

# **North Essex Garden Communities Ltd**



## **Response to Further Hearing Statements for Matter 7 (Viability)**

**16 December 2019**

## Matter 7 (Viability) – Response to Further Hearing Statements

The approach used by NEGC Ltd assumes that NEGC Ltd becomes a locally led development corporation, which acquires the land at its market value in phases and then undertakes the infrastructure and servicing works, including S106 matters. The serviced land is sold for its market value to developers who undertake the construction and sale of completed dwellings and buildings for other uses.

The cost of the land has been assessed on the basis that the payment to a landowner will reflect its market value as set out in the Avison Young note appended to Further Hearing Statement for Matter 5 (Delivery Mechanisms and State Aid).

NEGC Ltd will have powers to acquire land compulsorily where it cannot be acquired by agreement. These powers are contained in the New Towns Act 1981 as amended by the Neighbourhood Planning Act 2017 and the New Towns Act 1981 (Local Authority Oversight) Regulations 2018. Confirmation of any compulsory purchase order will be required and will be subject to the usual scrutiny that precedes the confirmation of an order. It is anticipated that NEGC Ltd would seek a phased series of CPOs to acquire land over an extended period. This is permissible and anticipated by Government Guidance.

Specific arguments put forward in the Further Hearing Statements to Matter 7 are addressed below:

1. The assumed value of the land to be acquired is stated to be too low and not a price that a willing seller would contemplate (Bellway: Paragraph 17 & Crest Nicholson: Paragraph 7).

As we have noted in our response to Question 10 of Matter 7 in our Further Hearing Statement, it is not necessary to set a specific benchmark and the question is whether the residual land value is higher than the existing market value of the land, if necessary in a 'no scheme world' as provided for under S6A and 6D of the Land Compensation Act 1961. The scheme is taken as the designation of a new town under S1 of the New Towns Act 1981.

On advice we have assumed that the designation of the scheme and the relevant land will mean that any second or subsequent CPOs will adopt the original scheme, and that no work undertaken or preceding phases of development between the Orders will be taken into account when assessing the value in the 'no scheme world'.

We would also note that the existence and/or exercise of an option does not necessarily inflate the compensation payable under the statutory compensation code, unless there is distinct development or hope value arising other than by virtue of the scheme.

As explained in the Avison Young note appended to Further Hearing Statement for Matter 5, the market value reflects an assessment of value for the land together with existing commercial properties and residential properties.

2. The rates for funding applied in the NEGC Ltd model to acquire land and pay for the infrastructure are challenged as too modest or below the rates that would be applied by a market operator (Parker Strategic: Paragraph 2.43).

The rates are as advised by Grant Thornton and assume that there is no private capital and the borrower is a sovereign body.

3. The profit assumed is too little as it takes no account of the return required for the cost of land, infrastructure and servicing.

As noted, we have assumed that the land is acquired and the servicing costs incurred by NEGC Ltd or a locally led development corporation. This entity is not required to make a profit.

The figures in the Tables I paragraphs 38 and 39 show the return on cost, with and without inflation.

4. The profit applied for the development of serviced land for market housing, 17.5% of GDV, is too low (Parker Strategic Land Paragraph 2.43).

The rate is consistent with our approach that the risk to the market developer is minimised and that payment for the land is made as and when completed dwellings are sold so that the capital expenditure by the developer is minimised and its cashflow improved. The rate adopted is consistent with our experience of the profit applied by residential developers in such circumstances.