North Essex Garden Communities Ltd

Further Hearing Statement for Matter 7 (Viability)

December 2019

Matter 7 (Viability)

Issue

Is there robust evidence to demonstrate that the proposed GCs are financially viable?

Questions

1. (a) Is the viability of the proposed West of Braintree GC dependent on it being delivered as a cross-boundary development of 12,500 dwellings jointly with the area within Uttlesford District?

No, the viability is not dependent on the West of Braintree GC being delivered as a cross boundary development.

There is evidence as to the land uses and the costs of infrastructure to test a scheme for restricted to Braintree District. This has been undertaken by Hyas, and it shows that the scheme is viable and deliverable.

In addition, the evidence from GL Hearn on behalf of Andrewsfield and Countryside illustrates the viability and delivery of a scheme that is restricted to Braintree District.

(b) If so, how can delivery of the Uttlesford part of the GC be secured through the Section 1 Plan?

It is not the responsibility of the NEAs Local Plan to allocate land within Uttlesford District Councils area. The evidence presented clearly shows that the West of Braintree GC within the NEAs' area is not dependent on the additional allocation in Uttlesford.

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

The NEAs have engaged highly experienced and reputable companies, Aecom, Gleeds and Jacobs, to assist in the preparation and estimate of the costs of infrastructure for each Garden Community. Allowance has been made for the differences between each Garden Community as well as those items that will be common to each.

The costings provided give estimates for individual items as well as categories of expenditure, and an estimate of the expenditure year by year linked to delivery of the housing.

The estimates have been prepared on a conservative basis and include significant allowance for contingencies.

The timing adopted by NEAs is materially front loaded and provides for the delivery of services, capacity and community facilities in tandem with or in advance of its need.

As noted in the representations, the private sector developers interested in each of the three garden communities consider the figures adopted by NEAs, including the scale of the contingencies, to be in excess of those that they would expect or apply.

The level of detail provided is significantly greater than that which is normally prepared for a Local Plan Examination given the stage of design and masterplanning of each Garden Community and that delivery will not start for a number of years. This illustrates a robust approach is being taken.

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:

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?

NEGC response

a) land-use and development breakdown

Yes. Whilst the proposals for each Garden Community are not fully developed, the further work that has been undertaken by NEA, together with the modelling provided by the promoters, gives a scale for the proposed development and the land uses within each.

b) infrastructure costs

Yes. See response to Question 2.

c) build costs

Yes. The costs are based on BCIS, which is recognised by the Planning Inspectorate and the RICS as being suitable and appropriate for estimating costs for this purpose. There will be economies of scale available to developers and contractors, and for schemes that are greater than circa 500 units it is usual to adopt costs that are at the lower end of the range provided by BCIS.

d) specific inclusion of flats in the development mix

Yes. Each Garden Community will include a town centre and areas of higher density housing around local centres. There will also be a need to provide a range of housing types to meet the requirements of different groups of residents, including those who live on their own, the elderly and those seeking to rent. Each Community will include flats but the mix and number may differ. The testing undertaken by Hyas recognises this and illustrates the fact that the schemes are viable and deliverable with a mix of houses and flats.

e) plot external costs

Yes. The costs provided by Gleeds include significant allowance for items that can be assumed to be within plot external costs so there can be an element of double counting. The adoption of 10% is in line with industry practice as shown by the figures applied by Savills, Gerald Eve and GL Hearn.

It is rare, in our experience, for appraisals produced for this purpose, including CIL and Affordable Housing policy testing, to make explicit provision for the cost of garages. We would also note that it is also unusual for this cost to be included in planning viability appraisals of large greenfield schemes that accompany planning applications.

f) sales values

Yes. The values adopted are at or below those applied by the private sector developers interested in each of the Garden Communities who have undertaken detailed appraisals.

It should be noted that there is no allowance for a premium for placemaking to arise at any point during the delivery of the Garden Communities, even though this is acknowledged as a potential real gain that arises in many instances, see RICS research *Placemaking and Value*[1].

g) Plot developer rate

Yes. The modelling undertaken by Hyas assumes that the housebuilders are buying serviced land, which has the benefit of detailed planning consent which the housebuilder has sought, and that the master developer is also taking on the S106 costs and obligations. It is further assumed that the housebuilder will forward sell the affordable housing for which it is responsible. The only material risk that the housebuilder faces is therefore one limited to sales of market housing. It is also usual for the housebuilder to only pay for the land as and when the dwellings are sold, which further limits its requirement for capital. In such circumstances it is usual to see a range of profit, based on the GDV of the market housing, ranging from circa 15 to 20%. The application of 17.5% by Hyas is therefore mid-range and we consider it to be reasonable. It is usual to apply a profit of circa 6% of GDV (or cost) for the affordable housing, which would give a blended rate of circa 15% of GDV.

It should be noted that the modelling undertaken by Gerald Eve, GL Hearn and Savills adopts a single profit that is applied to both the construction and sale of housing and also the activities of the master developer.

h) contingencies

Yes. This is addressed in the response to Question 4.

i) proportions of affordable rented and intermediate housing

Yes.

j) use of inflation rates

Yes. In our experience, it is normal to apply inflation for the modelling of projects of a long duration, both for planning applications and for market appraisals. We have seen it applied within the models

[1] Available at: https://www.rics.org/globalassets/rics-website/media/upholding-professional-standards/sector-standards/land/placemaking_and_value_1st_edition.pdf.

used for projects with much shorter delivery periods, 10+ years, than those anticipated for the Garden Communities. It is also regularly undertaken as part of sensitivity testing.

Clearly there is scope for a difference in opinion as to long term trends, the effect of general price inflation and the growth of household incomes. Economic forecasts are usually only short or medium term, up to 5 years, so of limited value especially for projects that will only be commencing towards the end of a forecast period.

We have shown data that goes back to 1978, and therefore includes periods of high inflation, recessions (1980/81, 1990/91, 2008/9), the financial crisis of 2008/9, and growth. The data show that house prices have consistently outstripped build costs. That analysis provides significant additional confidence that the proposed developments will be viable.

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

Yes. The construction contingency applied, given the stage of the scheme, is appropriate. Until the scheme is developed further, and a complete team full risk workshop review has been instigated and developed, the allowances cannot be assessed further. We do however note that the contingency levels are generally conservative compared to what the private sector would apply at this stage of planning.

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

Whilst an appraisal for a particular developer may take into account a particular form, mix and cost of funding, including equity, it has long been accepted by RICS, the Lands Tribunal, the Upper Tribunal (Lands Chamber), PINS and Government when carrying out assessments for planning purposes that all costs, including land, are assessed on the basis of being 100% debt funded. The figure applied by Hyas, 6%, is in line with market practice. Our view is that this is a sensible rate to be applied if the development is privately led, although some master developers will be able to access funds at lower rates. If the proposal is public sector led then our view is that a lower rate is likely to be achieved.

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?

Yes. The calculations correctly apply finance costs to all negative cash balances which include land costs.

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

Yes. Private developers would expect the period from purchase to start on site to be shorter, circa one year, so the assumption made by Hyas can be considered to be conservative.

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?

The grant-based scenarios exclude the items that are being provided for by the HIF funding.

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

The detailed arrangements will be the subject of negotiation between Essex County Council and Homes England. It is unusual for Government grant funding to be repaid if it would affect the viability or deliverability of a development.

(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?

The Business Case refers to recovery only if there are improvements in scheme viability, such as through ongoing house price inflation. Under such circumstances there is no implication on the overall viability of the scheme under the Reference and Grant scenarios as presented in the Hyas work.

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.)

The approach by Hyas is to apply inflation as effectively a form of sensitivity testing. This is quite usual, and in our experience large schemes to be delivered over many years, 10+ years, are invariably appraised to include inflation.

It is not unusual for infrastructure costs to be inflated by reference to BCIS All-in Tender price, which is commonly applied to build costs.

The choice of indices and the rates to be applied to costs and values will reflect the form, location and duration of the development. Typically, sensitivity tests will be run applying different rates around the central assumptions.

The other matters are best addressed in the Viability Technical Seminar.

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

The planning system is moving away from "guaranteeing" land owners any particular value to their land. Recent changes to the NPPF and NPPG have made it clear that the price paid (and by implication the value expected) in relation to land is of limited importance when considering the viability of local plan or planning application proposals. Land prices have to adjust to proper planning policy requirements and provided that there is a reasonable margin above existing market values (which includes hope value), if necessary in a "no scheme world", then development should be considered viable.

Viability testing at local plan stage is required to demonstrate sufficient returns to landowners and developers. Such returns need to be considered on the basis of schemes achieving policy compliance and associated infrastructure needs. The Hyas work demonstrates sufficient levels of returns when considering the nature and scale of the sites concerned.

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

It is not necessary to set a specific benchmark as this will depend on a number of factors. The question should be whether the residual value of land is at a level that is higher than the existing market value of the land, if necessary in a "no scheme world".

We note that the Crown Commissioners are currently offering for sale 3,422 acres of predominantly farmland located in the Home Counties, within the Oxford-Cambridge Arc, adjoining a major town, population of c200,000. It is said to have both short term and longer term large scale strategic development opportunities. It is being marketed with a guide price of circa £10,000 per gross acre.

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?

We suspect that the promoters and developers who have submitted appraisals would suggest that their appraisal is to be preferred. We would note that the appraisals, together with the evidence submitted by NEGC, all demonstrate that the proposed garden communities are viable even though different inputs have been adopted, and, in some cases, a different approach applied. This should provide confidence on the overall viability and deliverability of the schemes, irrespective of any specific modelling approach. Landowners and developers would not still be promoting their sites if there was a lack of confidence.

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

We do not make any further comments beyond our response to 11(a) above.