

Scoping opinion on viability of

Clyst Honiton Neighbourhood Plan Housing Sites and  
Neighbourhood Development Order

by  
Bailey Venning Associates Limited on behalf of  
Clyst Honiton Parish Council

January 2023

## Content

1.0	Introduction .....	3
2.0	Methodology .....	5
3.0	The sites .....	7
4.0	Main appraisal assumptions.....	8
5.0	Site Analysis – Site SA1H Glebe .....	12
6.0	Site analysis – Site SA2H SW Slate and Tiling Ltd.....	14
7.0	Site analysis – Site SA3H Site adjacent to Clyst Honiton bypass .....	17
8.0	Conclusions.....	19

## Appendices

- 1 Comparable new build sales – East of Exeter
- 2 Masterplan for site adjacent to Clyst Honiton bypass
- 3 Extract of BCIS build costs
- 4 Appraisal model of SA1H Glebe
- 5 Appraisal model of SA2H SW Slate and Tiling Ltd
- 6 Appraisal model of SA3H Site adjacent to Clyst Honiton bypass

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## 1.0 Introduction

- 1.1 Bailey Venning Associates Limited (BVA) is instructed by Clyst Honiton Parish Council through Locality, to undertake a scoping viability assessment and to prepare this report to review the development potential of three housing sites allocated in the draft Neighbourhood Plan and the development of one site as the subject of a Neighbourhood Development Order (NDO).
- 1.2 The contents of this report are for feasibility assessment purposes only and are conducted on current values and costs specific to the site as at the date of report and do not constitute a valuation, in accordance with Valuation Standards of the RICS Valuation – Professional Standards – Global Standards 2020, and should not be relied upon as such.
- 1.3 In preparing this report, no ‘performance-related’ or ‘contingent’ fees have been agreed.
- 1.4 This report is addressed to our client only and its contents should not be reproduced in part or in full without our prior consent. No duty of care can be extended to any other party other than our client.
- 1.5 In carrying out this assessment, we 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.
- 1.6 This report has been prepared in accordance with the Royal Institution of Chartered Surveyors (RICS) “Professional Statement on Financial Viability in Planning: conduct and reporting” (1st Edition, May 2019). The report has been prepared by Richard Bailey and in line with the requirements of this guidance I can confirm the following is true.
- The author of this report has acted with objectivity, impartially, without interference and references all appropriate sources of information.
  - Terms of Engagement were set out clearly and included in all reports and comply with the RICS statement ‘Conflicts of Interest’.
  - No performance-related or contingent fees have been agreed.
  - Information used is market led and not client driven.
  - Inputs to the Financial Viability Appraisal (FVA) are reasonably justified and based upon industry benchmarks and the Local Plan Evidence Base.

### Accessibility

- 1.7 This report has prepared to meet Bailey Venning Associates and Locality's accessibility standards for neighbourhood plan documents in association with the requirements of the Accessibility Regulations 2018.

### Information

- 1.8 This report has been completed taking additional information from:
- EDDC CIL Review and Cranbrook Plan DPD Viability Study, Three Dragons with Ward Williams Associates, January 2019
  - East Devon District Council - Habitat Mitigation Contributions. Valid from 1st May 2017
  - East Devon Community Infrastructure Levy Charging Schedule, Approved on 21 October 2020
  - East Devon Local Plan 2013 to 2031, Adopted – 28 January 2016
  - Clyst Honiton Community Facility Business Plan 2021
  - Parish of Clyst Honiton Housing Needs Report, Devon Communities Together, March 2020
  - Clyst Honiton Airport Daytime Noise Contours, Summer 2030
  - Site appraisal for the Clyst Honiton Neighbourhood Plan, August 2015
  - Clyst Honiton Masterplan for SA3H (see Appendix 2)

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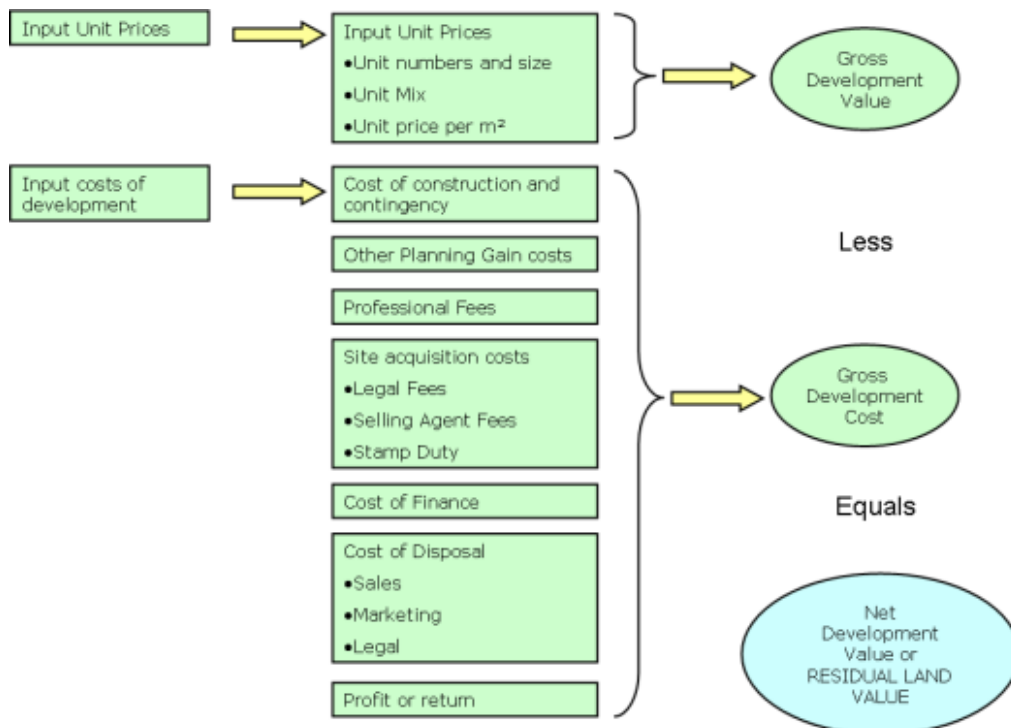
## 2.0 Methodology

- 2.1 Economic Viability is established as a material consideration in the establishment of planning policy and determination of planning applications. The NPPF considers development viability to be a central consideration in delivering sustainable development.
- 2.2 It is therefore important to assess whether the Planning Authority's requirements for planning gain and affordable housing can be delivered as part of a financially viable development.
- 2.3 The principles underlying economic viability rely on the assumption that land will be used in the form that secures an appropriate site value for the land owner. Therefore, unless the Residual Land Value (RLV) of a proposed development exceeds the market value in existing use or Alternative Use Value for the land, then the land owner will not release or sell the land and it will not be brought forward for development. The threshold to test the viability of the proposed scheme against other alternatives is referred to as the Benchmark Land Value.
- 2.4 To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable.
- 2.5 The methodology to assess viability in this case is the commonly used Residual Land Value (RLV) appraisal. This method is one which is used industry wide in land purchase and that has been established as the pre-eminent method through various development plan examinations and planning appeals.
- 2.6 An RLV appraisal treats the land value as the output of a calculation which compares the costs of development with the revenue generated by it. Since the revenues from housing and the costs of development are relatively inelastic and outside the developer's control the one element of the appraisal that can vary is the land value. Therefore, where planning gain and affordable housing is required, the cost of it must be deducted from the land value where possible.

2.7 The residual amount contained within the appraisal is assessed using the following formula:

$$\begin{aligned} &\text{Gross Development Value LESS Gross Development Cost} \\ &= \\ &\text{Residual Land Value} \end{aligned}$$

2.8 This is represented by the following figure:

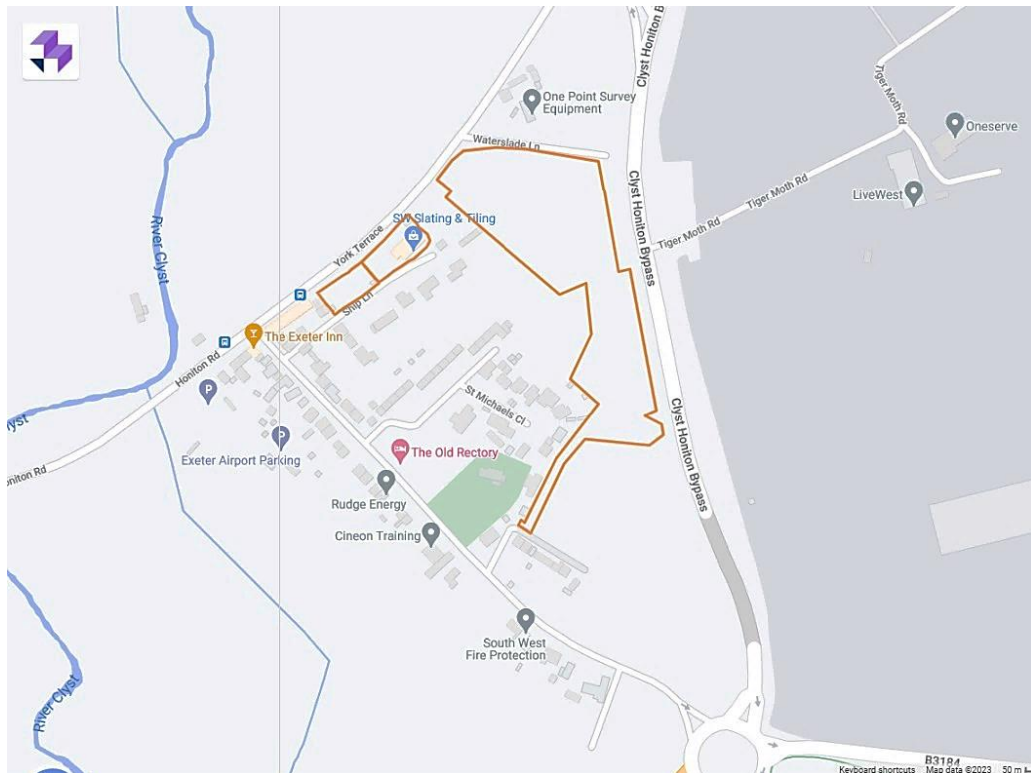


2.9 For this scoping opinion we are seeking to determine whether the sites would generate a positive land value when comparing the value of development against the costs of achieving it, firstly for 100% open market housing, and then the impact on land value of the introduction of affordable housing. This is then measured against the benchmark land value to determine viability.

2.10 Testing is conducted using Argus Developer.

### 3.0 The sites

3.1 The three sites under review each fall within Clyst Honiton Parish, within the local authority boundary for East Devon District Council.



3.2 The village of Clyst Honiton falls at the western end of Exeter Airfield and adjacent to the A30 with good transport links.

3.3 We have appraised each site, identified with an orange boundary centred in the map above, based on the overall capacity set out within the draft Neighbourhood Plan which indicates the following development:

- SA1H Glebe – 6 dwellings
- SA2H Slate and Tile – 9 dwellings
- SA3H Site adjacent to Clyst Honiton bypass – 49 dwellings, 1500m<sup>2</sup> employment, and 774m<sup>2</sup> community building

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## 4.0 Main appraisal assumptions

4.1 In order to conduct an appraisal, underlying assumptions need to be made across a range of areas. In the main these assumptions are based upon those derived in the January 2019 CIL and Cranbrook Viability Assessment Update report carried out by Three Dragons. Construction cost and value assessments have been rebased to account for temporal adjustments with other assumptions as noted below.

### Benchmark land value

4.2 The CIL viability study based its assessment of viability on allocated sites in the rural areas of approximately £1,000,000 per hectare informed in part on transaction information. It is not clear what transaction information was used and how this was adjusted to account for potential policy differences and affordable housing requirements as noted in the most recent PPG.

4.3 We take a slightly different approach to establishing benchmark land value based on the circumstances of each individual site.

4.4 In considering SA1H, the site is currently occupied by allotments. The plan makes provision for these to be re-provided on land elsewhere in the parish. The existing use value of the allotment land is likely to be higher than agricultural value and a benchmark land value should not exceed that used in the local plan, recognising the limitations for access.

4.5 In considering SA2H, the site is currently occupied by SW Slate and Tiling Ltd. The VOA describes the site as comprising 354m<sup>2</sup> of office, storage and loading bay with 324m<sup>2</sup> of external unsurfaced storage. The April 2023 rating assessment totals £16,417 per annum and this is taken as a reasonable proxy for market rent. To establish an existing use value for the purposes of viability testing, this rent is capitalised at 7.5% with purchased costs of 5.8% applied. This, together with an appropriate premium sets a benchmark land value for this site at £245,000.

4.6 In considering SA3H, the owner of the site working with the Parish Council has indicated that the benchmark land value for the site needs to be positive, with provision of a new community centre building as part of the proposal. The site is currently greenfield agricultural land. The existing use value of agricultural land is approximately £25,000 to £30,000 per hectare for high grade agricultural land.



### Open market values of homes

- 4.7 In order to determine open market values, sales of new build homes are analysed. The broad comparables are taken within 3.5km of Clyst Honiton taking into account natural divisions to the sample market area.
- 4.8 In order to arrive at values for viability testing, historic sales are indexed based on Land Registry house price indices and average price per m<sup>2</sup> is calculated for each of the home typologies (flats, terraced, semi-detached, and detached). This is set out in Appendix 1.

### Affordable housing values

- 4.9 In line with the local plan viability assessment, values for affordable housing are determined on the basis of rented affordable housing or intermediate housing. Intermediate housing is assessed as a proportion of open market value taking into account the tenure split requirements of a balance between shared ownership and First Homes. It is noted also that the government's First Homes programme assumes values at up to 70% of open market housing value. Taking this balance into account intermediate housing is modelled at 65% of open market value.
- 4.10 Rented affordable housing is assessed as required in the local plan policy through consideration of affordable rent. Values for affordable rent are derived from the CIL and Cranbrook DPD viability work undertaken by Three Dragons, itself informed by consultation with the housing authority and providers.
- 4.11 Values of affordable rent used in modelling are therefore:
- 1 bed home £67,000
  - 2 bed home £108,000
  - 3 bed home £136,000
- 4.12 It should be noted that the values for affordable rented affordable housing described above are considered a worst case and may be an underestimate as they will be based on a nil grant scenario where Homes England may be willing to provide additional funding to support the delivery of affordable housing where it can be demonstrated that the funding will bring forward development for affordable housing that may not otherwise occur (additionality). Registered Providers may also assume different rental levels and be willing to commit their own resources to secure affordable housing where it meets their strategic goals.

### Commercial

- 4.13 Site SA3H includes 1,700m<sup>2</sup> of mixed use commercial space (uses listed as Class E (a) - (g), Class F 1 (a) - (e) and F2 (a) - (b)) which is assessed at an average rent of £120 per m<sup>2</sup> and capitalised at a yield of 7.5%.

### Costs of construction

- 4.14 In order to determine build costs, data from the RICS BCIS tables is extracted, as attached to this scoping report at Appendix 3. Build costs relevant to the typology are selected, rebased to the location, using median for two storey construction based on the default sample. Build costs applied are therefore:
- Flats £1,533 per m<sup>2</sup>
  - Terraced houses £1,353 per m<sup>2</sup>
  - Semi-detached houses £1,366 per m<sup>2</sup>
  - Detached houses £1,620 per m<sup>2</sup>
- 4.15 It should be noted that an additional multiplier of 5% is applied at this stage to build cost which is justifiable in the context of smaller developments, such as that of SA1H. The multiplier is not applied to SA2H and SA3H as the scale of development is such that some economies of scale are achievable. It is noted that the CIL viability assessment considered house builder development of the larger sites at lower quartile rates.
- 4.16 Lifetime Homes standards have now been incorporated into Part M of the Building Regulations. The majority of the standard reflects spatial standards which are incorporated into the unit sizes assumed for assessment, aligned with the assumptions in the Local Plan viability evidence base.
- 4.17 Further allowances of 2.5% of build cost are included to account for changes to building regulations including to reduce the carbon impact of homes, both in fabric and the type of heating systems.
- 4.18 With regards to the noise generation from the airport, an allowance of £2,500 per home is included for uprated glazing, insulation and ventilation.
- 4.19 With regards to the community building, we have considered other buildings of similar nature and assess an average base cost of £2,000 per m<sup>2</sup> plus fees which is included with the modelling.
- 4.20 The development proposal of site SA3H includes mixed use commercial development which is assessed at £1,152 per m<sup>2</sup>.

### Other assumptions

#### 4.21 Other assumptions are:

- External works: 15% of base build cost.
- Contingency: 5.00% of build costs.
- Professional fees: 8% of base build cost and external works.
- Sales fees on market: 3.00% of market housing sales value, plus sales legal fees of 0.35%.
- Interest on development cost: 6.75% per annum, based on cashflow.
- Profit on GDV: 20% of value of market housing + 6% of value of affordable housing which is consistent with the CIL study
- site agent fees: 1% of residual land value
- legal fees on site acquisition: 0.75% of residual land value
- stamp duty: prevailing rate based on residual land value

### Planning obligations

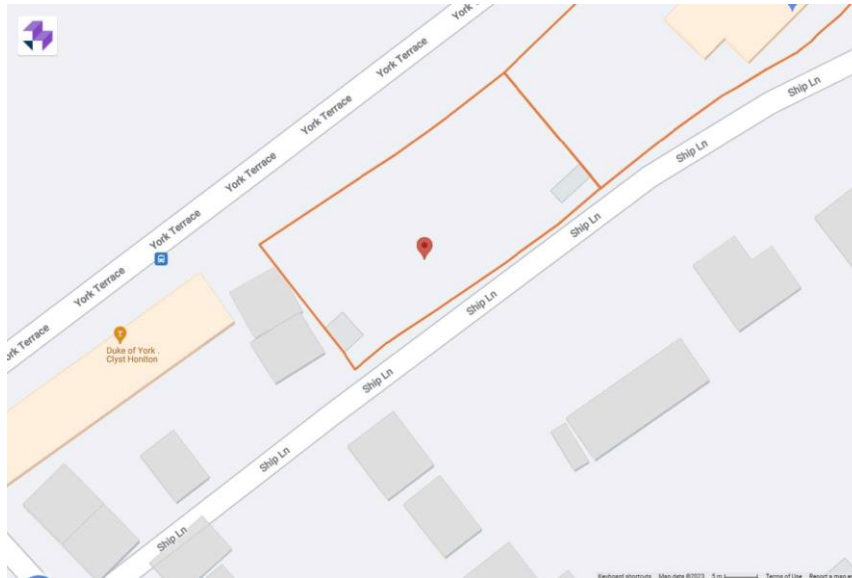
4.22 With regard to planning obligations, for the purposes of initial scoping testing, no planning obligations are included other than as listed below.

4.23 There is a locally adopted CIL, the rate for which is set out in the charging schedule at £150 per m<sup>2</sup> GIA. This is applied to the market housing only. For the purposes of testing viability, we have not assumed retail uses. There is therefore no CIL charge is accounted for on the employment sites. However, the introduction of retail uses would attract a CIL charge.

4.24 The subject area is also required to make provision for mitigation of impacts to the Pebblebed Heaths and the Exe Estuary. This is established at £367.72 per dwelling and is included within the modelling.

4.25 With respect to SA3H, planning obligations equating to £3,500 per unit are included.

## 5.0 Site Analysis – Site SA1H Glebe



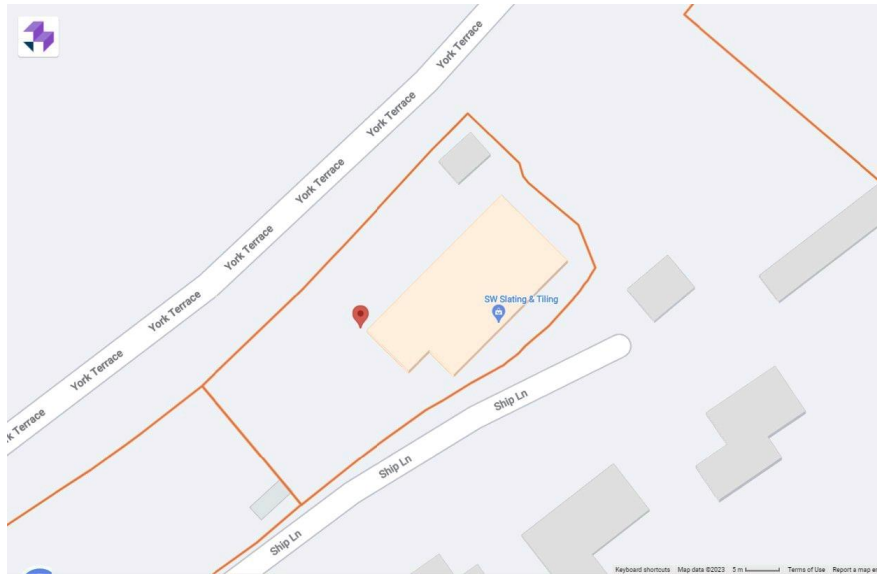
- 5.1 The site is currently used as allotments and of approximately 0.11 hectares. The Neighbourhood Plan allocation is for a total of 6 dwellings, with an aim for the mix to be of smaller dwellings.
- 5.2 In terms of appraisal assumptions, build costs are inflated by 5% to allow for the limited scale of the site.
- 5.3 The site proposal of 6 units is above the affordable housing threshold for rural areas of 5 units.
- 5.4 Firstly, a fully open market development is modelled to determine the scope for planning obligations, allowing for CIL at the published rate. The model derives a residual land value of £277,701 equivalent to £2.5m per hectare. This is well above the benchmark land value of £245,000 derived from existing use value plus a premium and would be considered to be viable and scope for further planning obligations.
- 5.5 Secondly a model incorporating 50% affordable housing is undertaken, with 2 homes for affordable rent (1 bed flat and 2 bed terraced house) and 1 home for intermediate ownership (1 bed flat). This model generates a residual land value of £107,951 equivalent to £980,000 per hectare which is considered to be viable.

5.6 Sensitivity testing is then undertaken to test the effect of changes in construction cost and value on the model including affordable homes, with residual land value as output, as follows:

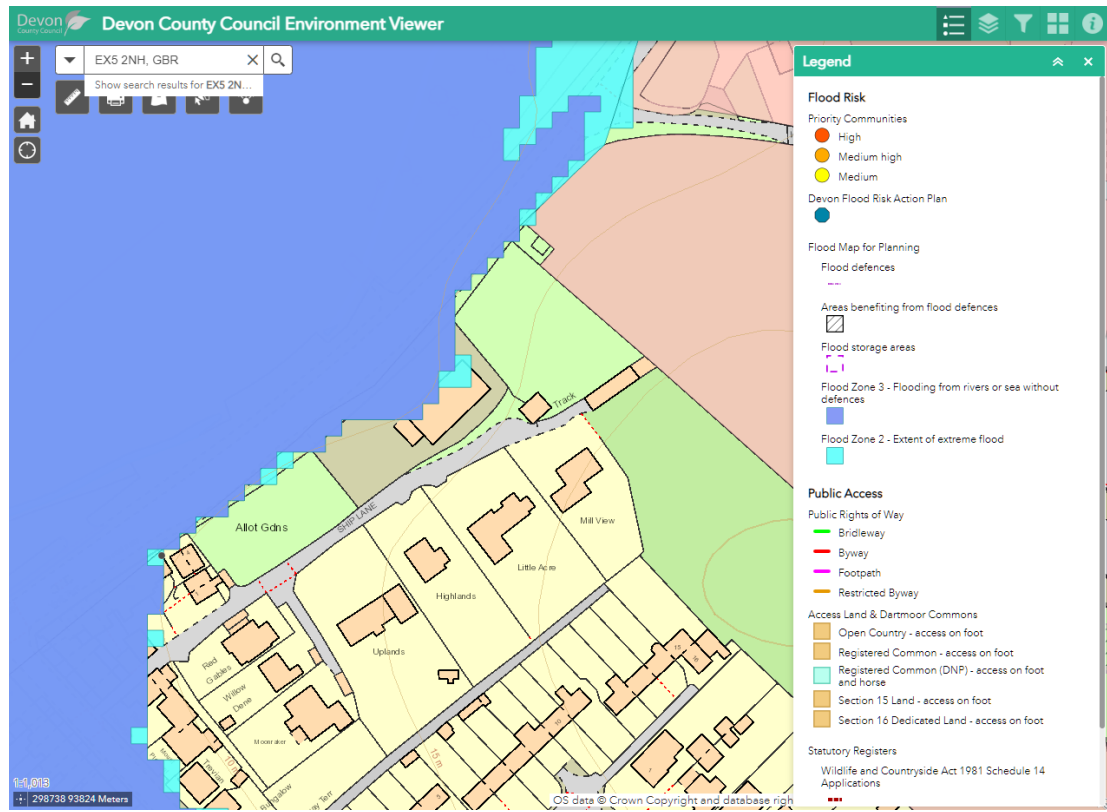
	Construction: Gross Cost				
Sales: Gross Sales	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
-5.000%	100,015	81,194	62,374	43,553	24,732
-2.500%	122,804	103,983	85,162	66,342	47,521
0.000%	145,593	126,772	107,951	89,131	70,310
+2.500%	168,027	149,561	130,740	111,919	93,099
+5.000%	190,377	171,919	153,461	134,708	115,888

Red shading indicates not viable, orange is marginally viable, green is viable.

## 6.0 Site analysis – Site SA2H SW Slate and Tiling Ltd



- 6.1 The site is currently occupied by SW Slate and Tiling Ltd and extends to 0.16 hectares. The Neighbourhood Plan allocation is for a total of 9 dwellings, with an aim for the mix to be of smaller dwellings including one and two bedroom homes.
- 6.2 The proposed allocation of 9 units is above the threshold for affordable housing of 5 units and the requirement for affordable housing is triggered.
- 6.3 The site is partially liable to flooding, approximately following the 10m contour and affecting 1/3 of the site, principally around the access as shown in the following map taken from the Devon County Council Environment Viewer.



- 6.4 To deal with the risk of flooding which is only likely to affect a limited degree of development and which can be mitigated by careful layout and design, an allowance of £12,500 is included in modelling.
- 6.5 Firstly, a fully open market development is modelled to determine the scope for planning obligations, allowing for CIL at the published rate. The model derives a residual land value of £385,069 equivalent to £2.41m per hectare. This is well above any benchmark land value and would be considered to be viable and scope for further planning obligations.
- 6.6 Secondly a model incorporating 50% affordable housing is undertaken, with 3 homes for affordable rent (1 x one bed flat and 2 x two bed flats) and 1 home for intermediate ownership (1 bed flat). This model generates a residual land value of £194,925 equivalent to £1,218,000 per hectare which is considered to be marginally unviable based on the existing use.
- 6.7 Sensitivity testing is then undertaken to test the effect of changes in construction cost and value on the model including affordable homes, with residual land value as output, as follows:

	Construction: Gross Cost				
Sales: Gross Sales	-5.000%	-2.500%	0.000%	2.500%	5.000%
-5.000%	180,862	154,361	127,424	100,401	73,378
-2.500%	214,396	187,894	161,392	134,593	107,570
0.000%	247,929	221,427	194,925	168,423	141,763
2.500%	280,578	254,821	228,458	201,957	175,455
5.000%	313,169	287,412	261,655	235,490	208,988

Red shading indicates not viable, light red is marginally unviable, orange is marginally viable, green is viable.

- 6.8 A further model is then constructed changing the tenure split to 50/50 for 50% affordable housing, which results in a residual land value of £224,913 (equivalent to £1,406,000 per hectare) which would be considered to be marginally viable.
- 6.9 Sensitivity testing is then undertaken on the model with affordable housing at a 50/50 tenure split to test the effect of changes in construction cost and value on the model including affordable homes, with residual land value as output, as follows:

	Construction: Gross Cost				
Sales: Gross Sales	-5.000%	-2.500%	0.000%	2.500%	5.000%
-5.000%	209,350	182,849	156,347	129,449	102,426
-2.500%	243,633	217,132	190,630	164,128	137,383
0.000%	277,132	251,375	224,913	198,411	171,909
2.500%	310,451	284,694	258,937	232,694	206,192
5.000%	343,771	318,014	292,257	266,500	240,475

Red shading indicates not viable, orange is marginally viable, green is viable.



## 7.0 Site analysis – Site SA3H Site adjacent to Clyst Honiton bypass



- 7.1 The land off the Clyst Honiton Bypass is currently greenfield and owned by the Church Commissioners. It extends to approximately 2.12 hectares.
- 7.2 The allocation of the site and the Neighbourhood Development Order seeks development of the site in accordance with the proposed masterplan included at Appendix 2, for a mixed use development of 49 dwellings including 5 intermediate ownership homes, 1,700m<sup>2</sup> of mixed use commercial floorspace, and a community building of 774m<sup>2</sup>. It is part of the proposals that once built, the community building will be gifted to the Clyst Honiton community for a peppercorn. The models include the cost of approximately £1.55m for the construction of the new community building.
- 7.3 All homes are limited to two storeys and construction and design will need to be mindful of the noise generated from the adjacent use of Exeter Airport. Appropriate mitigation costs are therefore included within modelling both for future building regulations standards and for noise mitigations.
- 7.4 A model with all market housing generates a residual land value of £786,141, equivalent to approximately £371,000 per hectare.

- 7.5 A model with a policy compliant level of affordable housing of 50% generates a land value of £ -1,835,996 (negative land value) which would not be considered to be deliverable.
- 7.6 A model with 5 intermediate homes included generates a residual land value of £181,759, equivalent to approximately £85,750 per hectare.
- 7.7 The proposed site allocation on the basis of modelling undertaken is viable.
- 7.8 Sensitivity testing is then undertaken to test the effect of changes in construction cost and value on the model including 5 intermediate homes, with residual land value as output, as follows:

		Construction: Gross Cost				
Sales: Gross Sales		-5.000%	-2.500%	0.000%	2.500%	5.000%
-5.000%	221,342	-36,327	-307,009	-577,691	-848,474	
-2.500%	448,132	201,550	-57,559	-328,242	-598,924	
0.000%	674,118	428,897	181,759	-78,792	-349,474	
2.500%	900,103	654,882	409,662	161,967	-100,024	
5.000%	1,126,088	880,868	635,647	390,427	142,022	

Red shading indicates not viable, orange is marginally viable, green is viable.

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## 8.0 Conclusions

- 8.1 All three housing sites (referred to as SA1H, SA2H and SA3H) indicate a positive return on the basis of fully open market housing and the potential for viability headroom when modelled absent affordable housing.
- 8.2 Models include both the local EDDC CIL at the prevailing rate and contributions for the Exe Estuary and Pebblebed Heaths habitat mitigations.
- 8.3 The site of SA1H produces a residual land value above the benchmark when considering a model with affordable housing. Site SA2H, adjacent, produces a more marginal result. However, sensitivity testing indicates that modest changes in value of +5% or changes in cost of -5% both produce residual land values which are viable. A viable scheme is also returned with the modification of the tenure of the 50% affordable housing to 50% affordable rent and 50% intermediate. It is considered therefore that a developer would be capable of bringing forward a viable scheme.
- 8.4 When the proposed masterplan for SA3H is modelled at the policy level of affordable housing as set out in the Local Plan (50% affordable housing for sites such as this) then a significantly negative land value results and such a housing mix would not be deliverable. Site SA3H provides a positive return when modelled with 5 intermediate homes, together with the provision of the community centre of 774m<sup>2</sup> provided to the community at a peppercorn. Modelling includes Section 106 planning obligations of £3,500 per unit.