North Essex Authorities Local Plan Section 1 EiP - Hearing Statements

Matter 7 - Viability

Contents

1. Introduction

1.1. This statement has been prepared on behalf of L&Q, Cirrus Land Limited, and Gateway 120, who together form the West Tey Partners behind the majority landholdings within the Colchester Braintree Borders Garden Community (CBBGC).

1.2. We respond to the questions raised by the Inspector in relation to Matter 7 – Viability, and note that our Viability Assessment submission (EXD/061) contains additional evidence.

1.3. It is important to highlight that different parties have adopted different models to assess Viability, there is no "correct" approach. HYAS (EB/086) have adopted a master developer / plot developer approach, where it is considered that a master developer builds the strategic infrastructure and sells off plots to plot developers.

1.4. The Savills approach has been to undertaking a cash flow analysis of all receipts and revenues. This more finely measures the impact of time and finance required to deliver the infrastructure and serviced plots for sale. The development will be considered viable if the level and timing of these receipts is sufficient to cover the associated infrastructure costs and provide a commercially acceptable return.

1.5. The basis for our submission (EXD/061) and this response to Matter 7 is the National Planning Policy Framework (NPPF) 2012, and the relevant guidance at that time, specifically the Planning Practice Guidance (PPG), Viability Testing Local Plans: Advice for planning practitioners (commonly referred to as the "Harman Guidance", June 2012) and RICS Financial Viability in Planning Guidance Note (1st Edition, 2012). We understand that the RICS is producing a new Guidance Note to supersede the 2012 version, but that this will relate to the 2019 Planning Framework and accompanying Planning Practice Guidance, whereas the Local Plan Section 1 is being examined against the 2012 Framework.

2. Matter 7: Viability

Q2 – Is adequate provision made for the costs of infrastructure at the GCs in the 2019 Hyas VAU?

2.1. As part of EXD/061 we provide a note from Create Consulting that sets out the difference between approaches in infrastructure costing (Appendix 5).

2.2. The infrastructure costs used by HYAS for CBB total c. £52,000 per dwelling. This includes site enabling, utilities, transport and community infrastructure. We have an internal database where we have data for large scale complex development schemes across the country that Savills has worked on. This suggests that the average infrastructure cost for large scale greenfield site is £43,000 per dwelling (note that the Savills submission included an allowance of £45,000 per dwelling, following costings from Create Consulting). We note that the scheme is still at an early stage of development, and consider that the assumptions used by HYAS are conservative and are likely to be revised down throughout the development process.

2.3. In the Harman Guidance (Appendix B, page 44) it suggests that strategic infrastructure costs are typically in the order of £17,000 - £23,000 per plot for larger strategic sites. In both our and HYAS submissions, this figure is well above this.

Q3 – Apart from housing delivery rates and infrastructure costs (to be discussed under Matters 5 &6), a number of other changes have been made to the inputs to the 2019 Hyas VAU compared with the 2017 Hyas VA [EB/013], including:

a) **land-use and development breakdown**
b) **infrastructure costs**
c) **build costs**
d) **specific inclusion of flats in the development mix**
e) **plot external costs**
f) **sales values**
g) **plot developer profit rate**
h) **contingencies**
i) **proportions of affordable rented and intermediate housing**
j) **use of inflation rates**

Are those changes justified?

2.4. We regard that the approach taken by HYAS in their 2019 Update (EB/086) to be reasonable at this stage of the development process, although note that in some cases the assumptions are towards the pessimistic end of the typical range of inputs. In isolation this is not a concern, however, the cumulative effect of a number of these presents an overly conservative position on viability. We provide a summary of key areas of agreement / disagreement at **Appendix 1.**

2.5. We note that we have broad agreement on the following matters:

- Date of assessment
- Land-use and development breakdown
- Inclusion of flats within the development mix
- 10% external costs on build costs
- Open market sales values of £334 per sq ft / £3,598 per sq m
- Finance rates

2.6. On the whole, we consider that these changes are justified and acceptable in best practice. We provide additional information on some specific points below.

Build Costs

2.7. HYAS use build costs from BCIS at Q4 2018. This is in line with RICS practice, although we consider that the use of lower quartile data is more appropriate than the median data, as the large scale house-builders who are likely to be building the dwellings are able to access economies of scale and able to build cheaper than small and medium housebuilders. The use of lower quartile build costs from BCIS is also the approach taken by MHCLG in their calculations for the "Land Value Estimates for Policy Appraisals" publication (para 10, Appendix A, MHCLG, May 2018).

Plot Developer Profit Rate

2.8. HYAS have adopted a return rate of 15% of GDV for the plot developer, which we consider is appropriate and within the range typically expected from viability assessments in the PPG (10-018-20190509). This is reflective of the approach taken by HYAS and reflects that a plot developer is building out 30% affordable housing (lower risk associated with this) and where the master developer is providing the strategic infrastructure and requiring a separate return (15% on cost).

Infrastructure Costs

2.9. AECOM (EB/088) and Gleeds (EB/087) have done additional work that has fed into the HYAS report on this and therefore the infrastructure cost is more refined than the 2017 figure. This has in turn allowed our consultants to produce more refined infrastructure costs for our submission. This change in infrastructure costs is justified and to be expected as additional information is known about the development.

Use of Inflation Rates

2.10. In accordance with standard financial modelling practice of long term schemes (paragraph D.3.3, page 35, Appendix D, RICS GN 2012), it is appropriate to adopt inflation rates for house prices and build costs. However, we consider that the claim by HYAS that sales value inflation mirrors build cost inflation flawed. Other submissions (for example Avison Young on behalf of NEGC - EB/086/36) we note include more detailed analysis on the differential. Looking at the long term trend (i.e. the 20 year or 40 year trend) as the 10 year trend includes the Global Financial Crisis, when applied to the build cost inflation analysis provided by HYAS in the 2019 update of 4%, sales value inflation clearly outstrips build cost inflation.

2.11. This also does not include any element of place-making, which we provided evidence on for our submission, and note that the RICS GN provides the following note:

It is important to distinguish in cases where projection modelling is used between market value growth and site regenerative growth when preparing appraisals. Larger schemes may be subject to intrinsic/internal value growth as a result of development, achieving a critical mass that may or may not be reflected in the broader market. (para 3.6.5.3, page 22, RICS GN 2012)

2.12. It is therefore considered that the inflation rates should show a greater increase in sales values rather than build costs, and the inflation rates used present an overly cautious view.

Affordable Housing

2.13. The provision of 30% affordable housing with the mix of affordable rented and intermediate housing is appropriate. However, we raise that there may be additional tenure splits that could be incorporated on site, including the provision of Stater Homes. This may improve the viability.

Q4 - Are sufficient contingency allowances built into the 2019 Hyas VAU?

2.14. The HYAS contingency rates are conservative. Typically in development schemes a rate of 10% contingency / optimism bias is used where little else known about the cost in question. For the infrastructure costs, there has been work undertaken by David Lock Associates in the creation of a Concept Framework (EB/026), AECOM Infrastructure Planning, Phasing and Deliver (EB/088), Infrastructure Cost Assumptions for North Essex Local Plans (EB/064) and the Gleeds North Essex Garden Communities Infrastructure Order of Cost Estimates (EB/087). We note that there are still unknowns, but consider that there has been a good evidence base to inform likely costs.

2.15. Our experience of large scale development projects suggest that a rate of 10% contingency is entirely appropriate. Some of the costs identified within the infrastructure delivery plan, such as school provision and medical centres, can be costed with relative certainty and therefore applying a 10% contingency to these is presenting a worse-case scenario.

2.16. With respect to other elements such as the main road network, drainage and general internal services it is unlikely that they will change greatly as these have been measured to a fairly detailed scale at this stage in the development process.

2.17. We note that the Green Book (Table 7, Annex 5, page 91, The Green Book 2018) suggests optimism bias of 2-24% for standard buildings and 3-44% for standard civil engineering. Therefore any modelling of optimism bias / contingencies in excess of traditional market practice (10%) should only be considered as a sensitivity analysis of the baseline model and not be relied upon to draw erroneous conclusions in viability.

2.18. There is a concern that by presenting a conservative approach to contingency / optimism bias (among other inputs), it is adversely affecting the viability and deliverability of the scheme.

Q5 - Is 6%, as employed in the 2019 Hyas VAU, an appropriate rate for the cost of capital?

2.19. A 6% finance rate used by HYAS is appropriate, and reflected in our submission and others (including EXD/062 and EXD/068). We note that MHCLG have used a 6% debit rate and a 2% credit rate in their land value estimates for their policy paper (para 15, Annex A, Land Value Estimates for Policy Appraisal, May 2018).

Q6 - Accepting the assumption that land will be purchased two years before it is required for development, does the 2019 Hyas VAU correctly calculate interest on land purchase?

2.20. Without the formula of the Excel we are unable to comment on this.

Q7 - Is the assumption that land will be purchased two years before it is required for development a sound one to make?

2.21. We consider that the purchasing of land two years prior to development to be appropriate, although could be argued that again this is conservative, with land often being purchased in much shorter timescales in relation to developments. It will largely depend on the phasing of the planning permission and the drawdown of land from the landowners, which may be specified in such agreements including Option Agreements.

Q8 - In the 2019 Hyas VAU Grant scenarios:

(a) Is the value of the HIF funding accurately reflected in the adjustments made to the infrastructure costs, compared with the Reference scenarios?

(b) Is it safe to assume that the HIF funding will not have to be repaid to the government?

(c) What are the implications for the 2019 Hyas VAU of the reference to "recovery and recycling" of the HIF funding in the Business Case - HIF/FF/000365/BC/01 - Tendring Colchester Borders Garden Community [EXD/054], pp152-155?

2.22. The nature of the HIF funding sought by the NEAs means the funding will not have to be repaid to the Government. The fund is divided into two streams, being i. the Marginal Viability stream, which is available to unblock sites that are otherwise unviable; and ii. the Forward Funding stream, which is available to bring forward major strategic infrastructure projects.

2.23. The Supporting Document for Forward Funding[1] is clear that the funding will "Enable local authorities to recycle the funding for other infrastructure schemes, achieving more and delivering new homes in the future." [page 4]

2.24. The Supporting Document goes on to confirm at page 7 that:

"The amount of any funding award will take into account financial information. If a local authority is able to recover funding from developers and delivery partners in subsequent years, or make efficiency savings, then this money can be retained and recycled in order to help them to achieve more housing delivery in the future."

2.25. As such, whilst question 8c is directed towards the Business Case for the Tendring Colchester Borders Garden Community, the NEAs are entitled to rely upon the proposals for recovery and recycling of the HIF funding.

Q9 - Is CAUSE's critique of the 2019 Hyas VAU Inflation scenarios valid? (Section 10.0, pages 22-25 of CAUSE's Consultation Response on EB086 Viability Assessment.)

2.26. The RICS GN provides the following note:

For large-scale developments taking many years, to undertake some form of trend forecasting of values and costs is desirable, plus some allowance for an increase up to, or decrease down to, trend levels, so that the effects of inflation can be correctly taken into account in terms of the future market cycle. If current values and costs are used, the residual land value or return on completion of development, or phases of development, when discounted back to the present day will be noticeably lower than if the effects of inflation are taken into account. Arguably, this will not give an accurate assessment of the viability of a scheme. (para D.3.5, page 35, RICS GN 2012)

[1] Housing Infrastructure Fund: Supporting Document for Forward Funding, Department for Communities and Local Government, July 2017

2.27. It is appropriate, and reflective of the market and best practice to include an inflation rate, and in particular to apply a sales value growth that outstrips build cost, which would then be reflected in land cost inflation (see Appendix 1). As part of our evidence we provide additional information on the growth of land values (page 10, EXD/061). We note that additional parties have also provided evidence on historic trends of sales values and build costs (para 35 – 37, page 8, EB/086/36).

2.28. It is inappropriate, and contrary to best practice, to suggest that inflation should be based on the "hope" that government policy seeks to rectify the affordability of housing. Thus, the approach taken by CAUSE to inflation is fundamentally flawed.

Q10 - (a) Should the 2019 Hyas VAU have applied a benchmark land value to each of the GCs?
(b) If so, what should the benchmark land value(s) be?

2.29. We consider that £100,000 per gross value is appropriate based on our experiences of large scale developments across the country both at planning policy and individual site specific viability assessments, and note other submissions have used similar levels (EXD/060 and EXD/068).

Q11 - (a) Does any of the other viability appraisals submitted to the examination provide a more reliable assessment of the GCs' viability than the 2019 Hyas VAU?
(b) If so, what are the key differences in the method(s) and inputs employed in that other appraisal which make it more reliable?

2.30. In reference to the CBB GC only, in addition to the HYAS Assessment, two additional assessments have been carried out - by Avison Young on behalf of NEGC (EXD/062) and Savills on behalf of L&Q (EXD/061). We do not consider the "viability spreadsheet" carried out by CAUSE (EXD/059) to be a separate viability appraisal as it uses the spreadsheets provided by HYAS.

2.31. Both of the aforementioned Viability Assessments (VA) assess the viability of the scheme by following the traditional development appraisal approach. This is in line with the PPG and RICS Guidance Note.

2.32. Avison Young have adopted an approach that includes the value of the land in the appraisal and measures the return as a net present value (NPV) showing the internal rate of return (IRR). The assumed delivery body is a locally led development corporation (LLDC).

2.33. Savills have adopted an approach that includes the required return (profit on GDV) and measures the residualised land value, which can be compared against the benchmark land value (BLV) to release the land for development. The assumed delivery body is a private sector developer.

2.34. Both approaches are accepted practice in Viability Assessments (para 2.2.2, page 11, RICS GN 2012), and both assessments show that CBB Garden Community is viable and deliverable. There are some differences in some of the approach and associated assumptions, but this is to be accepted as different delivery bodies adopt different assumptions.

2.35. Both surveyors who have undertaken the Viability Assessments have experience in viability assessments for large scale complex development projects and are suitably qualified practitioners as stated by the PPG (Reference ID: 10-020-20180724). The RICS Professional Statement (Financial Viability in Planning, effective from 1st September 2019) expands on this by stating that an RICS member would be considered a "suitably qualified practitioner" to give an objective, impartial and reasonable viability judgement if they:

a) Are experienced in undertaking valuations of development land and/or advising on financial viability of development;
b) Understand the application of inputs into the residual appraisal model from other professional disciplines; and
c) Have appropriate and up-to-date knowledge of the planning system.

2.36. In our view, both of these assessments, albeit with slightly different methodology, have been carried out in accordance with typical market practice and the RICS Professional Statement, and are therefore more reliable than other appraisals looking at the viability of CBB GC. Both of the viability assessments demonstrate that CBB is viable and deliverable.

Appendix 1.0
Summary of Assumptions Table

	SAVILLS	HYAS 2019 (EXD/058)	Comments
Dwellings	17,000	21,000	Savills has looked at the land (and scheme) only in control of the West Tey Delivery Partners. HYAS has looked at the potential wider allocation.
Date	Q4 2018	Q4 2018	Same assumptions
BLV	£100,000 Per Gross Acre	Existing Use plus a Premium	Savills has adopted £100,000 per gross acre as the BLV which is reflective of our experience of land values expectations across the country for the release of strategic greenfield sites. HYAS has adopted the Existing Use Value plus a premium, although does not define what the premium is.
Approach	Master Housebuilder / Master Developer	Master Developer	Agreed an appropriate. Savills has looked at two approaches to demonstrate that the site is viable and deliverable under different delivery scenarios.
Build out	354 pa average (500 pa max)	300 pa	HYAS has adopted a build out rate of 300 pa, and note that the November 2019 scenario looks at 250 pa as a result of questions from the Inspector. However, Savills consider this overly conservative and below that which the market could deliver. Further explanation to support our build rates is found in EXD/061 Appendix 6.
End Date	2069	2084	A delayed finish date as a result of the lower build out rate
Infrastructure (I)	£45,711 per unit incl contingency & pro fees	£52,459 per unit (excl fees and contingencies)	Further discussion is considered in EXD/061 and Savill's Matter 7 submissions, but consider the HYAS figure to be conservative.
Professional Fees	10%	8% on build & prof 10% on I	The HYAS assumptions are within the typical range, however we have applied a blanket rate across all costs
Contingency	5% on build & prof 10% on I	10% (incl in I)	HYAS have run additional scenarios at 20% and 40%, which we consider should only be relied upon as sensitivity analysis. Typical contingency assumption for a scheme of this nature would be 10%.
Sales Values	OMV - £334 Aff - £211 (63%)	OMV - £334 psf Inter - £251 psf (75%) Aff - £167 psf (50%)	Sales values are the same, whilst HYAS have adopted different types of affordable housing tenure, we consider it appropriate to reflect a blended rate (at halfway between the HYAS tenure types)
House Types	80% HOUSES 20% FLATS	80% HOUSES 20% FLATS	Same assumptions
Build Costs	Flats - £157 psf Houses - £121 psf	£120 psf	Savills has applied a differential rate for houses and flats (due to an allowance for circulation space in flats). The rates quoted in the table are also inclusive of external works (at 10%). HYAS has taken a blended average of houses and flats across the various Authorities. The rate quoted excludes externals. Both approaches use BCIS at December 2018. However, HYAS use the median value, whereas Savills use the Lower Quartile, as it is our experience that national housebuilders typically build at this level.
S106/CIL	incl in Infrastructure	incl in Infrastructure	Same assumptions
Sales & Marketing	2% of GDV	2.5% of GDV	We have adopted a slightly lower blended rate, although note that between 2 - 3% of GDV for sales and marketing is considered to be within typical market assumptions. We have then applied an affordable housing sales fee of £500 per unit, whereas we assume that this is included within the higher rate of 2.5% employed by HYAS.
Aft Sales Fee	£500 PER UNIT		
Finance d.r	6.00%	6.00%	Same assumptions
Finance c.r	-	0%	Same assumptions
Profit	27.5% of GDV	15% on cost for master developer 15% on GDV for plot developer	Savills has adopted a blended rate to include an allowance for a master developer / plot developer, which is 27.5% on GDV. HYAS has separated this out into 15% profit on cost for the master developer and 15% profit on GDV for the plot developer. Both approaches and rates are considered reasonable.
Commercial	£400k - business park £500k - neighbourhood centre	employment - £8psf @6% yield / district centre - £15 @6.5% yield	Savills has taken a land value approach to commercial uses as little is known at this point regarding the exact mix of uses. HYAS has taken a capitalised income approach. Both approaches are appropriate.
Inflation	3% / 2.75%	3.5% to infrastructure / 4% to sales values and build costs	The rates put forward by Savills only applied in inflation scenarios. We consider that based on past trends there is a differential between sales values and build costs of at least 0.5%, and that the HYAS approach is conservative.
House Sizes	1 bed flat - 554 sq ft 2 bed flat - 678 sq ft 2 bed house - 775 - 872 sq ft 3 bed house - 1,028 - 1,125 sq ft 4 bed house - 1,270 sq ft 5 bed house - 1,450 sq ft	OMV average - 1,076 sq ft Affordable average - 861 sq ft	Savills has identified a range of different house sizes (all compliant with The Essex Design Guide Space Standards and tenure blind), which gives an overall average of 944 sq ft (for open market and affordable dwellings). HYAS have adopted different house sizes for the different tenure types. Both approaches are considered reasonable at this stage of the development process and will be refined through various planning applications.

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