Independent Examination of the Hartlepool Local Plan – Inspectors Matters, Issues and Questions for Examination (September 2017)

Client: Cecil M Yuill Ltd

Proposal: Response to Matter 15 – Plan Viability

Date: September 2017

Ref: NE2428

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Document control

Document:	Response to Matter 15- Plan Viability	
Project:		
Client:	Cecil M Yuill	
Job Number:	NE2428	
Date:	September 2017	
Prepared by:	Checked by:	Approved By:

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Issue 1 – Has the preparation of the Plan ensured that collectively its policies and proposals are viable and deliverable? (NPPF paragraphs 173-177). Is there a reasonable prospect that necessary infrastructure to support the Plans proposals will be delivered in a timely fashion?

Q2 – Does the Viability Assessment work take account of all the Plans policy requirements? Does it show there will be a competitive return to developers and landowners?

1.1 GVA, on behalf of Cecil M Yuill Ltd, have been party to ongoing discussions with officers at Hartlepool Borough Council in relation to the viability of the Quarry Farm housing allocation (HSG5a). In order to inform these discussions, GVA prepared and submitted to the Council a Viability Report in July 2017. A copy of this Viability Report is attached at Appendix 1 to this Hearing Statement. This confirms that the site is viable and will provide a competitive return to the developer and landowner, despite the financial contribution required towards to the key highways infrastructure works comprising the construction of the grade separated junction and the Elwick bypass. However, the report also acknowledges that the infrastructure contributions will have a knock-on effect on the ability to provide other expected Section 106 commitments, with the provision of the required quantum of affordable housing a particular concern given the Council's acknowledged 144 affordable dwellings per annum over the Plan Period.

Q6 – It has been submitted that 1,455 dwellings (sites HSG5, 587) will contribute to funding the Elwick bypass and grade separated junction resulting in a 12,400 contribution per dwelling. Is this a reasonable analysis? What about site HSG3 (3)?

1.2 It is the view that, if traffic generated from the development of HSG3 (3) will benefit from the proposed highway works in the form of the grade separated junction and the Elwick bypass, then it is reasonable for the local planning authority to request a pro-rata contribution towards these costs.

Appendix 1:

GVA Viability Report

GVA
An APLEONA company

Viability Report

Land Quarry Farm
Phase 2, Worset Lane,
Hartlepool

July 2017

Prepared for
Cecil M Yuill Ltd

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Appendices

1. Instructions

GVA have been commissioned by Cecil M Yuill Ltd (The Client) to prepare a viability appraisal in relation to their site known as Phase 2 Quarry Farm, Hartlepool (the site). The site is the subject of an outline planning application for the erection of 220 residential dwellings (planning ref: H/2015/0528).

Our report is intended to provide our client with an informed market based assessment of the s.106 planning contributions which can be delivered by the development whilst providing the developer with a market based return (profit) and land owner with a value which will incentivise the release of the site for development. The report is structured as follows:

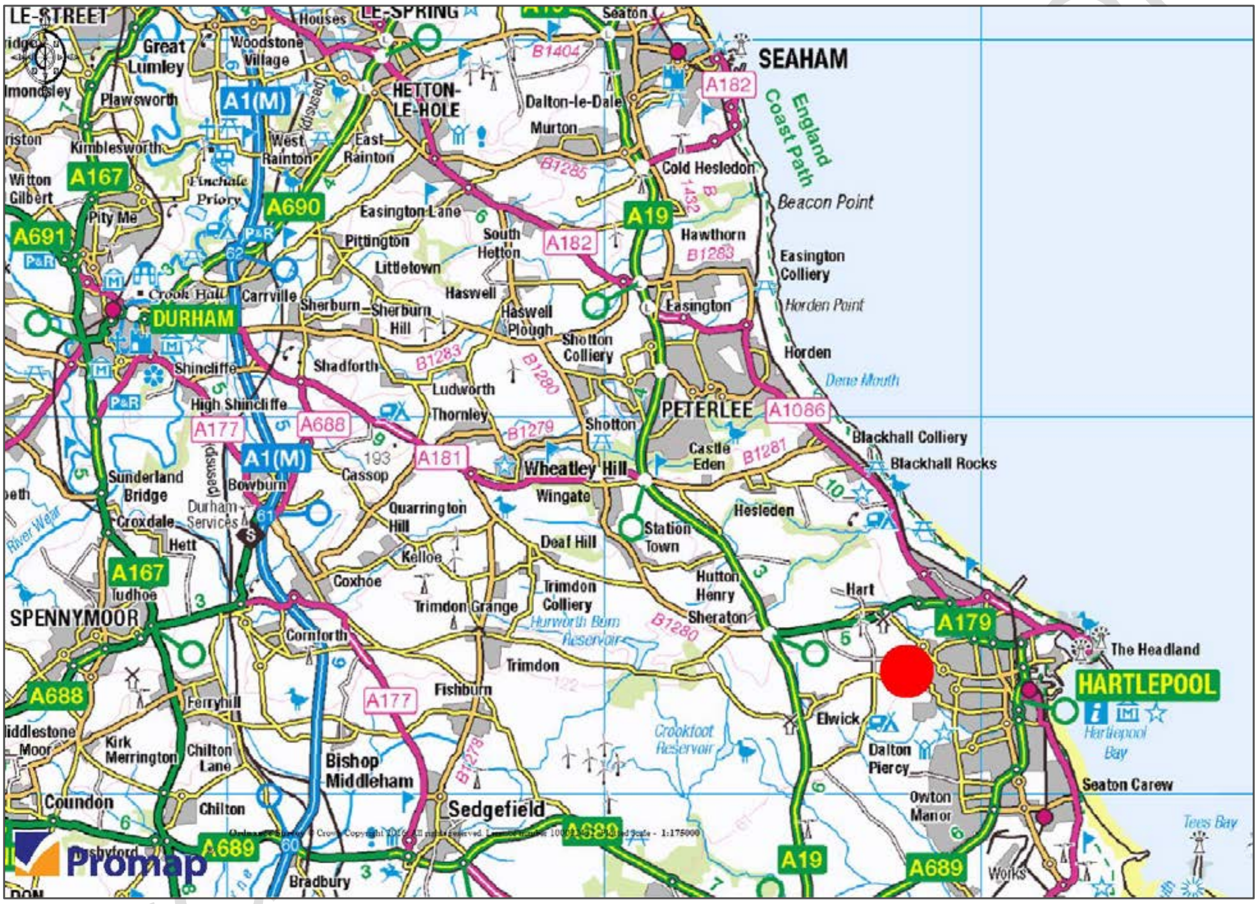
- Site information;
- Residential market analysis;
- Development Appraisal Inputs;
- Land Value
- Recommendation.

In preparing our report and undertaking the associated analysis, GVA has drawn together experience and expertise in land and development, building consultancy and planning from our offices in Newcastle. Should you require further information or wish to discuss any of the issues raised, please contact;

2. Location

The subject site is located in Hartlepool a town with approximately 92,000 residents located to approximately 20 miles (32kms) north of Sunderland and 15 miles (24kms). Hartlepool originally formed part County Durham, more recently it has been identified as part of the Tees Valley City Region.

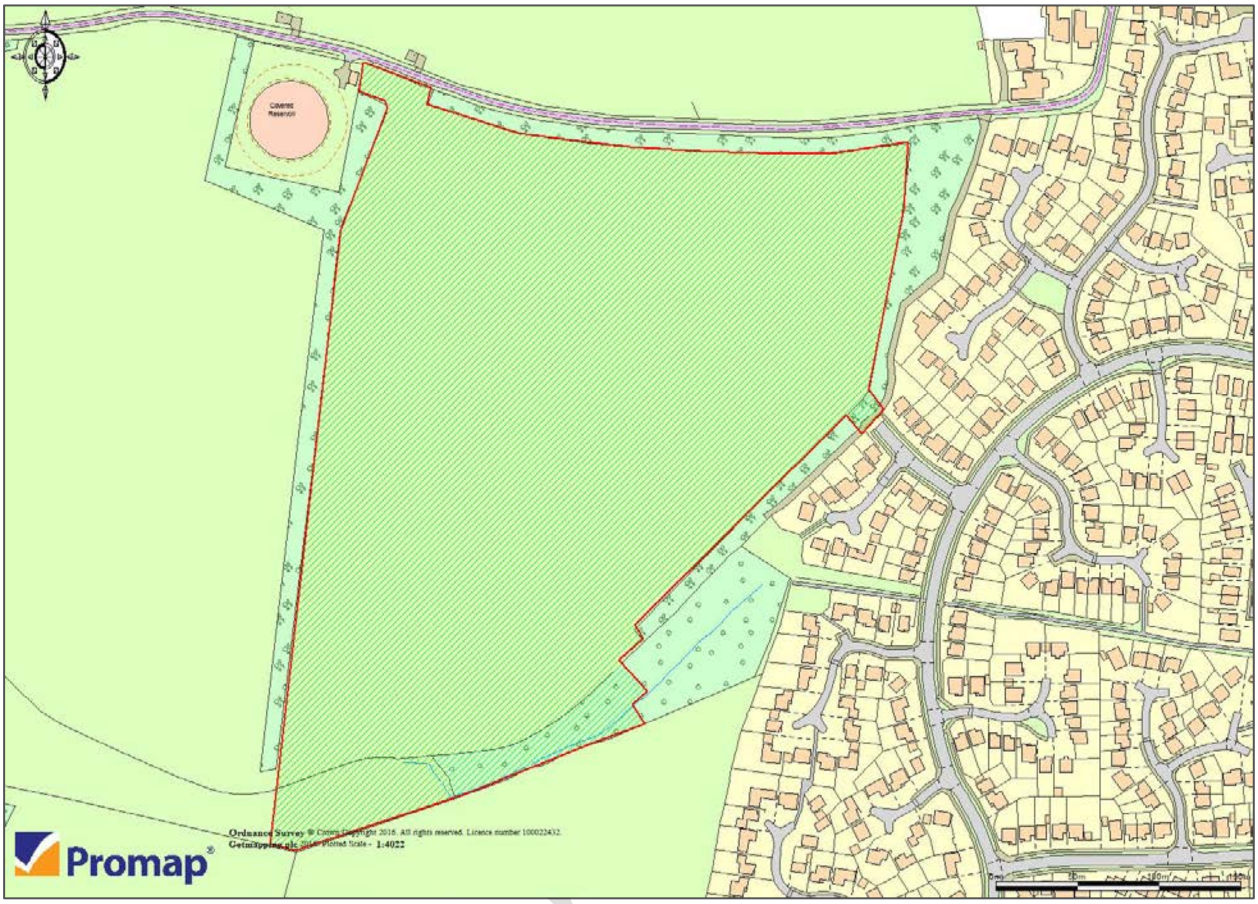
The subject sites is situated approximately 1.9 miles (3kms) to the west of Hartlepool's urban core adjacent to the residential estate of Naisberry Park, as shown in the plan below:



3. Description

The subject site extends to an area of 11.03 hectares (27.24 acres) and is broadly triangular in shape. The land is currently in agricultural use comprising and is bounded by High Thurston Golf Club to the north, existing housing to the east and agricultural land to the west. To the south the site is bounded by a quarry/dene with a new housing development consisting of 81 units to be built by Bellway, which was previously owned by the client who secured an outline planning consent (planning ref: H/2014/0351) and subsequently sold the land to Bellway for development.

A plan showing the boundary of the site is included below:



The subject site has excellent links to existing transport networks, as well as local amenities in and around Darlington. The site location creates an opportunity to provide housing, schools, open space and employment opportunities.

The sites topography slopes steeply from the south and east rising to a relatively flat development platform to the north and west. There are areas of young mature trees and hedgerows to the sites boundaries. Whilst the site also benefits from good access to amenities with two schools, two supermarkets and a medical centre within a 10 minute walk of the site.

Proposed Scheme

Our client is seeking an outline planning consent for 220 residential units (planning ref: H/2015/0528). It is intended that the development will create a high quality residential development accommodating a good mix of family homes. The masterplan which is detailed below shows the net developable area to be 8ha (19.76 acres) which provides a development density of approximately 11 units per acre. The remaining land extending to 3.3ha (8.15 acres) will provide green infrastructure.

At this stage (outline planning application) we are not in a position to fix the housing mix, however we consider the following mix would reflect a scheme brought forward by the market whilst also delivering a proportion of bungalows which are require to address housing need in Hartlepool.

Bedrooms/Type	Number of units	% house type split
2 Bed Bungalow	5	2.5%
2 Bed Semi Detached/Link	39	17.5%
3 Bed Bungalow	11	5%
3 Bed Detached	55	25%
4 Bed Bungalow	5	2.5%
4 Bed Detached	94	42.5%
5 Bed Detached	11	5%

Further consideration is given to house type mix and density in our assessment of Gross Development Value (GDV) sees section 4.

4. Housing Market Trends and General Comments

UK Housing Market

Key Trends

- UK GDP grew 0.2% in the first quarter of 2017, making it the worst performing major economy (ONS)
- Gross mortgage lending reached £20.1 billion in May, this is a 12% increase on both April and May last year (£17.9 billion) (CML)
- UK annual house price growth eases to 3.1% (Halifax)
- Across the UK as a whole, average house prices now stand at £211,301 (Halifax)
- Seasonally adjusted housing transaction completions with a value of £40,000 or above, across the UK, was 100,107 in May showing an increase of 3.3% between April and May (HMRC)
- Housing starts in the UK rose to 43,170 in June(HMRC)
- Consumer price inflation is fell from at 2.9% in the year to May, to 2.6% in June, this is the highest it has been since September 2013

Key Forecasts

- UK GDP growth showed that the economy grew by 0.2% in June

- Consumer price inflation fell to 2.6% in June

Recent Trends: Demand

The National Institute for Economic and Social Research estimates that GDP output grew by 0.2% in the three months ending in April after growth of 0.3% in the three months ending in March.

Rebecca Piggot, Research Fellow at NIESR, said that this was largely due to "Growth in the service sector has remained subdued, consistent with softer consumer spending growth. We expect a squeeze on household real incomes to continue as inflation accelerates throughout the year, reaching almost 3.5% in the first quarter of this year"

Consumer Prices Inflation (CPI) jumped to 2.9%, approaching the 3% level for the first time since 2013. The increase in output producer prices was held to 0.1% for the month from 0.4% previously and input prices fell 1.3% on the month which suggests that underlying inflation pressure from Sterling weakness has abated, although the currency has now weakened again.

The UK's unemployment rate has fallen to its lowest since 1975. The unemployment rate dipped from 4.6% to 4.5% in the three months to June defying the forecast of no change and hitting a 42 year low. It now means that the UK now as its "natural rate" of unemployment according to forecasts from the Bank of England.

The Mortgage Market

Gross mortgage lending estimated by the Council the Council or Mortgage Lenders has estimated that gross mortgage lending reached £20.1 bn in June, a 12% increase on both April and on May last year, in which £7.9bn was advanced.

Paul Smee, CML director general said "Remortgaging activity and first-time buyers continue to drive lending this year. Looking ahead, we expect to see this trend continue, but not as strongly as the factors supporting lending are blunted by less favourable economic conditions. "

The number of mortgages approved UK banks in the last month stood at 40,374, a decline compared to the same time last year at 40,686, the lowest figure since last September.

Rental Market

The Council of Mortgage Lenders reported that lending in March was £21.4bn, down 19% on the year before, almost entirely due to landlords withdrawing from the market. Lending peaked in March; this was due to landlords rushing to make purchases to avoid the 3% hike in stamp duty.

Buy-to-let had a weak start to 2017, and the sectors contribution to overall net mortgage lending has fallen considerable over the last year.

House Building

The UK's construction output dropped from 56.0 to 54.8 in June, this registered above 50.0 no-change marks for the tenth month running. Although signalling a solid upturn in overall business activity, the rate of expansion eased from May's 17-month peak.

Tim Moore, Senior Economist at HIS Markit said that "the construction sector experienced a growth in slowdown in June, largely reflecting weaker rises in commercial building and civil engineering activity. Residential construction work continued to increase at one of the fastest rates since the end of 2015.

A total of 100,170 properties were sold in May, the seasonally adjusted estimate of the number of residential property transactions decreased by 3.3% between April 2017 and May 2017. The seasonally adjusted figure for May is 13.4% higher compared with April 2017.

The Short-Term Outlook for House Prices

After reaching a recent peak of 10% in March 2017, the annual house price growth has since fallen to 3.1% in June. House prices have again fallen over the past three months, overall prices in the three months to June were 1.1% lower than in the preceding three months; the same rate as in April. (Halifax)

Chief economist at Nationwide, Robert Gardner said "House prices recorded their third consecutive monthly fall in June – the first time this has occurred since 2009. This is indicative of a wider slowdown in the household sector, through data continues to send mixed signals in this regard." (Nationwide)

House Price Forecasts for 2018 (reported)

	2018
HM Treasury	7.9%
Consensus - Median	2.2%
Consensus - Lowest	-2.0%
Consensus - Highest	7.6%

5. Local Market Commentary

Over the past 12 months the residential market of Hartlepool has been positive, witnessing a 0.99% (+£1,249) improvement in average house price values. The current average value of residential accommodation in Hartlepool stands at £126,958. To put this into context, the North East has witnessed a negative change in value of -1.46% (-£2,734) over the last 12 months, albeit the current average stands at £185,102.

The table below compares the current market conditions between Hartlepool and the North East:

	Hartlepool	North East	Difference
Average Price Paid	£123,416	£181,918	+47.40%
Average Value	£126,958	£185,102	+68.59%
Number of Sales	965	40,382	-

(Source: Zoopla, July 2017)

The table above demonstrates that the residential market of Hartlepool is poor in comparison to the wider North East. The average price paid and the average value of residential property in Hartlepool were all outperformed by the North East average. Hartlepool has accounted for 2.39% of transactions across the North East over the past 12 months.

The table overleaf compares average house values and types between Hartlepool and the North East:

	Detached	Semi-Detached	Terraced	Flats
Hartlepool	£220,739	£127,328	£75,503	£95,092
North East	£305,087	£168,664	£133,909	£134,852

(Source: Zoopla, July 2017)

The above table demonstrates that average house values across all house types in Hartlepool were outperformed by those across the North East on average of the last 12 months. The value of detached accommodation across the north east is 28% higher than that of the Hartlepool average, whilst semi-detached (32%), terraced (77%) and flats (42%) are also considerably higher.

Available Second Hand Properties

We are aware of 45 properties on the market for sale across the immediate surrounding area. Properties range from £785,000 for a substantial 8 bed detached property (£122.94 per sq. ft.) to £75,000 for a 3 bed terraced house (£75.75 per sq. ft.). A typical 3 bed detached property located on Nunthatch Close, relatively new-build in nature, is priced at £169,995.

Second Hand Sales Market

The table below details second hand sold prices in Rothbury over last 18 months, data of which is provided from the Land Registry via RightMove.

Address	Date of Sale	House Type	Size (sq ft)	Sold price	Price per sq. ft.
12, Nuthatch Close, TS26	21 Apr 2017	Detached	1,173	£218,000	£185.85

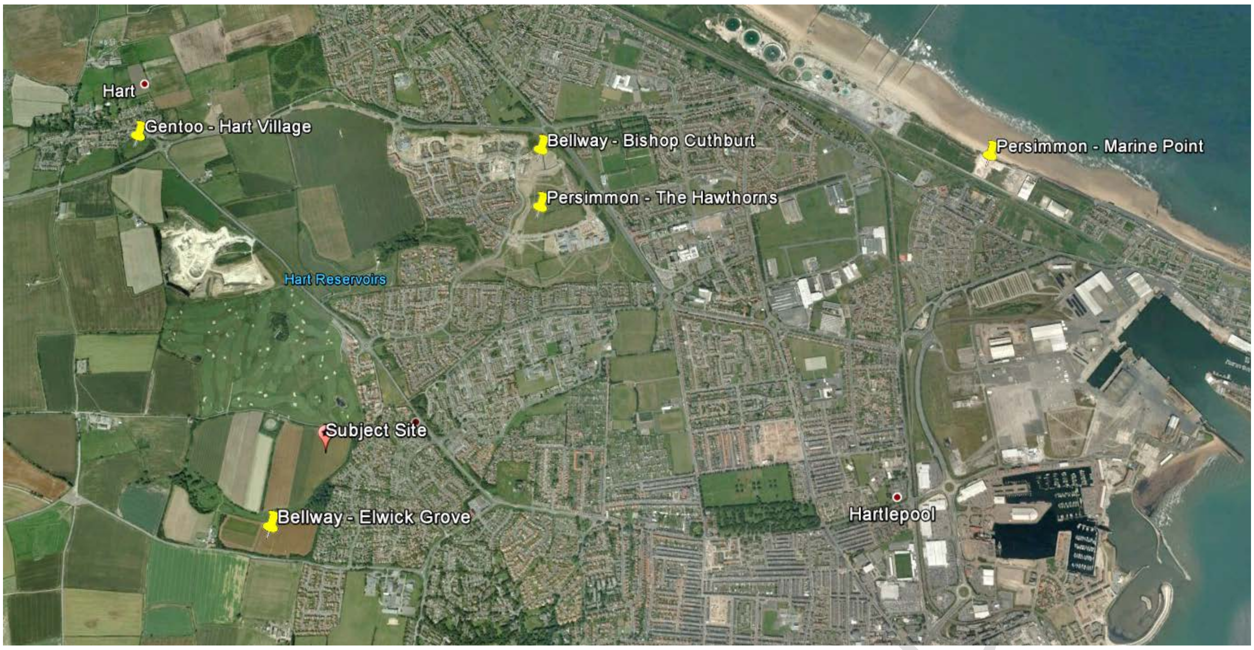
0RZ					
14, Stileston Close, TS26 0PT	17 Mar 2017	Semi-Detached	850	£150,000	£176.47
3, Chelston Close, TS26 0PW	10 Mar 2017	Detached	807	£172,000	£213.14
48, Mountston Close, TS26 0LR	10 Mar 2017	Semi-Detached	1,076	£160,000	£148.70
17, Bankston Close, TS26 0PP	04 Jan 2017	Semi-Detached	999	£159,950	£160.11
3, Reedston Road, TS26 0PZ	02 Dec 2016	Detached	1,420	£236,500	£166.55
				Average	**£175.14**

As seen in the table above, average sales values for second hand properties over the past 18 months have achieved roughly £175 per sq. ft.

It is pertinent to note that the new build sales prices detailed above are for second hand stock. We would typically expect new build properties to sell for a premium of around 10% above second hand sales values. This suggests that average new build sales values on the subject site will be around £192.50 per sq. ft.

New Build Schemes

There has been a number of relatively new developments in and around Hartlepool which shown on the map below:



Gentoo – Hart Village

Gentoo acquired 3.2 acres of land in the affluent village of Hart in early 2014 and obtained planning permission for the development of 23 residential homes. All units, excluding 3 affordable homes, are detached in nature and comprise either 4 or 5 beds. Detailed planning permission was granted by the Planning Inspectorate on appeal on 08 August 2014 under reference number APP/H07924/A/14/2213850. The scheme has been delivered and all units have now been sold. We document transaction evidence of this scheme below:

Address	Date of Sale	House Type	Size (sq ft)	Sold price	Price per sq. ft.
10, The Darlings, TS27 3BY	28 Apr 2017	Detached	1,227	£239,500	£195.19
17, The Darlings, TS27 3BY	22 Mar 2017	Detached	1,829	£353,950	£193.52
16, The Darlings, TS27 3BY	06 Mar 2017	Detached	1,829	£350,000	£191.36
7, The Darlings, TS27 3BY	16 Dec 2016	Detached	1,227	£249,950	£203.71
6, The Darlings, TS27 3BY	09 Dec 2016	Detached	1,227	£249,950	£203.71
8, The Darlings, TS27	09 Dec 2016	Detached	1,356	£264,950	£195.39

3BY					
14, The Darlings, TS27 3BY	07 Dec 2016	Detached	1,356	£274,950	£202.76
11, The Darlings, TS27 3BY	17 Nov 2016	Detached	1,356	£264,950	£195.39
				Average	**£197.63**

Hart Village is located 2 miles to the north of the subject site. We are of the opinion this is a comparable market location to that of the subject site although the sales transactions above provide reasonable comparability to the likely end values of the subject site.

Bellway Homes – Elwick Grove

Elwick Grove is situated immediately to the south of the subject and extends to approximately 4.82 hectares (11.9 acres). The marketing of the site launched in August 2016 and provides a total of 77 four bed detached units and 4 three bed units (Planning ref: H/2014/0215). Release prices for the development are as follows:

House Name	Type	No. of beds	Price	Size	Price per sq. ft.
The Aspen	Detached	4	£269,995	1,290	£209.10
The Alder	Detached	4	£305,995	1,525	£200.65
The Pine	Detached	4	£315,995	1,666	£189.67
The Bay	Detached	4	£324,995	1,650	£196.97
The Plane	Detached	4	£339,995	1,718	£197.90
The Magnolia	Bungalow	4	£369,995	1,880	£196.81
Average					**£198.52**

Comparable sales evidence from this scheme has not yet been uploaded to the Land Resigtry via RightMove.

Bellway Homes – Bishop Cuthbert

The overall development at Bishop Cuthbert is significant and has been brought forward over a period of several years. In total we understand a number of 1,300 homes have been delivered. The scheme is now fully developed and all units have been sold. We provide sales evidence of this scheme below:

Address	Date of Sale	House Type	Size (sq ft)	Sold price	Price per sq. ft.

24, Coltsfoot Close, TS26 0ZN	22 Dec 2016	Semi-Detached	936	£129,950	£138.84
59, Osprey Way, TS26 0ZF	20 Dec 2016	Semi-Detached	936	£144,950	£154.87
22, Coltsfoot Close, TS26 0ZN	20 Dec 2016	Detached	828	£169,950	£205.36
22, Rosebay Close, TS26 0ZL	16 Dec 2016	Detached	1,151	£184,950	£160.69
55, Osprey Way, TS26 0ZF	16 Dec 2016	Terraced	742	£99,950	£134.70
4, Coltsfoot Close, TS26 0ZN	16 Dec 2016	Semi-Detached	936	£129,950	£138.83
5, Coltsfoot Close, TS26 0ZN	16 Dec 2016	Semi-Detached	936	£131,950	£140.97
				Average	**£153.47**

Whilst Bishop Cuthbert is located just 1.5 miles to the north west of Quarry Farm, we believe this is an inferior market. The sales comparables provided above were also take from the last remaining plots of the scheme which are traditionally discounted in order to bring the scheme to a close.

Persimmon Homes – The Hawthorns

The Hawthorns forms part of the wider Bisphop Cuthbert development and has also been delivered over a period of years. The development comprises a range of 3 and 4 bed homes with semi-detached and detached options available. This is persimmon's final phase which comprises a total of 167 units, only 19 of which remain unsold or reserved. The following properties are currently available on Persimmon's website:

House Name	Type	No. of beds	Price	Size	Price per sq. ft.
The Chedworth	Detached	4	£219,950	1,220	£180.29
The Roseberry	Detached	4	£194,950	1,096	£177.87
The Rufford	Semi	3	£152,950	870	£175.80
The Rufford Contemporary	Detached	3	£164,950	870	£189.58
The Souter	Semi /	3	£143,950	932	£154.45

	townhouse				
Average					**£175.60**

Taylor Wimpey – Tunstall Farm

Tunstall Farm is located to the west of Hartlepool just 1.6 miles to the south east of the subject site. The scheme provides a total of 110 market sale dwellings, free from affordable housing provisions. Development of the site began in January this year. Since opening their sales office in May, Taylor Wimpey has reported strong demand selling roughly 4-5 dwellings per month. The developer is also building at the same rate. We have been unable to gain transacted sale evidence for the scheme although we provide the current release prices are the site:

House Name	Type	No. of beds	Price	Size	Price per sq. ft.
Haddenham	Detached	4	£299,995	1,460	£205.48
Selford	Detached	4	£294,995	1,369	£215.48
Eynsham	Detached	4	£289,995	1,334	£217.39
Longhurst	Bungalow	3	£284,995	1,074	£265.36
Whitford	Detached	4	£274,995	1,248	£220.35
Downham	Detached	4	£273,995	1,244	£220.25
Bradenham	Detached	4	£259,995	1,153	£225.49
Aldenham	Detached	3	£239,995	967	£248.19
Average					**£227.25**

We would comment that the evidence above is for asking prices NOT sales values. We would typically expect a discount of circa 10% to reflect end sales prices. In addition we would comment that the Tunstall farm site is in a slightly better location than the subject site.

6. Development Appraisal Inputs

The following section details the key residual valuation inputs which we have adopted in order to arrive at our opinion of opinion of potential sales proceeds for the subject site.

Gross Development Value

In order to calculate the proposed development's Gross Development Value (GDV) we have assumed a housing mix which provides a range of house types, and which has been informed with reference to the Tess Valley Strategic Housing Market Assessment (SHMA).

The following table provides a schedule of the end sales values of the units proposed to be delivered in the development;

Bedrooms/Type	Ave. House Size (Sq. Ft.)	Ave. Sales Value (Sq. Ft.)	Unit Valuie
2 Bed Bungalow	725	£227.59	£165,000
2 Bed Semi Detached/Link	750	£200	£150,000
3 Bed Bungalow	1,050	£233.33	£245,000
3 Bed Detached	1,100	£200	£220,000
4 Bed Bungalow	1,400	£232.14	£325,000
4 Bed Detached	1,500	£203.33	£305,000
5 Bed Detached	1,850	£197.30	£365,000

Affordable Housing and Planning Obligations

From discussions with HBC planning officers, we understand that the following Section 106 contributions will be sought from the Quarry Farm Development;

Item	Cost per dwelling	Total cost
Built sports provision	£250	£55,000
Playing pitch provision	£233.29	£51,324
Tennis Courts	£57.02	£12,544
Bowling Greens	£4.97	£1,093
Primary Education	-	£650,612
Secondary Education	-	£425,034
Transport	£12,000	£2,640,000
Green infrastructure	No specific cost	See abnormals
Play	No specific cost	See abnormals
10% on site renewable or decentralised energy provision	No specific cost	£273,497*

* Cost estimated through discussion with PLC Housebuilder

In addition to the above S.106 requirements the Council are also seeking 18% affordable housing to be delivered on-site which equates to 40 units. The table below provides an updated development mix to include the on-site affordable housing.

Bedrooms/Type	Number of units	% house type split
2 Bed Bungalow (Affordable)	5	2.5%
2 Bed Semi Detached/Link (Affordable)	20	9%
2 Bed Semi Detached/Link	19	8.5%
3 Bed Bungalow (Affordable)	5	2.55%

3 Bed Bungalow	6	2.5%
3 Bed Detached (Affordable)	10	4.5%
3 Bed Detached	45	20.5%
4 Bed Bungalow	5	2.5%
4 Bed Detached	94	42.5%
5 Bed Detached	11	5%

We have assumed that the affordable housing units are transferred to a Registered Provider at 60% of market value. Further consideration of the impact of affordable housing on the developments viability is given in section 6.

Base Build Costs

Within our development appraisal we have assumed a traditional form of construction involving low rise domestic buildings using traditional load-bearing masonry on 900mm strip foundation. We have assumed that the specification for the 'market sale' units will be of good quality, based on widely available materials and components, with white goods, kitchen's and appliances reflecting the schemes aspiration of delivering high quality family housing.

Build costs have been calculated with reference to Royal Institution of Chartered Surveyors, Building Cost Information Service (BCIS) which is widely accepted as a benchmarking database for appraisal work. Having rebased the BCIS database to Hartlepool, I have found that the lower quartile base build cost for general estate housing is £847 per sqm (£78.68 sq. ft.). We have adjusted this rate to reflect the increased purchasing power of plc house builders and have therefore adopted a **base build cost rate of £75 per sq. ft**.

External Costs

BCIS is recognised as an independent resource which provides a cost per square metre for residential development, which includes an allowance for site preliminaries and contractor margin but discounts external works.

GVA's Building Consultancy team (in August 2016) reviewed the proposed layout provided in AutoCAD format which has enabled us to quantify the majority of work included under external costs and make reasonable assumptions about the drainage and lighting provisions required to comply typical Local Authority requirements. We have applied a market rate to the external cost items based on our knowledge and experience of similar housing developments and the cost data obtained from these projects over a number of years. We have also inflated these costs based on BCIS All In Tender Price Inflation over the past 12 months (4.6%). We calculate the **external costs for the scheme to be £3,453,800** see detailed breakdown below;

Item	Qty.	Unit	Rate (£)	Cost (£)
Roads and Parking	9,752	Sq. m	65	£633,880
Footpaths and Paving	5,300	Sq. m	45	£238,500
Kerbs (approx.)	3,118	Lin m	25	£77,950
Surface Water Drainage (excludes attenuation)	2,059	Lin m	250	£514,750
Rumble Strips/crossings	10	no	5,000	£50,000
White lining		n/a	Prov Sum	£15,000
Street lighting	100	no	1,500	£150,000
Signage		n/a	Prov Sum	£15,000
Gardens (grade, level, turf)	16,080	Sq. m	5	£80,400
Driveways	8,442	Sq. m	65	£548,730
Garden/boundary fencing	6,030	Lin m	30	£180,900
Soft Landscaping	31,000	Sq. m	5	£155,000
Tree's	122	no	100	£12,200
Tree allowance to buffer areas	500	no	100	£50,000
Detached Garages	1656	Sq. m	350	£579,600
Inflation Allowance (12 months) @ 4.6%				£151,890
			Total	**£3,453,800**

Professional Fees

In terms of professional fees we would typically expect to see an allowance of between 6% and 12%, calculated as a percentage of build costs and contingency, to cover external services such as; architect, quantity surveyors, structural engineers, project manager etc. Where we find professional fees towards 6%, it is usual to find an additional allowance included in the appraisal either under 'company overheads' or 'development management fee'. With regards to the subject site we have assumed that **professional fees will be calculated at rate of 8%**.

Contingency

It is industry practice to include an allowance on top of build costs to cover contingencies such as rising build costs and other unforeseen items. Whilst the subject site is green field in nature the site topography is challenging with significant slopes west to east and north to south, in addition we are aware from the previous phase of development that ground conditions are not sufficient to allow traditional foundations to be used. With this in mind we have undertaken a Phase 2 site investigation and worked with technical consultants to determine the indicative 'abnormal costs' which are detailed below. We have adopted a **contingency of 3%** to mitigate against build cost price rises.

Abnormals

A geotechnical and environmental investigation including a ground gas risk assessment has been carried out by Solmek in order to ascertain abnormal costs on the subject site. In addition a topographical survey has been undertaken to determine site levels, which has then informed the preparation of a drainage design for the scheme, which has been worked up with a plc house builder. In appraising the site we have identified approximately **£5,737,000 of abnormal costs** which we detail below:

Item	Quantity
Highway retaining wall	£289,000
Highway retaining wall commuted sum	£347,000
Build up manholes to existing sewers	£5,000
Offsite/Extra Over surface water 450mm	£74,000
Offsite foul water sewer 225mm	£37,000
Surface water attenuation (3,000 mm over size pipes)	£2,300,000
On-site play provision	£45,000
Field drains	£10,000
Disposal of excess soil	£220,000
Retaining Walls	£1,900,000
Abnormal foundations	£510,000
TOTAL	**£5,737,000**

Sales & Marketing

Sales and marketing costs cover expenditure associated with the set up and management of show homes, and advertising/marketing materials. On a residential scheme of between 50 and 500 units we would typically expect to see a sales and marketing allowance of between 3% and 4%. We have used a **3.5% allowance for sales and marketing on GDV**.

Acquisition, Finance and Disposal Costs

We have allowed in our development appraisals agent fees of **1.0% for acquisition of the site and 0.75% in legal fees.** With regard to disposal fees we have included a fixed fee of **£500 per unit for legal fees**; our assumptions are based on market evidence. We have also included Stamp Duty Land Tax and allowed **£150,000 for securing outline planning**. With regards to finance costs, based on the current market we have assumed an **interest rate of 6.5%.**

Developer's Profit

With regards to the level of developers profit it is important to note that housebuilders talk of a gross profit 'hurdle rate' with is inclusive of company overheads (excluding professional fees) but net of finance costs, professional fees incurred in relation to the development and sales and marketing fees.

Whilst profit should be described as a reflection of project risk, calculated as a percentage of schemes Gross Development Value (GDV). Increasingly housebuilders talk about 'hurdle rates' which is the minimum level of return, required from a scheme to incentives a house builder to undertake development. In the current market we would typically expect to see a profit level of 20% on GDV (for market housing), with return of around 7% to 10% on GDV on the affordable housing element. Over the past few months market sentiment suggests that housebuilders are looking to increase returns up to and in excess of 25% of GDV.

With regards to planning appeal precedents based on viability it is pertinent to review the inspector's decision relating to Land at the Manor, Shinfield, APP/X0360/A/12/2179141, which emphasised the use of market evidence in respect to calculating a reasonable return to the landowner and developer. In Shinfield it was held that a competitive return to a willing developer was a 20% margin on the Gross Development Value of both market and affordable housing, based on evidence provided by developers.

With regards to what would represent a fair return in respect of the subject site, we have adopted **profit rate of 20% of GDV**.

7. Land Value

Viability has increasingly become a key consideration in town planning. The introduction National Planning Policy Framework (NPPF) highlights the importance of viability in planning. Paragraph 173 of the NPPF states that;

> 'Pursuing sustainable development requires careful attention to viability.... 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'

The NPPF also refers to the use of planning conditions and obligations (paragraph 205) and advises that where obligations are being sought;

> '...local authorities should take into account of changes in market conditions over time and, where appropriate, be sufficiently flexible to prevent planned development being stalled'

Whilst affordable housing is a key component of any sustainable development, onerous requirements which result in unviable development should be considered against any resultant delays in delivery to housing development.

The Royal Institution of Chartered Surveyors (RICS) has published guidance (Financial Viability in Planning: RICS guidance note, 1st Edition, August 2012) which seeks to assist planners in making objective and transparent decisions in relation to financial viability within a planning context. The guidance note states that two of the key aspects in ensuring financial viability are;

- Land is willingly released for development by land owners;
- Developers are capable of obtaining a market risk adjusted return.

With regards to developers return consideration was given in the previous chapter. Turning to the issue of what represents a fair return to the land owner, the issue is more complex, but a starting point is provided by the RICS Financial Viability in Planning guidance note, which states the following;

> 'Site value should equate to the market value subject to the assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan'.

To arrive at the level of value a typical owner will sell for, the RICS states that Current Use Value (CUV) plus a premium to incentivise the owner to release the site, is not an approach which should be adopted. The RICS however does acknowledge that where market value falls below CUV, then the land owner is unlikely to be incentivised to release the site for development.

The Local Housing Delivery Group (LHDG), led by the Homes and Communities Agency, has also published guidance on viability in relation to the deliverability of Local Plans. The guidance identifies four different approaches to establish 'Threshold Land Value' (THV) i.e. the value at which a landowner would be incentivised to release his site for development, including:

Current use value with or without a premium;

Apportioned percentages of uplift from current use value to residual value;

Proportion of the development value;

Comparison with other similar sites (market value).

Although RICS guidance rules out the use of CUV plus a premium, LDHG recommends that the THV is based on a premium over current use values. The precise figure that should be used as an appropriate premium above current use value should be determined locally, however the planning appeal decision at Land at the Manor, Shinfield, APP/X0360/A/12/2179141, which is widely used by local authorities as a benchmark, held that;

> 'a competitive return to the willing owner of a previously developed site is the site value in its current use, plus an incentive to sell, this being 50% of the uplift from the grant of planning consent, before any planning obligations'

As seen the guidance provided on viability to date lacks clarity in respect of how a competitive return to a land owner should be calculated. RICS guidance would suggest the use of comparable data to determine a market value for land. However, there is a lack of accurate land transaction comparable data.

For example LDHG states ‘land price data published by the Valuation Office Agency (VOA) should be treated with considerable caution given that it may refer to transactions for fully serviced land before taking account of local policy costs’.

The guidance goes on to state ‘using data on housing land values, it is important to distinguish between headline values associated with fully serviced sites, as opposed to those net values which take account of infrastructure costs, Section 106 and CIL costs, and the costs of complying with existing policy requirements including the provision of affordable housing’.

In terms of comparable land transactions GVA have marketed and subsequently sold Phase 1 Quarry Farm for residential development to Bellway Homes. The site, which lies to the south of the subject site, extends to approximately 10 net developable acres and benefits from planning consent for an 81 unit residential development scheme. **The sales price which for Phase 1 Quarry Farm equated to £360,000 per net acre** i.e. after making deductions to the sales price for off-site affordable housing, S.106 contributions and abnormal development costs. We are of the opinion that this transaction provides the benchmark land value for residential development land in this location.

8. Recommendation

GVA have undertaken viability development appraisals using Argus Development Software, adopting principles set out by the RICS (GN 94). The Argus appraisal tool is widely used by property consultants and is generally accepted to be the industry standard for carrying out development appraisal work and valuations.

Our approach to the viability assessment has run a series of development appraisals in order to assess the impact of S.106 obligations and affordable housing on the developments viability. In the first instance we have looked at development which is 100% compliant with the Councils planning obligation requirements, delivering the full S.106 requirement, contribution towards highway infrastructure and 18% affordable housing. Having tested this scenario we are of the opinion that a land receipt of £3,637,488 (£182,000 per acre) is insufficient to incentivise the land owner to release his site for development.

In the second scenario we have removed all affordable housing but retained the full S.106 and highways requirement. As a result viability has improved significantly generating a land value of £5,100,000 (£255,000 per acre). In the final scenario we have tested the impact of removing all S.106 costs (but retaining the highway contribution) and affordable housing on land value. As seen in the table below this scenario delivers a land value of £6,406,000 (£320,000 per acre) which is broadly in line with the benchmark land value achieved on Phase 1 Quarry Farm.

Scenario	Net Land Receipt (rounded)	Net Land Receipt per Net Developable Acre – assumed to be around 20 acres (rounded)
220 Unit scheme with full S.106 and 18% Affordable Housing	£3,637,488	£182,000
220 Unit scheme with full S.106 no Affordable Housing	£5,100,000	£255,000
220 Unit scheme with By Pass no S.106 and no Affordable Housing	£6,406,000	£320,000

Within our appraisals which are included in Appendix 1 through to 3 we have adopted assumptions which we believe fairly reflect market practice including a gross profit of 20% which in our experience is the minimum return a developer would be prepared to accept for a scheme of this nature.

I trust the above is self-explanatory; however I would be happy to discuss our findings with Hartlepool Council and their appointed advisors in order to reach a mutually acceptable conclusion.

Ray Minto MRICS

Director

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Land and Development

For and on behalf of GVA Grimley Limited

Appendix 1 Appraisal based on 220 units with S.106 – no affordable housing

Quarry Farm Phase 2
Viability Report
With S.106 - No Affordable Housing

Development Appraisal
GVA
26 July 2017

APPRAISAL SUMMARY — GVA

Quarry Farm Phase 2
Viability Report
With S.106 - No Affordable Housing

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
2 Bed Bungalow (Market Sale)	5	3,625	227.59	165,000	825,000
2 Bed Semi/Link (Market Sale)	39	29,250	200.00	150,000	5,850,000
3 Bed Bungalow (Market Sale)	11	11,550	233.33	245,000	2,695,000
3 Bed Detached (Market Sale)	55	60,500	200.00	220,000	12,100,000
4 Bed Bungalow (Market Sale)	5	7,000	232.14	325,000	1,625,000
4 Bed Detached (Market Sale)	94	141,000	203.33	305,000	28,670,000
5 Bed Detached (Market Sale)	11	20,350	197.30	365,000	4,015,000
Totals	**220**	**273,275**			**55,780,000**
NET REALISATION				**55,780,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			5,103,040		
				5,103,040	
Stamp Duty			242,652		
Agent Fee		1.00%	51,030		
Legal Fee		0.75%	38,273		
Town Planning			150,000		
				481,955	
CONSTRUCTION COSTS					
Construction	**ft²**	**Rate ft²**	**Cost**		
2 Bed Bungalow (Market Sale)	3,625 ft²	75.00 pf²	271,875		
2 Bed Semi/Link (Market Sale)	29,250 ft²	75.00 pf²	2,193,750		
3 Bed Bungalow (Market Sale)	11,550 ft²	75.00 pf²	866,250		
3 Bed Detached (Market Sale)	60,500 ft²	75.00 pf²	4,537,500		
4 Bed Bungalow (Market Sale)	7,000 ft²	75.00 pf²	525,000		
4 Bed Detached (Market Sale)	141,000 ft²	75.00 pf²	10,575,000		
5 Bed Detached (Market Sale)	20,350 ft²	75.00 pf²	1,526,250		
Totals	**273,275 ft²**		**20,495,625**	**20,495,625**	
Contingency		3.00%	614,869		
Abnormals			5,737,000		
External Costs			3,453,800		
Built Sports Provision			55,000		
Playing Pitch Provision			51,324		
Tennis Courts			12,544		
Bowling Greens			1,093		
Education (Primary)			650,612		
Education (Secondary)			425,034		
By-Pass/Transport			2,640,000		
10% renewables			273,497		
				13,914,773	
PROFESSIONAL FEES					
Professional Fees		8.00%	1,639,650		
				1,639,650	
MARKETING & LETTING					
Marketing		3.50%	808,325		
				808,325	
DISPOSAL FEES					
Sales Legal Fee	220 un	500.00 /un	110,000		
				110,000	
FINANCE					
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)					
Land			1,724,325		
Construction			346,311		
Total Finance Cost				2,070,637	
TOTAL COSTS				**44,624,004**	
PROFIT					

Quarry Farm Phase 2
Viability Report
With S.106 - No Affordable Housing

11,155,996

Performance Measures

Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%
IRR	18.09%
Profit Erosion (finance rate 6.500%)	3 yrs 6 mths

Appendix 2
Appraisal based on 220 units with S.106 – 18% affordable housing

Quarry Farm Phase 2
Viability Report
With S.106 & 18% Affordable Housing

Development Appraisal
GVA
26 July 2017

APPRAISAL SUMMARY **GVA**

Quarry Farm Phase 2
Viability Report
With S.106 & 18% Affordable Housing

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
2 Bed Bungalow (Affordable)	5	3,625	136.55	99,000	495,000
2 Bed Semi/Link (Market Sale)	19	14,250	200.00	150,000	2,850,000
3 Bed Bungalow (Market Sale)	6	6,300	233.33	245,000	1,470,000
3 Bed Detached (Market Sale)	45	49,500	200.00	220,000	9,900,000
4 Bed Bungalow (Market Sale)	5	7,000	232.14	325,000	1,625,000
4 Bed Detached (Market Sale)	94	141,000	203.33	305,000	28,670,000
5 Bed Detached (Market Sale)	11	20,350	197.30	365,000	4,015,000
2 Bed Semi/Link (Affordable)	20	15,000	120.00	90,000	1,800,000
3 Bed Bungalow (Affordable)	5	5,250	140.00	147,000	735,000
3 Bed Detached (Affordable)	10	11,000	120.00	132,000	1,320,000
Totals	**220**	**273,275**			**52,880,000**

NET REALISATION				**52,880,000**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			3,637,488	
				3,637,488
Stamp Duty			169,374	
Agent Fee		1.00%	36,375	
Legal Fee		0.75%	27,281	
Town Planning			150,000	
				383,030
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
2 Bed Bungalow (Affordable)	3,625 ft²	75.00 pf²	271,875	
2 Bed Semi/Link (Market Sale)	14,250 ft²	75.00 pf²	1,068,750	
3 Bed Bungalow (Market Sale)	6,300 ft²	75.00 pf²	472,500	
3 Bed Detached (Market Sale)	49,500 ft²	75.00 pf²	3,712,500	
4 Bed Bungalow (Market Sale)	7,000 ft²	75.00 pf²	525,000	
4 Bed Detached (Market Sale)	141,000 ft²	75.00 pf²	10,575,000	
5 Bed Detached (Market Sale)	20,350 ft²	75.00 pf²	1,526,250	
2 Bed Semi/Link (Affordable)	15,000 ft²	75.00 pf²	1,125,000	
3 Bed Bungalow (Affordable)	5,250 ft²	75.00 pf²	393,750	
3 Bed Detached (Affordable)	11,000 ft²	75.00 pf²	825,000	
Totals	**273,275 ft²**		**20,495,625**	**20,495,625**
Contingency		3.00%	614,869	
Abnormals			5,737,000	
External Costs			3,453,800	
Built Sports Provision			55,000	
Playing Pitch Provision			51,324	
Tennis Courts			12,544	
Bowling Greens			1,093	
Education (Primary)			650,612	
Education (Secondary)			425,034	
By-Pass/Transport			2,640,000	
10% renewables			273,497	
				13,914,773
PROFESSIONAL FEES				
Professional Fees		8.00%	1,639,650	
				1,639,650
MARKETING & LETTING				
Marketing		3.50%	571,900	
				571,900
DISPOSAL FEES				
Sales Legal Fee	180 un	500.00 /un	90,000	
				90,000
FINANCE				
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land			1,201,932	

Quarry Farm Phase 2
Viability Report
With S.106 & 18% Affordable Housing

Construction		369,604	
Total Finance Cost			1,571,536
TOTAL COSTS			**42,304,002**
PROFIT			
			10,575,998
Performance Measures			
Profit on Cost%	25.00%		
Profit on GDV%	20.00%		
Profit on NDV%	20.00%		
IRR	19.62%		
Profit Erosion (finance rate 6.500%)	3 yrs 6 mths		

GVA
An APLEONA company

Appendix 3 Appraisal based on 220 units with highway contribution – no other S.106 or affordable housing

Quarry Farm Phase 2
Viability Report
With By-Pass - No Affordable Housing & S.106

Development Appraisal
GVA
26 July 2017

APPRAISAL SUMMARY GVA

Quarry Farm Phase 2
Viability Report
With By-Pass - No Affordable Housing & S.106

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
2 Bed Bungalow (Market Sale)	5	3,625	227.59	165,000	825,000
2 Bed Semi/Link (Market Sale)	39	29,250	200.00	150,000	5,850,000
3 Bed Bungalow (Market Sale)	11	11,550	233.33	245,000	2,695,000
3 Bed Detached (Market Sale)	55	60,500	200.00	220,000	12,100,000
4 Bed Bungalow (Market Sale)	5	7,000	232.14	325,000	1,625,000
4 Bed Detached (Market Sale)	94	141,000	203.33	305,000	28,670,000
5 Bed Detached (Market Sale)	11	20,350	197.30	365,000	4,015,000
Totals	**220**	**273,275**			**55,780,000**

NET REALISATION				**55,780,000**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			6,405,846	
				6,405,846
Stamp Duty			307,792	
Agent Fee		1.00%	64,058	
Legal Fee		0.75%	48,044	
Town Planning			150,000	
				569,895
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
2 Bed Bungalow (Market Sale)	3,625 ft²	75.00 pf²	271,875	
2 Bed Semi/Link (Market Sale)	29,250 ft²	75.00 pf²	2,193,750	
3 Bed Bungalow (Market Sale)	11,550 ft²	75.00 pf²	866,250	
3 Bed Detached (Market Sale)	60,500 ft²	75.00 pf²	4,537,500	
4 Bed Bungalow (Market Sale)	7,000 ft²	75.00 pf²	525,000	
4 Bed Detached (Market Sale)	141,000 ft²	75.00 pf²	10,575,000	
5 Bed Detached (Market Sale)	20,350 ft²	75.00 pf²	1,526,250	
Totals	**273,275 ft²**		**20,495,625**	**20,495,625**
Contingency		3.00%	614,869	
Abnormals			5,737,000	
External Costs			3,453,800	
By-Pass/Transport			2,640,000	
				12,445,669
PROFESSIONAL FEES				
Professional Fees		8.00%	1,639,650	
				1,639,650
MARKETING & LETTING				
Marketing		3.50%	808,325	
				808,325
DISPOSAL FEES				
Sales Legal Fee	220 un	500.00 /un	110,000	
				110,000
FINANCE				
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land			1,958,188	
Construction			190,817	
Total Finance Cost				2,149,005
TOTAL COSTS				**44,624,014**
PROFIT				
				11,155,986
Performance Measures				
Profit on Cost%		25.00%		
Profit on GDV%		20.00%		
Profit on NDV%		20.00%		

Quarry Farm Phase 2
Viability Report
With By-Pass - No Affordable Housing & S.106

IRR	17.78%
Profit Erosion (finance rate 6.500%)	3 yrs 6 mths