NEAs SECTION 1 LOCAL PLAN

MATTER 7

RESPONSE TO HEARING STATEMENTS ON BEHALF OF GALLIARD HOMES

GE Response to Turley Hearing Statement Queries

We note that Turley comment on the GE appraisals, and suggest that the GE appraisals present an "optimistic position". We provide our comments in response to each of the queries raised by Turley below:

1) *Size of land area assessed*: We have based our assessment on the detailed work presented in the WYG masterplan for a 10,000-dwelling scheme in West of Braintree ('WoB'), which totals 1,325 acres. We are not aware of masterplan exercise that has been undertaken to determine the larger 1,693 acres. The £133,000 per gross acre suggested by Turley based on the larger area would still generate a viable outcome when compared against a minimum BLV of £100,000 per gross acre.

2) *Trajectory applied*: Our proposed trajectory is stated in our report at paragraphs 2.2 to 2.5 of our 'Response to Section 1 Viability Assessment and the Infrastructure Order of Costs Estimate', dated September 2019 ('the GE Viability Report'), we have adopted an average build out rate of 300 units per annum (private and affordable). We discuss the build out rates further at Appendix 1 of the same document at paragraphs 1.8 to 1.12, including a chart illustrating the dwellings that could be delivered within Braintree during the plan period.

3) *Open market housing value*: GE sales values of the private houses are consistent with the capital values adopted within the Three Dragons and Troy Economic Viability Statement submitted for the Uttlesford EIP, however the £ per sq ft differs due to the applied average unit areas. In addition:

   - GE adopt higher £psf construction costs than Hyas, and as such the GE scheme arguably reflects a higher specification for the market housing;
   - GE adopt lower £psf sales values for both private flats and all affordable dwellings than Hyas, reducing the overall revenue for both of these elements;
   - The adopted values and costs therefore reflect a robust and reasonable position when considered holistically overall;
   - GE have additionally undertaken sensitivity testing on both the costs and values;
   - Our commentary sales values is set out at paragraphs 1.14 to 1.16 of Appendix 1 of the GE Viability Report.

4) *SDLT*: GE have accounted for SDLT, as indicated on the bottom of page 8 of Appendix 1 of the GE Viability Report the residual value "*reflects circa gross 536ha (1,325 acres). Equates to c.£170,000 per acre inclusive of fees. Exclusive (net) equates to £162,000 per acre*". Therefore, the land value net of fees remains above the minimum BLV of £100,000 per gross acre on this basis.

5) *Professional Fees*: We have adopted professional fees of 8% on the assumption that such large-scale development will attract national housebuilder who are able to minimise design fees through the use of standard house types. Higher professional fees of up to circa 12.5%

may be relevant for small bespoke developments. In our experience, it is not unusual for professional fees to reduce further to 6%, given the economies of scale of large-scale developments. We therefore consider 8% appropriate and robust for the quantum and location of this development.

6) *Contingency*: National Guidance indicates where possible to have regard to industry norms when undertaking financial viability in planning. It is common practice in viability assessments to adopt a contingency of 5% on the base costs (for both construction and infrastructure). As set out at paragraphs 2.22 and 2.23 of the GE Viability Report, GE undertook a sensitivity test of an additional 5% on both the costs and values in order to further test the robustness of the scheme whilst maintaining a viable residual value.

7) *Marketing, sales agent and sales legal*: National Guidance indicates where possible to have regard to industry norms when undertaking financial viability in planning. It is common to adopt 1.5% for sales agent and sales legal fees and 1% for marketing costs for viability assessments. We consider that 2.5% for disposal fees is at the upper end of what we would anticipate, given the significant size of the development land and the savings that could be achieved in the legal and agent's fees given the economies of scale.

GE Comments on CAUSE Hearing Statement

GE have already provided our view to the Inspector on appropriate contingencies, and sensitivity testing for Local Plan viability assessments within the GE Viability Report and our Further Hearing Statement responses. However, we have some additional comments on the CAUSE Hearing Statement on IRR, NPV, and Finance which are set out below:

<u>IRR</u>

CAUSE suggest that only Avison Young have undertaken IRR calculations. GE have undertaken a growth model scenario using IRR as the target rate of return, as set out at paragraphs 2.29 to 2.34 of the GE Viability Report. The growth model itself is provided at Appendix 4 of the same report. We also note that the Argus appraisal automatically presents IRR on all appraisals, including on the current day model included within our report.

<u>NPV</u>

CAUSE comment that they have not found any NPV calculations in any of the other appraisals except their own. The Argus appraisals undertaken by GE using Argus software automatically calculates the value of land a present-day basis, taking into account the level of finance required.

<u>Finance Rate and Purchase Profile Impact on Finance</u>

We note that CAUSE consider that a finance rate of 8-10% plus inflation is appropriate. It is not clear whether this is 100% debit, however we consider this level of finance to be beyond the normal range for viability assessments, on the basis of 100% debt finance. Having regard to market norms it is usual practice for finance rates for undertaking viability assessments in the current market to be between 6% and 7% (100% debit). We have adopted 6.5% within our own viability appraisal and consider the Hyas rate of 6% to be at the lower end of the acceptable range.

In addition, we note that on page 15 of their viability submission CAUSE suggest that the GE appraisal excludes interest on the land. GE would like to clarify that the GE assessment does include interest on land. Our viability appraisals have been produced using industry accepted Argus software, and include interest on all costs, including on the land. The reason for the lower level of finance cost than CAUSE may have anticipated is likely to be that our residual value assumes a purchase profile of annual tranches over the development period, which reduces the finance cost required throughout the cashflow (rather than assuming that all of the land is purchased at the start of the appraisal). This is in line with our comments on delivery mechanisms at paragraphs 1.13 to 1.17 of the GE Viability Report. The GE appraisals assume option agreements are put in place, such as the one that Galliard Homes already has in place within WoB. This is standard practice for private developers on large masterplan sites in order to avoid significant holding costs over a very large timeframe.

GE comments on Benchmark Land Value and Land Acquisition

As set out in the GE Viability Report, and our Hearing Statement, GE consider a reasonable competitive return (BLV) to the landowner to be between £100,000 to £150,000 per gross acre. We welcome the fact that a minimum BLV of £100,000 per gross acre is in line with the views of the following:

- The Troy Economic Viability Study for the recent Uttlesford EIP;
- The Turley Hearing Statement on behalf of Parker Strategic Land;
- The Andrew Martin Planning Hearing Statements on behalf of Crest Nicholson and Bellway Homes Ltd;
- Savills on behalf of L&Q; and
- The Wivenhoe Town Council Hearing Statement.

We note that Andrew Martin Planning Limited comments on that using CPO powers to acquire all of the land, as is suggested by NEGC, will be "*an extremely costly and time-consuming undertaking*". In addition to significant timescales and the unprecedented level of funding required, there may be legal hurdles to CPO land that could be delivered by private developers via option agreements at a higher land value. We agree with the risks of a CPO approach on this scale, as highlighted by Andrew Martin Planning, and this is in line with our comments on delivery mechanisms at paragraphs 1.13 to 1.17 of the GE Viability Report, which sets out the disadvantages of this approach, compared to the traditional and proven developer consortium approach proposed by GE and Galliard Homes.

However, whilst the overall approach to delivery differs between Galliard, Hyas and the NEGC (with the latter two adopting a 'master developer' approach, compared to the traditional private developer approach of Galliard), these different approaches demonstrate that the proposals are still viable and deliverable, even if different delivery mechanisms are adopted. In addition, based on our experience, we consider that the Hyas viability appraisals are sufficiently detailed and robust for the level of detail required for a Local Plan.

Galliard Homes

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