North Essex Authorities Section 1 Local Plan Resumed Hearings Statement to Matter 7: Viability

On behalf of Parker Strategic Land

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Turley

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Client
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Our reference
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1. Introduction

1.1 This Statement has been prepared behalf of Parker Strategic Land in relation to the shared Section 1 Local Plans for Braintree District Council ('BDC'), Colchester Borough Council ('CBC') and Tendring District Council ('TDC'), which are collectively referred to as the North Essex Authorities ('NEAs').

1.2 This Statement responds to the Inspector's Issues and Questions (Document IED019) for Matter 7 (Viability) of the resumed Examination hearing sessions. This Statement should be read alongside the earlier representations and other Statements submitted on behalf of Parker Strategic Land.

2. Response to Matter 7: Viability

Viability

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

2.1 No. Commentary upon this is provided within representations submitted on behalf of Parker Strategic Land to the NEA's Shared Strategic (Section 1) Plan in September 2019 (EB/086/57).

3. 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 those listed a-j below. Are those changes justified?

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

2.2 We object to the reduction from applying 15% allowance, to 10% allowance, for externals and plot connections within the 2019 Hyas VAU. Full commentary upon this is provided within representations submitted on behalf of Parker Strategic Land to the NEA's Shared Strategic (Section 1) Plan in September 2019 (EB/086/57).

f) sales values

g) plot developer profit rate

2.3 We object to the reduced plot developer profit rate applied within the 2019 Hyas VAU. Full commentary upon this is provided within representations submitted on behalf of Parker Strategic Land to the NEA's Shared Strategic (Section 1) Plan in September 2019 (EB/086/57).

2.4 It should also be noted that viability evidence submitted on behalf of promoters/landowners of the GCs adopts higher rates of minimum developer profit than the 2019 Hyas VAU (see EXD/068; EB/086/62; EXD/061).

h) contingencies

i) proportions of affordable rented and intermediate housing

j) use of inflation rates

2.5 We object to the placing of reliance on (highly unreliable) inflation scenarios to underpin conclusions regarding the viability of the GCs within the 2019 Hyas VAU. Full commentary upon this is provided within representations submitted on behalf of Parker Strategic Land to the NEA's Shared Strategic (Section 1) Plan in September 2019 (EB/086/57).

4. Are sufficient contingency allowances built into the 2019 Hyas VAU?

2.6 With the Inspector's request for sensitivity testing at 20% and 40% ranges, it is considered that sufficient contingency allowances are made to facilitate rounded consideration of the impact of construction cost escalation risk on viability of the GCs.

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

2.7 We do not consider this to be unrealistic if the GCs are delivered via the private sector.

2.8 However, if delivery is via a public-sector led body or mechanism and land acquired and assembled accordingly, the rate(s) of the cost of capital will be likely to differ. Due to the absence of evidence published to date by the NEAs and NEGC Ltd on this matter, this rate has yet to be conclusively confirmed or justified.

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?

2.9 As we do not have full access to the version of the appraisal model used by Hyas for the 2019 Hyas VAU it is not possible to definitively answer this at this stage.

2.10 However, the sums generated are broadly in line with expectations based on the methodology adopted and inputs/outputs of the modelled appraisals.

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

2.11 In the circumstances where the acquiring body had contractual agreements in place to acquire this land, and thus providing certainty from the outset, this could be considered a reasonable general assumption (albeit in reality the acquisition profile will vary linked to infrastructure delivery requirements and market conditions).

2.12 The issue for the NEA's, and for delivery, is that the land required to deliver the GCs is presently understood to be outside their control, and is being promoted by others (whom it is expected will have contractual positions). Hence, acquisition at EUV or near to EUV is completely unrealistic.

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?

2.13 This should be a matter of fact that Hyas and the NEAs address via provision to the Inspector of a clear statement and supporting table, which should be published for stakeholder review in advance of the reconvened Hearings.

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

2.14 It is our understanding that HIF funding does not require repayment to Government unless funding awarded is not spent by an agreed date. If unspent then Government can recover this.

(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?

2.15 EXD/054 states the following on p.153:

"The financial analysis indicates that the ability of the scheme to recycle funding under current day circumstances (zero inflation world) would be challenging."

2.16 This demonstrates that there is considerable uncertainty regarding the definitive ability or otherwise for funds to be recovered and recycled, with this dependent upon the growth in future housing prices and the delivery/recovery mechanism adopted for the TCBGC.

2.17 As such, no weight or reliance could be placed upon the unknown scale or timing of the future recovery and recycling of HIF funding in determining the financial viability and deliverability of the GC for the purpose of the Section 1 Plan.

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.)

2.18 We consider this a question for Hyas and the NEAs to address.

10. (a) Should the 2019 Hyas VAU have applied a benchmark land value to each of the GCs?

2.19 Yes.

2.20 The methodology in the 2019 Hyas VUA utilises a notional existing use value (EUV) as the BLV, without reference to any determination of a premium in excess of EUV to reflect reasonable competitive or minimum landowner expectations to incentivise release of the necessary land for development of the GCs (i.e. an 'EUV+' BLV). The 2019 Hyas VAU fails to demonstrate that the EUV is (in the first place) correctly evidenced and calculated for each GC.

2.21 As set out in our representations submitted on behalf of Parker Strategic Land in September 2019 (EB/086/57), failure to apply an evidenced benchmark land value ('BLV') that reflects reasonable competitive and/or 'minimum' landowner expectations is inconsistent with the Government's prescribed methodology for undertaking viability assessments in Plan-making as set out in both the PPG Viability (2014) ('PPGV 2014') and subsequently updated PPG Viability (2019) ('PPGV 2019').

10 (b) If so, what should the benchmark land value(s) be?

2.22 As set out in our representations submitted on behalf of Parker Strategic Land in September 2019 (EB/086/57), unless the NEA's produce an evidence-based EUV+ BLV for each of the GC's, it is recommended that a minimum BLV of £100,000/gross acre should be applied to each GC appraisal.

2.23 This is endorsed by GL Hearn, acting on behalf of the Andrewsfield New Settlement Consortium and Countryside Properties, whom are the joint promoters of the West of Braintree Garden Community ('WBGC'). The following is stated by GL Hearn at paragraph 3.34 on p.14 of EB/086/62:

"We remain of the view that a benchmark land value of a minimum of £100,000 gross acre provides incentive for landowners to release land for development and the modelling evidences the scheme is viable. We believe landowners and investors/developers would continue to invest in further preparatory work required to bring the allocation forward."

2.24 This is also endorsed by Gerald Eve ('GE'), acting on behalf of Galliard Homes, whom have a separate controlling interesting the WBGC (EB/086/25).

2.25 This is also endorsed by Savills, acting on behalf of L&Q, Cirrus Land and G120, who are the joint promoters of West Tey (as part of the Colchester Braintree Borders Garden Community or 'CBBGC'). The following is stated by Savills at paragraph 2.2.4 on p.9 of EXD/061:

"For the purpose of this assessment we have applied a land value of £100,000 per gross acre based on experiences for large scale greenfield development sites across the country…This is recognised and proven to provide competitive returns to a willing land owner to enable the development to be deliverable, in line with national policy."

2.26 Importantly, this also reinforces that the landowners and promoters of the GCs are unlikely to bring forward the land for development under a delivery mechanism that assumes acquisition of the land at a sum closer to the EUV unless forced via CPO.

11. (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?

2.27 No.

2.28 Submission of other viability appraisals from the respective promoters of the GCs provides further conflicting results regarding whether the GCs are financially viable.

2.29 GL Hearn has submitted an "*Illustrative Viability Appraisal - September 2019*" (EXD/068) for the WBGC on behalf of the joint promoters. In the accompanying document (EB/086/62) GL Hearn endorses the 2019 Hyas VAU (see para. 4.2 on p.15).

2.30 EXD/068 generates a residual land value (RLV) of £183.62m, which equates to £108,481/gross acre (on 1,693 acres) for the WBGC. This is £14.36m in excess of the BLV of £100,000/gross acre that GL Hearn advocates on behalf of the promoter in EB/086/62.

2.31 This result is predicated on similar assumptions (e.g. residential construction costs; residential delivery rate; land disposal etc.) as the 2019 Hyas VAU – and applies 10% contingency allowance.

2.32 The EXD/068 appraisal is finely balanced. Increasing the contingency by just 1% (to 11%) would add £17.05m of development cost and commensurately decrease the RLV by the equivalent sum (plus a slight uptick in interest costs), which would immediately fall below GL Hearn's identified minimum BLV.

2.33 Equally, the RLV within the EXD/068 appraisal is assumed to be predicated on an average annual delivery rate of either 300dpa or 350dpa (requiring confirmation from GL Hearn). If reducing the delivery rate to 250dpa as we consider realistic[1], this would undoubtedly reduce the RLV below £100,000/gross acre (due to additional roll-up of interest).

2.34 GL Hearn has also applied open market sales values at £390/ft^2 within the EXD/068 appraisal. This is 7% (£25/ft^2) higher than applied to the WBGC appraisals in the 2019 Hyas VAU. No supporting market evidence is provided by GL Hearn in EB/086/62 to substantiate this uplift.

2.35 Whilst seeming modest, this adjustment by GL Hearn drives additional revenue of £159,497,652 through the appraisal. If the EXD/068 appraisal was re-run with open market sales values at £365/ft^2 (consistent with Hyas' assumption), once allowing for adjustment to profit (given it represents a % of GDV), the net impact on the appraisal would be a deduction to the RLV of £127,598,100[2]. We estimate this would reduce the RLV of the EXD/068 appraisal to approximately £56m (£33,097/gross acre). Based on GL Hearn's own statement of the minimum BLV to incentivise promoter investment in the WBGC, this would render the GC as very significantly financially unviable.

[1] See Matter 4 Hearing Statement submitted by Turley on behalf of Parker Strategic Land

[2] Note: the reduced RLV would likely also reduce debt interest modestly, which would change the net figure slightly, as would the impact of a reduced sales and marketing fees.

2.36 Gerald Eve ('GE'), acting on behalf of Galliard Homes, has also prepared a viability assessment for the West of Braintree GC ('WBGC') for 10,000 units (EB/086/25 & EXD/060 1-3). This concludes that the RLV is £170,000/gross acre. However:

- this WBGC appraisal is run on a smaller land area (of 1,325 gross acres) than that assessed by GL Hearn in EXD/068. If assessed over the same area (1,693 acres), GE's appraisal would generate a reduced RLV of £133,000/gross acre.
- it is not stated as to the delivery trajectory applied;
- the open market housing sales values are increased to £404.44/ft^2, albeit without evidenced justification;
- SDLT is not deducted from the RLV, which it should be at 5%;
- professional fees are set at 8% on costs (including infrastructure);
- contingency is applied at 5% (including infrastructure); and
- marketing and sales (incl. legal fees) are set at 2.25% of GDV.

2.37 As a result, it presents a more optimistic position on residential values and trajectory than the 2019 Hyas VAU, and a reduced set of cost inputs, which will drive a more positive viability outcome. These adjustments have not been underpinned with evidenced justification.

2.38 Savills, acting on behalf of L&Q, Cirrus Land and G120, who are the joint promoters of West Tey (part of CBBGC) has submitted a "*Viability Analysis Report West Tey Garden Community*" (EXD/061). The result of Savills' 'baseline' appraisal generates an RLV of £191.4m (£110,127/gross acre). This is £17m in excess of the BLV of £100,000/gross acre. Savills conclude the scheme is financially viable on this basis.

2.39 However, it is noted that Savills' has utilised RICS BCIS lower quartile residential construction costs (£1,183/m^2 or £109.90/ft^2 for houses; £1,281/m^2 or £119/ft^2 for flats), which is substantially lower than the median RICS BCIS construction costs adopted within the 2019 Hyas VAU. If Savills adopted the same median rate as the 2019 Hyas VAU to the weighted dwelling mix, this would increase base construction costs by approximately 5%[3]. This increase would equate to at least £101m[4], which would immediately be deducted from the RLV, and would reduce it to (at most) £90.5m – equivalent to circa £52,000 per gross acre.

2.40 This aside the RLV within the Savills 'baseline' appraisal (EXD/061) is derived from an average annual delivery rate of 354dpa. If reducing the delivery rate to 250dpa as we consider realistic, this would undoubtedly reduce the RLV below £100,000/gross acre (due to additional roll-up of interest).

[3] Note: an exact calculation cannot be prepared due to the summarised presentation of Savills viability appraisal inputs in the submitted appendices.

[4] Note: it would also be subject to proportionate increases in contingency, professional fees and additional debt finance.

2.41 Finally, Savills 'baseline' (and other) appraisal evidence draw upon an infrastructure cost assessment prepared by Create Consulting Engineers Ltd (see EXD/061), which concludes that infrastructure costs should equate to £45,480/unit (on 17,000 units) including contingency and fees.

2.42 This is a substantially lower sum than is reached by Gleeds in the North Essex Authorities Infrastructure Order of Cost Estimate (2019) of £52,000/unit (before fees and contingency), which is taken forward into the 2019 Hyas VAU. If the Savills appraisal was re-run utilising the same infrastructure cost (plus fees at 10% and contingency at 10%), this would add a further £176m to the Savills baseline appraisal. This difference in input alone would be expected to reduce the RLV down to below £10,000/gross acre.

2.43 Avison Young ('AY') has prepared viability appraisals of the GCs on behalf of NEGC Ltd (EB/086/36 & EXD/062/1-5). However, there are some fundamental shortcomings

- the methodology applied assumes that the land is acquired by CPO (via the NEAs or an LLNTDC structure) and is entered as a fixed cost into the GC appraisals[5], assuming this is a practicable route and without reflecting either time delay or additional costs;
- the build out rate is based on 300dpa and 500dpa scenarios;
- developer's profit on market housing has been reduced to 17.5% of GDV;
- modest finance rates are assumed based on advice stated to be from Grant Thornton, but no supporting justification or evidence is provided to underpin these rates as realistic or achievable; and
- even whilst purporting to demonstrate the GCs as viable under this model, the results tables on p.9 (uninflated testing) show that CBBGC is 'marginally viable' at best – generating only 15% profit (presumed on cost, but to be confirmed by AY) at 300dpa and is loss-making (and hence unviable) at 500dpa. It is, instead, necessary for AY to utilise inflation-driven scenario testing to demonstrate post-finance profitability.

2.44 It should also be noted that in document EXD063 that the NEAs seek to distance themselves from the evidence submitted by NEGC Ltd and confirms that this "*does not form part of the NEA's evidence base on which they are relying*".

[5] Note: land price for WBGC of £23,632/gross acre; CBBGC of £26,288/gross acre; and TCBGC of £39,133/gross acre.

11. (b) If so, what are the key differences in the method(s) and inputs employed in that other appraisal which make it more reliable?

2.45 For the reasons set out in response to question 11 (a), it is not considered that the viability assessments submitted on behalf of the promoters of the GCs or NEGC Ltd are more reliable than the 2019 Hyas VAU (which itself, has demonstrable shortcomings).

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