GVA
An APLEONA company

Report

Hartlepool Local Plan 2017 Examination in Public

Central Square
Forth Street
Newcastle upon Tyne
NE1 3PJ

T: +44 (0)191 261 2361
F: +44 (0)191 269 0076

Wynyard Park

Viability Technical Note

September 2017

Prepared By: Dale Robinson, MRICS, Registered Valuer
Status: Version 1
Draft Date: September 2017

Contents

1. Introduction

1.1 This technical note has been undertaken by GVA to demonstrate that the proposed allocation at Wynyard Park remains viable. It provides evidence to clearly demonstrate that all of the necessary off site highway mitigation works (particularly those relating to improvements to the A19) and other social / community based planning obligations (including the requirements specific to policies HSG6 and INF4 of the Local Plan) can be accommodated whilst still maintaining competitive returns to the developer and a reasonable land value for the landowner (Wynyard Park Ltd), as per the requirements of para 173 of the NPPF.

1.2 This report has been prepared in accordance with the RICS Guidance Note Financial Viability in Planning, 1st edition, published August 2012. The Guidance Note represents best practice in the context of preparing Financial Viability Assessments. The advice contained within this report does not constitute a valuation of the site in accordance with RICS Valuation – Professional Standards and should not be relied upon as such.

1.3 The Royal Institution of Chartered Surveyors (RICS) recommends that suitably qualified professionals are consulted in undertaking viability assessments to inform the planning process. GVA is a company regulated by the RICS and this viability appraisal has been undertaken by Dale Robinson MRICS, a qualified Chartered Planning and Development Surveyor and Registered Valuer.

1.4 He has worked as a planning and development surveyor for almost 15 years and is currently a Director at GVA in the Leeds office, where he heads up the Planning, Development and Regeneration team. He is an experienced planning and development surveyor who understands the economic climate, current development value context, the availability of funding and the associated challenges in delivering residential development.

1.5 Dale has extensive experience in assessing financial viability for individual and large scale residential schemes and regularly prepares Red Book valuations. Inherent within this is a detailed understanding of the relationship between land value, profit, development costs, S106 planning obligations/CIL and abnormal costs.

1.6 He has undertaken detailed appraisals to help inform S106 negotiations (for both private developers and local planning authorities) and has acted as an Expert Witness on a number of occasions. He has also undertaken a number of area wide viability based assessments (including CIL and Local Plan viability assessments) for a range of local planning authorities. As a result he has an excellent understanding of national guidance on the viability and deliverability tests for new housing development.

1.7 The remainder of this report is structured as follows:

- Section 2 summaries our clients approach to delivery and the infrastructure / S106 costs;'
- Section 3 summarises the results of our viability analysis; and
- Section 4 concludes this report.

2. Approach to Delivery and Infrastructure /S106 Costs

2.1 Our client (Wynyard Park Ltd, as landowner) is not a developer but they intend to fund all of the necessary off site highway mitigation works (particularly those relating to improvements to the A19) and other social / community based planning obligations (including the requirements specific to policies HSG6 and INF4 of the Local Plan) and then recover their investment through revenue generated from selling serviced residential development plots.

Off Site Highway Mitigation Works

2.2 AECOM has considered what additional enhancement works are required to the strategic and local road networks to fully unlock the longer term aspirational vision for Wynyard Park. The results of this assessment and opportunities for improved highway infrastructure are set out within AECOM's technical note (January 2017). The total cost estimate for the proposed highway mitigation including all of the contingencies and optimism bias (including allowances for items which also may ultimately not be needed) is £4,023,456.

2.3 For the purpose of this assessment we have also been asked by HBC to consider a scenario in which the cost of the works increased to £5m.

2.4 The cost of these works will be split between Hartlepool and Stockton. This would equate to a cost per dwelling in Hartlepool of £3222.98 assuming the overall cost of the road is £4m. Based on the higher cost (i.e. £5m) the cost per dwelling equates to £4,028.73 per unit.

2.5 The assessment has also considered the impact on viability (see later) should Wynyard Park Ltd fund the entire costs.

2.6 The cost attributable to Wynyard Park Ltd under each of the aforementioned scenarios is summarised in Table1.

Table 1 – Cost of Highway Scenarios

Scenario	Cost (£)
Option 1 (£4m proportional split - £3,331.62 per dwelling	£2,075,600
Option 2 (£5m proportional split - £4,028.73 per dwelling	£2,594,500
Option 3 (£4m full cost, as a fall back)	£4,023,456
Option 4 (£5m full cost, as a fall back)	£5,000,000

Social and Community Based Planning Obligations

2.7 The costs associated with the social and community based planning obligations required under policies HSG6 and INF4 are summarised in Table 2.

Table 2 – Cost of Social and Community based Planning Obligations

Item	Cost
Primary school	£4,100,000
Youth grass pitch	£70,000
Two team changing facility	£245,000
Adult / senior 3G pitch	£890,000
Four team changing facility	£645,000
MUGA	£145,000
LAP	£75,000
LEAP	£75,000
NEAP	£76,500
Tennis courts	£200,000
Green infrastructure	£155,750
Cycle links	£591,850
Secondary education contribution	£1,203,620
Bus subsidy	£2,240,000
Total	**£10,712,720**

2.8 For clarity, all of the costs set out within Tables 1 and 2, with the exception of the bus subsidy, have been expressly agreed with HBC.

2.9 The total costs to be funded by Wynyard Park Ltd range between £12,788,320 (based on option 1 of the offsite highway works) and £15,712,720 (based on option 4 of the offsite highway scenarios). Refer to Table 3.

Table 3 – Total Offsite Highway and Social / Community Based Planning Obligations

Item	Cost
Total costs– Option 1	**£12,788,320**
Total costs– Option 2	**£13,307,220**
Total costs– Option 3	**£14,736,176**
Total costs– Option 4	**£15,712,720**

Value of Serviced Development Plots

2.10 In order to derive the estimated revenue from selling the serviced land/plots we have used the 'residual method' of valuation. This is explained further in the RICS Valuation Information Paper (VIP). In summary this valuation approach recognises that the value of a development scheme is a function of a number of elements:

- The value of the competed development (GDV);
- The direct costs of developing the scheme (TCC[1])
- The return (profit) to the developer for taking the development risk and delivering the scheme;
- The cost of any planning obligations[2]; and
- The cost or value of the land.

2.11 The residual method of valuation can be used in two basic ways. In the first instance (option1) it can be used to assess the level of return (profit) generated from the proposed project where the cost of the land is an input into the appraisal. In the second option it can be used to establish a 'residual site value' by inputting a predetermined level of profit.

2.12 The consequential outputs or either approach can then be compared to a benchmark to assess the impact of planning obligations on viability.

2.13 In this context we have used the residual basis of valuation to determine the site value (option 2). This can be expressed through the following simple calculation.

Gross Development Value (GDV) (minus) Total Costs (including Developers Profit) = Residual Land Value

- Gross Development Value includes all sales income generated by the development, including that from affordable housing;
- Total Development Costs include construction costs, professional fees, planning, finance / interest charges etc.
- Developer's Profit is expressed by reference to a percentage of the Total Development Costs or Gross Development Value.

2.14 Planning Practice Guidance (PPG) at paragraph 16 (Reference ID: 10-016-20140306) states that… a site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken.

2.15 The National Planning Policy Framework (NPPF) also states that viability should consider 'competitive returns to a willing landowner and willing developer to enable the development to be deliverable'. In

[1] Total Construction Costs
[2] The only requirement from the developers of serviced plots will be the provision of affordable housing.

particular Para 173 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.

2.16 A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. There is no specific policy / guidance on what constitutes a ‘reasonable land value’ but para 015 of Planning Practice Guidance (PPG) states that a competitive return for the land owner is the price at which a reasonable landowner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. This point is also recognised within the NPPF, which states that viability should consider ‘competitive returns’ to a willing landowner as well as a willing developer to enable the development to be deliverable.

2.17 The Council has assumed, within their Local Plan Deliverability Risk Assessment (August 2017), that a benchmark land value of £1,000,000per ha (circa £405,000 per acre) is a reasonable land value for high quality Greenfield sites in the rural area, which includes Wynyard.

2.18 We have used this value as the minimum benchmark that our client will expect to achieve for the purpose of this assessment.

3. Viability Results

3.1 The results of our appraisal[3] demonstrate that the total net residual value of the development land at Wynyard is £51,070,587 (say £51m). This assumes development is policy compliant including the provision of affordable housing on site at 18% and applies a competitive return for the developer at 20% GDV.

3.2 Within Table 3 we have compared the estimated revenue (land receipts) with the costs of the cumulative off site infrastructure and social /community based planning obligations to determine the viability headroom.

Table 3 – Wynyard Viability Analysis

Item	Cost
A. Net Revenue	£51,000,000
B. Total costs– Option 1	£12,788,320
C. Total costs– Option 2	£13,307,220
D. Total costs– Option 3	£14,736,175
E. Total costs– Option 4	£15,712,720

Headroom – Option 1 (A – B)	**£38,211,680**
Headroom – Option 2 (A – C)	**£37,692,780**
Headroom – Option 3 (A – D)	**£36,263,825**
Headroom – Option 4 (A – E)	**£35,287,280**

3.3 As demonstrated above the development at Wynyard generates significant headroom even when Wynyard Park Ltd funds all of the enhanced off-site infrastructure works (see Option 4). However, this tells only part of the story as these figures are simply the net returns to Wynyard Park Ltd. To understand whether they provided a reasonable return to the landowner (Wynyard Park Ltd) we need to convert the 'headroom' into an equivalent price per acre. The results of this exercise are set out in Table 4.

Table 4 – Equivalent Land Value (£ per acre)

	Infrastructure Costs – Option 1	Infrastructure Costs – Option 2	Infrastructure Costs – Option 3	Infrastructure Costs – Option 4
A. Net Revenue/ Headroom	£38,211,680	£37,692,780	£36,263,825	£35,287,280
B. Area (acres)	81.97	81.97	81.97	81.97
Revenue/Headroom £ per acre (A/B)	£466,187	£459,857	£442,423	£430,509

3.4 As outlined previously the Council has assumed, within their Local Plan Deliverability Risk Assessment (August 2017), that a benchmark land value of £1,000,000per ha (circa £405,000 per acre) is a reasonable land value for high quality Greenfield sites in the rural area, which includes Wynyard. We have used this value as the minimum benchmark that our client will expect to achieve for the purpose of this assessment.

3.5 As is clear from the above analysis the scheme is able to generate land values which exceed the minimum benchmark threshold adopted by HBC even when the full cost of the offsite highways works is included at the enhanced cost of £5m (option 4).

[3] Refer to our development appraisals included at Appendix 1

4. Conclusions

4.1 Through this report it has been demonstrated that the HSG6 and INF4 proposals (in combination with affordable housing) regardless of whether the cost of highways mitigation are taken as a proportionate cost (to be part funded by development in Stockton) or in full to be paid for by Wynyard Park Ltd, as a fall-back position, are viable without third party funding. All scenarios provide a competitive return to the landowner (Wynyard Park Ltd) and developer as per the requirements of para 173 of the NPPF.

Appendix 1 – Development Appraisal

Wynyard Park - Hartlepool
Residual Model
Appraisal I

623 **Total Units**
511 **Total Private**
112 **Total Affordable** 18%
33.17 **Total Site Area(ha)**

ITEM		TIMING												
		Start	Finish	# of Months	OK									
1.0	**Development Value**													
					Total # Units	Size (NIA sq.m)	£psf	£psm						
1.1	**Residential New Build (Private Sales)**													
1.1.1	House Type 1 - 2 bed dwellings	Dec-19	Jun-28	103	1	65	£235	£2,530	@	£164,424	per unit	=	£164,424.11	£164,424
1.1.2	House Type 2 - 3 bed dwelling	Dec-19	Jun-28	103	139	80	£235	£2,530	@	£202,368	per unit	=	£28,129,171.15	£28,129,171
1.1.3	House Type 3 - 4 bed dwelling	Dec-19	Jun-28	103	292	125	£235	£2,530	@	£316,200	per unit	=	£92,330,462.86	£92,330,463
1.1.4	House Type 4 - 5 bed dwelling	Dec-19	Jun-28	103	29	180	£235	£2,530	@	£455,328	per unit	=	£13,204,520.99	£13,204,521
1.1.5	House Type 5 - Almshouses 2 bed terrace	Dec-19	Jun-28	103	8	118	£235	£2,530	@	£297,228	per unit	=	£2,377,825.62	£2,377,826
1.1.6	House Type 6 - Almhouses 3 bed terrace	Dec-19	Jun-28	103	6	181	£235	£2,530	@	£457,858	per unit	=	£2,747,147.47	£2,747,147
1.1.7	House Type 7 - Lyndhurst self build plots	Dec-19	Jun-28	103	13				@	£250,000	per unit	=	£3,250,000	£3,250,000
1.1.8	House Type 8 - Rose Garden self build plots	Dec-19	Jun-28	103	23				@	£250,000	per unit	=	£5,750,000	£5,750,000
					511									£147,953,552
1.2	**Residential New Build (Affordable / Social Rent)**									60%	Discount to OMV			
1.2.1	House Type 1 - 2 bed dwellings	Dec-19	Jun-28	103	39				@	£65,770	per unit	=	£2,565,016.15	£2,565,016
1.2.2	House Type 2 - 3 bed dwelling	Dec-19	Jun-28	103	39				@	£80,947	per unit	=	£3,156,942.95	£3,156,943
					78									£5,721,959
1.3	**Residential New Build (Intermediate)**									25%	Discount to OMV			
1.3.1	House Type 1 - 2 bed dwellings	Dec-19	Jun-28	103	17				@	£123,318	per unit	=	£2,096,407	£2,096,407
1.3.2	House Type 2 - 3 bed dwelling	Dec-19	Jun-28	103	17				@	£151,776	per unit	=	£2,580,194	£2,580,194
					34									£4,676,601
	NET DEVELOPMENT VALUE													**£158,352,112**
2.0	**Development Costs**				623									
2.1	**Residential New Build (Private Sales)**				Total # Units	Unit Size (GIA sq.m)		£ per unit		£psm	£psf			
2.1.1	House Type 1 - 2 bed dwellings	Jun-19	Dec-27	103	1	65	@	56,415	@	868	£80.6	=	£56,415	£56,415
2.1.2	House Type 2 - 3 bed dwelling	Jun-19	Dec-27	103	139	80	@	69,433	@	868	£80.6	=	£9,651,233	£9,651,233
2.1.3	House Type 3 - 4 bed dwelling	Jun-19	Dec-27	103	292	125	@	108,490	@	868	£80.6	=	£31,678,957	£31,678,957
2.1.4	House Type 4 - 5 bed dwelling	Jun-19	Dec-27	103	29	180	@	156,225	@	868	£80.6	=	£4,530,525	£4,530,525
2.1.5	House Type 5 - Almshouses 2 bed terrace	Jun-19	Dec-27	103	8	118	@	101,980	@	868	£80.6	=	£815,842	£815,842
2.1.6	House Type 6 - Almhouses 3 bed terrace	Jun-19	Dec-27	103	6	181	@	157,093	@	868	£80.6	=	£942,557	£942,557
2.1.7	House Type 7 - Lyndhurst self build plots	Jun-19	Dec-27	103	13		@	0	@		£0.0	=	£0	£0
2.1.8	House Type 8 - Rose Garden self build plots	Jun-19	Dec-27	103	23		@	0	@		£0.0	=	£0	£0
	112	18%			511	54,931 591,292								£47,675,528
2.2	**Residential New Build (Affordable / Social Rent)**	78												
2.2.1	House Type 1 - 2 bed dwellings	Jun-19	Dec-27	103	39	65	@	56,415	@	868	£80.6	=	£2,200,169	£2,200,169
2.2.2	House Type 2 - 3 bed dwelling	Jun-19	Dec-27	103	39	80	@	69,433	@	868	£80.6	=	£2,707,900	£2,707,900
					78	5,655 60,872								£4,908,069
2.3	**Residential New Build (Intermediate)**	34												
2.3.1	House Type 1 - 2 bed dwellings	Jun-19	Dec-27	103	17.00	65	@	56,415	@	868	£80.6	=	£959,048	£959,048
2.3.2	House Type 2 - 3 bed dwelling	Jun-19	Dec-27	103	17.00	80	@	69,433	@	868	£80.6	=	£1,180,367	£1,180,367
					34	2,465 26,534								£2,139,414
					623	63051 678698								
2.4	**External Works**					0.64 6.92								
2.4.1	On plot external works	Linked to build costs							@	10.00%				£5,472,301
														£5,472,301
	Total Construction Costs													**£60,195,312**
2.5	**General Construction Contingency**								@	3%				£1,805,859.36
2.6	**Project Fees**													
2.6.1	Professional Fees (including surveys)	Jan-18	Dec-18	12					@	5.00%		=	£3,009,766	£3,009,766
2.6.2	Statutory Planning Fees	Dec-18	Dec-18	1									£135,000	£135,000
2.6.3	Building Regs / NHBC	Jun-19	Dec-27	103					@	£1,000	per property		£587,000	£587,000
														£3,731,766
2.7	**Developer's Sales and Marketing Costs**													
2.7.1	Direct Sale Agents Costs - Private sales only	Linked to sales programme					£3,212,187		@	1.75%		=	£2,589,187	£2,589,187
2.7.2	Direct Sale Legal Fees	Linked to sales programme							@	1000		=	623,000	£623,000
2.7.3	Marketing / Promotion - Private sales only	Linked to sales programme							@	1.25%		=	£1,849,419	£1,849,419
														£5,061,607
	TOTAL DEVELOPMENT COSTS													**£70,794,544**
2.8	**Developer's Profit**					Profit (%GDV)			@	20%		=		£31,670,422.50
														£31,670,422
2.9	**Acquisition Costs / Residual Land Value**	Jun-19	Dec-27	103		Gross Purchase Price						=		£54,756,126
		Jun-19	Dec-27	103		Stamp Duty		@				=		2,727,306
		Jun-19	Dec-27	103		Legal Costs		@		1.75%		=		£958,232
		Jun-19	Dec-27	103		Disturbance								£51,070,587.67
	TOTAL PROJECT COSTS [EXCLUDING INTEREST]													**£157,221,092**
	TOTAL INCOME - TOTAL COSTS [EXCLUDING INTEREST]													**£1,131,020**
2.10	**Finance Costs**	Opening Balance						APR		PCM				
		Interest						6.00%		0.487%				-£1,131,020
		Net Cashflow in month												
		Closing Balance												
	TOTAL PROJECT COSTS [INCLUDING INTEREST]													**£158,352,112**

Balance -0