

## **CHESHIRE EAST VIABILITY ASSESSMENT**

1. Thank you for consulting with the Home Builders Federation on the Cheshire East Site Allocations and Development Policies Viability Assessment.
2. The HBF is the principal representative body of the house-building industry in England and Wales. Our representations reflect the views of our membership, which includes multi-national PLC's, regional developers and small, local builders. In any one year, our members account for over 80% of all new "for sale" market housing built in England and Wales as well as a large proportion of newly built affordable housing.
3. The Council will of course be aware of the increased importance placed on viability at Plan making stage. With NPPF paragraph 57 in relation to decision making stating that '*where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable*'. And paragraph 34 in relation to Plan Making which states that '*Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan*'.
4. The approach towards viability is now laid out clearly in NPPG with the aim of reducing timescales and improving transparency. This provides a simple methodology to follow where a series of evidenced inputs steered by general parameters lead us to a residual land value where the range of local policy requirements are considered to be viable. As such the importance to be placed on Plan stage viability has never been more critical. If this is wrong or some of the key inputs are inappropriate it simply undermines the entire plan process casting doubt on the deliverability of chosen allocations, creating further opportunities for speculative proposals, prolonged debate at EIP, delay and poorer planning.

### **Site Typologies**

5. The HBF have some concerns in relation to the proposed site typologies and would recommend that the Council consider whether they reflect the true range of sites to be allocated both in terms of location and size.

### **Residential Values**

6. PPG (ID: 10-011) states that '*gross development value is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered*'.
7. Paragraph 4.22 of the Viability Assessment states that the Energy Performance Certificate (EPC) contains the Gross Internal Floor Area (GIA), however, this is not correct, the EPC figure includes internal walls and stairwells, but excludes garages, porches and areas less than 1.5 m high. For example, a house with an integral garage, measured by EPC may be 100m<sup>2</sup> (but it will not accommodate the garage), whilst BCIS and GIA would calculate it at 115m<sup>2</sup> (or 15% bigger).

8. The Viability Assessment has utilized land registry sales data, whilst this is considered more appropriate than the 'for sale' price, it still would not necessarily consider additional offers or incentives that have been included within the price (i.e. extra internal features / carpets / part exchange costs / developer deposits) and could lead to the inflation of prices and values.
9. Table 4.4 and 4.6 sets out the average price paid by m<sup>2</sup>, the HBF have some concerns in relation to the figures set out in this table and their realism, it will be important the Council confirm with local housebuilders that these prices are realistic for Cheshire East.

### **Land Values & Benchmark Land Values**

10. Paragraph 3.5 states that *'the land value is a difficult topic . . . This is one of the areas where an informed assumption has to be made about the 'uplift' above the EUV which would make the landowner sell'*.
11. The HBF note that MHCLG's May 2018 report Land Value Estimates for Policy Appraisal provides land values specifically for the purpose of policy appraisal. It should be noted that this involves valuing the proposed development and deducting the development costs, including allowances for base build cost, developer's profit, marketing costs, fees, and finance to leave a 'residual' for the site value, however, the values here assume nil Affordable Housing provision in order to give pure residential use value, rather than market value. The land value estimate for Cheshire East is £2,150,000/ha although it is noted that this may be higher than could reasonably be obtained for land in the actual market, due to the assumptions made within the report.
12. Table 6.1 within the Viability Assessment sets a number of site for sales for residential purposes, prices vary from £189,456/ha to £10,414,583/ha. Recent completed transactions are to be set out in Appendix 10, text says that again prices vary, however, the data has not been included at this time and therefore cannot be analysed. Paragraph 6.19 suggests that a value of £600,000/ha is appropriate for residential land.
13. PPG (ID: 10-014) states that *'Benchmark land value should:*
  - *be based upon existing use value*
  - *allow for a premium to landowners (including equity resulting from those building their own homes)*
  - *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
  - *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time'*.
14. PPG (ID: 10-013) states that *'to define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum*

*return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+)'.*

15. The Viability Assessment proposes a Benchmark Land Value (BLV) of EUV plus 20% was suggested for brownfield sites, and for greenfield sites (being those in agricultural and paddock uses) a BLV for large sites (3ha+) of EUV plus £600,000/ha and small sites of EUV plus £750,000/ha. Given the information provided in relation to current market evidence these figures do not seem appropriate. The HBF would strongly recommend that the Council take a cautious approach to the Benchmark Land Value to ensure that landowners are still incentivised to sell their land and homes can still be delivered. The HBF would strongly recommend that the Council works closely with land agents and landowners to ensure that this figure is appropriate across the Borough, and that land will still come forward at this price to support the delivery of homes.

## **Development Costs**

### Construction Costs

16. The Viability Assessment has utilized the Building Cost Information Service (BCIS) data in relation to construction costs. It should be noted that the BCIS cost is only the cost of the house itself and the plot (foundation) and is based upon a flat site with standard foundation, it does not account for all of the plot works nor any costs associated with more complex ground / gradient conditions. Paragraph 7.5 of the Assessment proposes to use the median BCIS figures.
17. The Assessment makes an allowance related to total build costs, this is in addition to the BCIS build costs and allows for sites costs e.g. roads, drainage and services, parking, footpaths and landscaping. Paragraph 7.11 suggests a range from 10% of build costs for the smaller sites and flatted schemes, to 15% for the larger greenfield multi-outlet / multi-phase schemes. The report does not appear to provide any evidence in relation to how the percentage cost has been calculated and whether it is reasonable in relation to the costs associated with the provision of the above infrastructure.
18. The report does not appear to have included any costs comparisons to ensure these costs are realistic and appropriately related to any in-house requirements for highway or street lighting or external requirements for infrastructure connections. Whilst the HBF supports the inclusion of an allowance for total build costs, it does not consider that it is able to support a 10% / 15% allowance without further evidence to justify this figure.

### Abnormal development costs and brownfield sites

19. The Assessment proposed an additional allowance is made for abnormal costs associated with brownfield sites of 5% of the BCIS costs. The HBF would suggest that given the huge range of abnormal infrastructure costs that need to be accounted for over and above plot costs and external costs on a site-specific basis that any attempt to apply standard rates whilst doing a plan wide typology viability work should be treated with the utmost caution.

### Fees

20. The Assessment proposes an allowance for professional fees of 8% of build costs. The HBF supports the inclusion of an allowance for professional fees as the development process requires huge input from a wide variety of disciplines from design and engineering to ecologists and archaeologists, the process is complex and requires expert opinion and guidance throughout. However, the HBF recommends a more cautious approach to fees, with a higher allowance to account for this work, which can be much higher dependent upon the complexity of the site and the extent of abnormalities.

#### Contingencies

21. The Assessment proposes an allowance for 5% on brownfield sites and 2.5% on greenfield sites. The HBF support the inclusion of a contingency allowance, however, it is considered that 2.5% for greenfield sites may be too low as it does not reflect the inherent construction risk.

#### Financial Assumptions

22. The development of land requires significant financial investment on behalf of the developer, and this requires finance to be raised at the prevailing market rate reflective of the risk profile considered appropriate by the particular lending institution. The Assessment makes an allowance of 6% assumptions for interest rates. The HBF would normally recommend a figure of 6.5-7%.
23. The Viability Assessment also proposes a 1% Arrangement fee, 1.5% for acquisition agents' and legal fees and 3.5% for sales, promotion and legal fees. The HBF support the inclusion of a range of fees including agent's fees and sales fees. However, the HBF is slightly concerned that the sales fee allowance is a little low given the current state of the market and the importance of marketing and advertising in selling homes.
24. The Assessment proposes that a return of 17.5% of the value of market housing and 6% of the affordable housing is used as an appropriate level for the developers return. 17.5% is in the middle of the range suggested by the PPG. Allowing for 30% affordable housing on sites of 15 or more this would create an overall return of 14% on sites where affordable housing is provided. The HBF do not consider that 14% is an appropriate return. NPPG outlines what it considers a reasonable assumption for plan making at 15 – 20% of GDV, it is considered that this should be taken into account when determining the appropriate profit. The HBF continues to recommend that a cautious approach is taken to profit, and that the developer return is increased to ensure that the return is closer to the 20% level.

#### Rates of development

25. The Assessment assumes a maximum, per outlet, delivery rate of 50 units per year. On a site with 30% affordable housing this equates to 35 market units per year. It would be beneficial to have further information as to how these build periods were determined. The build periods should allow for a reasonable lead in period followed by a suitable build rate.

#### **Review Mechanisms**

26. The HBF recommend that the Council include a review mechanism, particularly where development is failing to deliver, to ensure that the assumptions within this assessment remain appropriate over the Plan period and do not limit the delivery homes.

## **Future Engagement**

27. I trust that the Council will find these comments useful. I would be happy to discuss these issues in greater detail or assist in facilitating discussions with the wider house building industry. The HBF would like to be kept informed of the progress of the document. Please use the contact details provided below for future correspondence.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Harding', written in a cursive style.

**Joanne Harding**

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