MATTER 7 RESPONSES

NEAs SECTION 1 LOCAL PLAN

MATTER 7 – INSPECTOR'S QUESTIONS 2 to 11

RESPONSES ON BEHALF OF GALLIARD HOMES

Question 2

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

Gerald Eve ('GE') submitted a 'Response to Section 1 Viability Assessment and the Infrastructure Order of Costs Estimate', dated September 2019 ('the GE Viability Report') for the North Essex Authorities ('NEA') Examination in Public ('EIP'). Within the GE Viability Report, GE state at paragraphs 2.8 to 2.10 that we consider that the overall infrastructure and Section 106 costs adopted within the 2019 Hyas Report to be both reasonable and robust.

This is based on discussions with cost consultants RLB; the Gleeds cost plan dated July 2019 (which informed the Hyas costs); the Three Dragons and Troy Planning Economic Viability Study ('EVS') dated June 2018 for the Uttlesford EIP; and both GE and Galliard's own experience of large developments. As set out within the aforementioned paragraphs of the GE Viability Report, as well as paragraph 1.22 to 1.26 of Appendix 1 of the GE Viability Report, Hyas adopt a total of £53,000 per unit for infrastructure and Section 106, and GE adopt within our own viability appraisal at total of £51,000 per unit and as such we are broadly aligned on these costs. In our experience, c.£50,000 is a relatively standard level of infrastructure costs.

In addition, based on our experience, we consider that the costing is sufficiently detailed and robust for the level of detail required for a Local Plan.

Question 3

Apart from housing delivery rates and infrastructure costs (to be discussed under Matter 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?

It is not unreasonable for Hyas to use more recent data within the 2019 Hyas VAU, as well as having regard to the Inspectors comments (albeit we consider the contingency levels adopted and tested are higher than is commonly used for undertaking viability assessments for Local Plans in our experience).

As set out at paragraph 4.2 of the GE Viability Report, GE concludes that having reviewed the methodology and approach of the 2019 Hyas Report, as well as the inputs adopted, that the approach appears consistent with the NPG, and that the assumptions applied overall appear reasonable. GE further concludes that the Garden Communities presented in the 2019 Hyas VAU appear deliverable.

In addition, GE has undertaken it's own viability assessment and whilst some items do differ, Hyas are broadly consistent with the approach we have undertaken and therefore we consider the inputs to be reasonably considered.

Question 4

Are sufficient contingency allowances built into the 2019 Hyas VAU?

As referenced within the answer to question 3 above, as well as set out within the GE Viability Report at paragraphs 2.16 to 2.23, the 2019 Hyas VAU contingency of 10% is at the upper end of a reasonable level of contingency, which we would usually anticipate to be circa 5% for the purposes of viability assessment. As such, the 10% base contingency is a more than sufficient contingency allowance for a viability assessment.

Both Hyas and GE have undertaken additional sensitivity testing on costs, with Hyas testing the impact of up to 40% on some, but not all, costs. A 40% contingency, even when not applied to all costs, to be at a level that is significantly higher than normal market practice for viability assessments.

We note that CAUSE within their 'Consultation response on EB086 Viability Assessment' quote from an engineer on page 9 in relation to contingency. Whilst CAUSE do not state the company of the engineer, or their experience in relation to garden communities, we note that the quote from the engineer relates to "*worldwide oil industry practice*". GE consider that appropriate contingencies for undertaking viability assessments for Local Plan residential schemes may differ from contingencies adopted within the oil industry.

Additionally, in our experience when schemes are delivered it is not unusual to see cost savings to those set out in Stage 1 cost plans. This is because inevitably Stage 1 cost plans include and element of risk adjustment which is not always required.

As set out at paragraphs 2.22 and 2.23 of the GE Viability Report, GE applied an additional sensitivity test of 5% on both the costs and values in order to further test the robustness of the scheme. The GE sensitivity testing indicates that the WBGC can support flexibility in the two core assumptions of build costs and sales values whilst maintaining a viable residual return.

Question 5

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

It is accepted and established market practice, and in line with RICS Guidance, to adopt 100% debt finance when undertaking either valuations, or viability assessments for planning purposes. In addition, based on our experience, the appropriate range for finance for undertaking viability assessments in the current market by developers to be between 6% and 7%. As stated at paragraph

2.14 we have adopted 6.5% within our own viability appraisal and consider the 2019 Hyas VAU to be at the lower end of the acceptable range.

Question 6

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?

The published data does not enable us to review live modelling, however, GE have undertaken our own viability appraisals using industry accepted Argus Developer software. The finance is automatically calculated within the standardised Argus model, and as such the calculation of finance with the GE appraisal is correct. The GE appraisal is attached at Appendix 2 of the GE Viability Report.

Question 7

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

One to two years prior to development is not unusual and is sufficient to allow time to undertake surveys and obtain planning permission. Regular draw down on the land, as required, is the most efficient commercial approach to delivery, and consistent with landowner expectations, including the land already under control by Galliard.

GE have assumed within their appraisal cashflow that the site will be purchased in annual tranches over the development programme from pre-construction to the end of construction.

Question 8

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 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 – HIF/FF/000365/BC/01 – Tendering Colchester Borders Garden Community [EXD/054], pp152-155?**

The requirements of the HIF funding and the conditions of the agreement are determined on a site by site basis. Whilst we do not consider that the funding will need to be repaid to the Government per se, often the conditions of the grant funding will stipulate that if the HIF grant is recovered by the profit of the development then this grant funding should be re-invested within the community, often in the form of affordable housing (although this will be determined by the conditions of the agreement).

Question 9

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*).

CAUSE's critique of the 2019 Hyas VAU inflation scenarios is not necessarily robust under scrutiny:

1) CAUSE indicates that the appraisals do not have regard to policies changing over time, however, determining on current local plan policy is a valid way of assessing development for a local plan;
2) RICS guidance indicates the importance of sensitivity testing around key assumptions when undertaking viability assessments. Any inflation is a prediction of changes which may or may not occur, however it is not unreasonable for an appraisal to have regard to the impact of current trends given the length of time of development. To this end, undertaking an assessment based on current day data and then undertaking various sensitive to test the impact on delivery is not unreasonable;
3) When considering profit returns based upon inflated values one must consider the relative value and not simply the comparative value of commodities i.e. investments in different assets may provide different levels of profit return over time when compared.

Question 10

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?

For the West of Braintree viability assessment, GE have adopted a BLV of £100,000 to £150,000 per gross acre. We consider that £100,000 per gross acre reflects the minimum threshold reasonably to expected for a landowner to release their land for development in the current market (albeit this is of course an overall average and the exact transaction price / or option agreement will fluctuate for each parcel of land and uses with a masterplan). This BLV of £100,000 per gross acre is also in line with the Troy EVS for the Uttlesford EIP.

Question 11

a) Does any of the other viability appraisals submitted to the examination provide a more reliable assessment of the GC's 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?

a) We recognise a number of individual viability appraisals including GE, and when looked on an overall basis are generally consistent in methodology and output, and such give weight to the evidence base that the proposals by Hyas are reasonable.

b) GE sets out at paragraphs 1.13 to 1.17 of the GE Viabilty Report the differences in approach to delivery of the GC between the Hyas and GE, as well as the disadvantages of the Hyas 'master developer' approach, compared to the traditional and proven developer consortium approach proposed by GE and Galliard Homes. However, as set out at paragraph 4.3 of the GE Viability Addendum, 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.

Galliard Homes

November 2019