 100% private Sales with Upper Quartile Build Rates (for transactional evidence review).

Appendix D – Beckley Walk Analysis (transactional evidence)

Appendix E – Ridge QS Report

Appendix F – Foundations and drainage pump station cost analysis.

Appendix G – SEC Quotation