NEAs SECTION 1 LOCAL PLAN

VIABILITY TECHNICAL SEMINAR QUESTIONS

RESPONSE ON BEHALF OF GALLIARD HOMES

Our responses to the Inspectors questions to inform the discussions at the Viability Technical Seminar on 21st January 2020 are set out below:

Question 1: A brief explanation of the methodology(ies) used in their appraisal(s), including in any model or software package employed (eg Argus Developer).

Gerald Eve ('GE') have determined the residual value by using Argus Developer, which is an industry accepted and widely used software programme for undertaking residual appraisals for developments. The inputs within our appraisal are summarised within Appendix 1 of our Response to Section 1 Viability Assessment and the Infrastructure Order of Costs Estimate, dated September 2019. Our Argus viability appraisals are attached at Appendix 2, 3 and 4 of the same report.

The residual value is determined by calculating the Gross Development Value ("GDV") of the scheme, then deducting appropriate costs, such as construction and infrastructure costs, Section 106, appropriate fees and contingencies, profit, and finance. Once the total costs are deducted from the GDV this leaves the residual value of the scheme.

The finance cost is calculated automatically by the Argus programme, and reflects the chosen finance rate, the length of time of the development, and the timescales of the costs and values in the cashflow to arrive at a present day value ('NPV'). The finance rate for viability assessments is 100% debit, and we would anticipate to range between 6% and 7%.

Once the residual value has been established, the viability calculation for the Scheme can be expressed as follows:

Residual Value of the Site

Less

Benchmark Land Value

Equals

The Notional Surplus or Deficit

If the output (being the notional surplus or deficit), is positive then the Scheme is theoretically viable. If the output is in negative, then it is theoretically not viable.

We have undertaken our viability assessment in accordance with NPPF 2012, reflecting Government guidance for assessments for Local Plans commenced prior to 2020.

Question 2: A list of all the input values* to their appraisal(s) which differ significantly from the corresponding input values to the relevant appraisal(s) in the Hyas June 2019 Viability Assessment Update ('VAU') [EB/086]

GE set out a table below comparing the key viability inputs and assumptions for our respective West of Braintree appraisals. There are differences to the Hyas inputs, but these do not appear to be significant. In addition, the differences are on both costs and values, and as such we are broadly

aligned when considered on a holistic basis. For the avoidance of doubt, GE does not consider the Hyas inputs to be unreasonable for the purposes of viability assessment for a Local Plan.

Inputs & Assumptions	GE September 2019	Hyas June 2019	GE Percentage Difference
VALUES			
Private Residential Sales Values - Houses *(£psf)*	£404.44	£366.96	9.3%
Private Sales Residential Values - Flats *(£psf)*	£333.83	£366.96	-9.9%
A/H Sales Value - Blended *(£psf)*	£170	£220	-29.4%
CONSTRUCTION COSTS			
Private Houses *(£psf)*	£125.50	£120.00	4.4%
Private Flats *(£psf)*	£148	£124.00	16.2%
Affordable Houses *(£psf)*	£128.60	£124.00	3.6%
Affordable Flats *(£psf)*	£148	£124.00	16.2%
Externals - Houses	15%	10%	33.3%
Externals - Flats	8%	10%	-25%
Professional Fees	8%	10%	-25%
Contingency	5%	10% Infra, and 3% on plot (master developer)	
OTHER COSTS			
Total Infrastructure & S106 *(per unit)*	**£51,000**	**£53,000**	-3.9%
Sales & Marketing *(% of GDV)*	2.25%	Residential: 2.50% Commercial: 3.50%	
Debit (finance)	6.50%	6.00%	7.7%
Profit on GDV (blended)	18.12%	17.5% (15% for master developer)	3.4%
BENCHMARK LAND VALUE			
Benchmark Land Value *per gross acre*	£100,000 to £150,000	TBC	n/a

We note that when looked at holistically, GE has higher sales values on the private houses, but lower sales values on the private flats and the affordable, as well as higher base construction costs.

Whilst we do not differ significantly from Hyas on inputs, the approach does differ in the following two areas:

a) The Hyas model and delivery mechanism (Hyas adopt a 'master developer' approach compared to a traditional private developer approach). Both GE and Hyas demonstrate a viable outcome, but GE consider that a private developer led approach is more realistic and appropriate than a master developer approach, and importantly has less risk, given the significant quantum of land required within the Garden Communities. Our reasons for this are set out at paragraphs 1.13 to 1.17 of our Section 1 Response, dated September 2019.

b) The benchmark land value ('BLV'). GE consider a reasonable competitive return (BLV) to the landowner to be between £100,000 to £150,000 per gross acre. Hyas refer to a minimum of £10,000 per gross acre in relation to existing agricultural use, but do not confirm their view on the upper end of the BLV. Whilst GE agree that in practice land values will fluctuate, GE consider that on average a minimum BLV of £100,000 per gross acre is a reasonable and appropriate assumption for the average value required for landowners to release their land. We discuss BLV further in our response to Question 3 below. Nonetheless we note that the

Hyas residual value for WoB is in excess of £100,000 per gross acre, and as such would be viable on this basis.

Question 3: An account of the approach they have taken to land value. For residual valuation appraisals, what benchmark land value (in £/ acre) is assumed and what is the evidence base for it?

The GE viability appraisals generate a residual value. The residual value is then compared against the BLV in order to determine whether a scheme is viable or not. If the residual value is less than the BLV this would suggest the scheme is unviable and if the residual value in excess of the BLV, this would suggest the scheme is viable. The BLV is therefore not an input within our appraisals, although adopting the BLV as a fixed input is another acceptable approach to determining viability of a scheme.

As set out in the GE Viability Report, and our Further Hearing Statement, GE consider a reasonable competitive return (BLV) to the landowner to be between £100,000 to £150,000 per gross acre. Paragraph 173 of the NPPF 2012 on ensuring viability and deliverability states that:

"..*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*."

In addition, in our experience, the lower end of this BLV range has been used at various EIP's including Ipswich, as well as often being used in CIL studies.

In terms of the evidence base for this, the BLV of £100,000 per gross acre is in line with 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 therefore consider that a minimum BLV of £100,000 per gross acre for the purposes of viability testing at a Local Plan stage is reasonable and robust, and in line with the assumptions made by other consultants at WoB and at other EIP's.

Galliard Homes

December 2019