Examination of the North Essex Authorities
Shared Strategic (Section 1) Local Plan

Andrewsfield New Settlement Consortium & Countryside Properties

Viability Technical Seminar Paper

The content of this paper is limited to the three specific queries raised within the Further Hearing Sessions January 2020 - Inspector's Matters, Issues and Questions [IED/019] and should be read in conjunction with previous representations, including our West of Braintree Garden Community – Review of Hyas Viability Assessment dated September 2019.

The three queries raised related to:

1. Appraisal Methodology.
2. Input Values.
3. Approach taken to Land Value.

We provide below a short narrative on each:

1. Appraisal Methodology

In order to assess scheme viability, we have undertaken a development appraisal, using Argus Developer software, based on the following basic function:

GROSS DEVELOPMENT VALUE less COSTS less PROFIT = RESIDUAL LAND VALUE

Whilst the Hyas June 2019 Viability Assessment Update [VAU] [EB/086] (the Hyas assessment) produced a scheme discounted cash flow we would highlight that we have not done the same, because we believe it would be misleading. Interest rates and inflation are difficult to predict over such long periods of time and projects of this nature. What we can say, however, is that development land value and house price inflation have, historically, outstripped build cost inflation and we would highlight that this trend is very likely to continue.

We would refer you to our previously submitted Argus Developer Appraisal sent by email 29th November 2019.

2. Input Values

The calculation comprises many variables, most of which fall in line with the cost estimates set out in the Hyas June 2019 Viability Assessment Update [VAU] [EB/086]. There is, however, some project specific divergence from the variables used by Hyas:

a. Gross Development Value

Within our valuation we assumed a site area of 661 Ha (1,633 acres) and a development mix of 8,306 units, with 30% affordable housing. This equates to an average density of 38 dwellings per hectare and approximately 15,000 sq ft per acre, which is a slightly less optimistic density than the 39.1 dwellings per hectare (15,893 sq ft per acre) assumed by Hyas.

Our appraisal also assumed the following average dwelling sizes:

Private Houses	976 sq. ft. (90.67 sq. m.)
Shared Ownership	918 sq. ft. (85.28 sq. m.)
Affordable Rented	846 sq. ft. (78.60 sq. m.)

To which we applied the following blended Sales Values:

Private residential	£390 per sq. ft. (£4,198 per sq. m.)
Shared Ownership	£285 per sq. ft. (£3,068 per sq. m.)
Affordable Rent	£190 per sq. ft. (£2,045 per sq. m.)

We priced the private house types based on our market research, our knowledge of the market and cross—checked them through discussions with Countryside Properties whose nearby Beaulieu development provides good comparable evidence, with densities of 16,300 sq. ft. per acre across 3,600 units, with densities gradually increasing over time in line with market conditions and demand for smaller unit sizes in the location.

In addition, we valued the commercial element of the proposed development on an investment valuation basis using the following rents and capitalisation rates:

Employment	£14.29 per sq ft @ 7.00%
Foodstore	£20.00 per sq ft @ 5.00%
District/Local Centre Retail/Leisure	£10.00 per sq ft @10.00%

b. Build Costs

We consulted the RICS Building Cost Information Service (BICS) and obtained average build costs for North Essex, adopting the following build costs (allowing for base build, preliminaries and external works):

Residential	£146 per sq. ft. (£1,572 per sq. m.)

Employment	£100 per sq. ft. (£1,076 per sq. m.)
Foodstore	£120 per sq. ft. (£1,292 per sq. m.)
District/Local Centre Retail/Leisure	£120 per sq. ft. (£1,292 per sq. m.)

It is worth noting, however, based on our knowledge of the buying power of volume housebuilders, who generally build at a cheaper rate than that shown by BCIS, that in our view (and those of Countryside the above rates are generous and we would recommend that build costs be reviewed in due course by an appropriately qualified surveyor.

In addition, we have made a contingency allowance of 10% on build costs and would again highlight that the volume housebuilders are known to use lower, sub 5%, contingency estimates. It is worth noting that a lower contingency of 5% would equate to saving of approximately £83m.

c. Infrastructure

Within our appraisal we have applied a spot figure cost of £53,208 per dwelling under the heading "Infrastructure" as advised by Hyas. This is an all-encompassing figure that includes S106, CIL and potential abnormal costs.

The Hyas assessment provides for a comprehensive infrastructure package which includes:

i. Site Wide Enabling
ii. Scheme Wide Community Infrastructure (inc. education, community, health and wellbeing, open space, environment / sustainability / Waste)
iii. Scheme wide other itemised utilities and transport infrastructure
iv. Contributions to Offsite Strategic Highways (utilities and transport)
v. Contributions to travel plan measures
vi. Investment in early phases public transport
vii. Funding for employment and economic development
viii. Long Term Stewardship Endowment

By assuming this same rate within our appraisal, we arrived at a total overall "infrastructure" cost of £441,945,648.

In addition, a 10% contingency was applied to both our overall construction and infrastructure costs, which equates to a total contingency sum of £165,554,298.

d. Fees and Finance

Professional Fees at 10% of build costs were included, which, given the scale of this project, we consider to be a generous assumption that could potentially be driven down to 7%-8%. It is worth noting that just a 2% reduction in professional costs would result in a saving of just over £33m.

We made allowances within our appraisal for a debit interest rate of 6.0%, to allow for the cost of borrowing and opportunity cost of capital, together with a credit interest rate of 0.5%.

The fees included within our appraisal for Sales and Marketing costs are, again, generous industry standard percentages that we would expect to see some savings on given the likely quantum of work being given to advisors.

e. Timescales

We have allowed a 36 month lead in period to complete the site purchase and a further 12 months to discharge planning conditions, produce the Section 106 Agreement etc. ready for commencement of development.

We have then assumed that construction would commence immediately thereafter and be phased over the following 28 years, reflecting an overall average construction rate of 300 dwellings per annum.

f. Profit

From our knowledge and experience of the development land market, it is usual for residential developers to seek a profit margin of 20% of revenue on residential developments. Additionally, 20% on GDV is typically required to secure development funding in the current market. This is also stated in the recently updated NPPF as a suitable level of return.

However, profit margins are a reflection of site-specific development and sales risks, as well as wider macro-economic / political risks.

There is market build cost inflation to consider when applying an appropriate commercial level of return. This is due to the lack of materials and skilled labour which in turn increases construction risks.

In terms of macro-economic / political risks, there is still some market uncertainty as a result of the Brexit process and historically low-level interest rates are also likely to result in further increases over the short to medium term.

We believe, therefore that a profit margin of 20% on GDV is an acceptable level in the context of the perceived development and sales risk at the subject site, as well as in the wider markets.

Having assessed scheme viability, based on a fully compliant scheme, our appraisal of the scheme, with this level of contribution, results in a profit margin of 20.00% of GDV which is an acceptable profit margin, deeming the development viable.

3 Approach Taken to Land Value

In order for land to be released for residential development, the development must generate an acceptable level of return for both the landowner and developer.

This needs to be taken into account and balanced against the need to deliver public benefits through affordable housing, Section 106 contributions, CIL, planning conditions sustained by the scheme etc.

We have assessed the EUV of the site to be approximately £10,000 per acre for agricultural land and we are mindful of Hyas' assessment, which refers to similar EUV's. The Hyas assessment also suggests that residential land values in the order of £100,000 per acre would be acceptable in terms of the return to landowners (notwithstanding the tone of market evidence).

Our own appraisal testing produces a residual land value of £113,893 per acre, which falls in line with the Hyas assessment. However, we would again warn against the use of benchmark land values at this early stage of the Local Plan, which is still being considered on an initially holistic basis.

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