DVS Property Specialists for the Public Sector

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Mr Gareth Griffiths
Senior Planning Office
Derbyshire Dales District Council
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MATLOCK
Derbyshire
DE3NN

Our Reference : 1538995/JRK
Your Reference: 14/0054/OUT

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Date : 12 July 2016

IN CONFIDENCE

Dear Gareth

RE: RESIDENTIAL DEVELOPMENT: HALL DALE QUARRY - MATLOCK
APPLICANTS: 4M PROPERTY PARTNERS LIMITED

Further to your instructions and the recent meeting with the applicants, I am pleased to supply my revised report as follows.

1.0 My Instructions and the Scope of my Role

1.1 You have asked that I review all of the information I have received from the planning applicants, their surveying consultants HEB Chartered Surveyors, E C Harris, Quantity Surveyors, and architects.

1.2 In particular you want me to undertake a viability/development appraisal of the proposals and comment on what proportion of developer obligations, including affordable housing the scheme can support.

1.3 You want me to comment specifically on whether the applicant's proposed scheme is viable as submitted (with no affordable housing); viable with the previous offer of affordable housing at 10%, and, if not, what would be a sustainable level of affordable housing.

1.4 I am assuming you wish me to assess the viability of the scheme as at July 2016.

1.5 The applicant's view until recently appeared to be that the project is only viable enough to provide 9% of affordable homes, equivalent to 20 semi-detached units, though HEB had, in fact, advised the applicant that, on viability grounds, no developer obligations were able to be supported. The most recent appraisal submitted by HEB in January 2016 suggests that no developer obligations at all can be supported, and that the scheme only produces a return on Gross Development Value of 10.62%.

1.6 In accordance with the outline planning application, I have evaluated a residential development which comprises about 27,240 square metres. For the 220 units, in the absence of a definitive schedule of accommodation, I have assumed a mix of suitable unit types and floor areas.

2.0 Assumptions and Limitations

2.1 I make no comment about the design, efficiency, merit or otherwise, of the suggested scheme.

2.2 I have been given some supporting material including build cost estimates, infrastructure and abnormal costs, and a scheme layout drawing. I do not have any technical information in relation to site investigation matters. Please see below for further comment on construction aspects.

2.3 I have previously inspected the site and am familiar with the area and property values in the locality.

2.4 My former colleague, Philip Lee, had a number of email exchanges and a meeting with Mr Mark Elliott of Mabec Property Limited and his advisors, who were kind enough to supply Philip with further information. I have had recent correspondence and telephone conversations with Jon Emmerson and Matthew Hilton of HEB acting for the applicant in connection with my draft report and appraisal dated 13 January 2016 and a revised viability assessment prepared by them dated 24 January 2016.

2.5 We met the applicants at your offices on 12 April 2016, at which meeting the applicants explained the proposed development in more detail, and challenged some of the assumptions regarding inputs contained in my previous draft report of 18 February 2016.

2.6 In addition to the requirement for affordable housing, I was advised that there are Section 106 Agreement requirements as follows:

An Affordable Housing Commuted Sum	£1,100,000
Contribution Towards the Local Surgery	£ 63,120

3.0 The Applicant's Appraisal

3.1 The applicants originally presented an appraisal from HEB Chartered Surveyors dated 29 January 2015 which, allowing for a developer's profit of 12.04% on revenue, produces affordable housing expressed as a total floor area of 18,000 sq ft (1,672 square metres). There is recorded a £2,000,000 land value equivalent to £29,851 per acre based on a gross site area of 67 acres (27.1 hectares).

3.2 The revised appraisal dated 24 January 2016 suggests that no developer obligations at all can be supported, and that the scheme only produces a return on Gross Development Value of 10.62% (a "sub-market" level of profit).

4.0 DV Appraisal

4.1 I attach my appraisal. It has been undertaken "through the eyes" of a typical developer intent on implementing the planning permission. Following consideration of the arguments put forward by the applicants at the recent meeting, I recognise that, though for a site of this size the typical developer might be a regional or national house builder, this site would be low down on a list of prioritised sites in terms of ease of development and general market appeal. For that reason, the typical developer of this site is more likely to be an organisation similar in nature to the applicant, in which case some of the assumptions previously made may not be applicable.

4.2 I have also input the relevant data into the Homes and Community Agency's Development Appraisal Tool (DAT) which, amongst other things, calculates the amount of finance necessary for the scheme by utilising a cash flow.

4.3 I comment below on my rationale and methodology and, where appropriate, explain the differences between my approach and that of the applicants.

Revenue

4.4 My office holds details of all sales of residential properties in the region including referencing information such as accommodation, floor areas etc. I have analysed sales of dwellings built since 2010 in the relevant post code areas. I have had particular regard to sales evidence from transactions on the nearby Morledge housing scheme in Matlock, and the Limestone Croft development adjacent to the subject site.

4.5 Some of my data relates to second hand properties which tend to sell for a lower price than equivalent brand new units. Moreover, transactions several months away from the reference date do not necessarily reflect the market conditions at the time needed. Accordingly, I have made suitable adjustments to the "comparables" (ie the sales evidence), to arrive at what I believe to be defendable values per square metre for current purposes.

4.6 For the open market value units, the applicants now have an average sales value of £2,217 per square metre compared to my £2,306 per square metre figure in my last draft report. Following the meeting with the applicants, I have again reviewed the sales values used in my previous report and also considered them in the light of the prevailing values for similar types of housing in the area. *Having done so, I now believe that the sales values put forward by the applicants are robust, and I have broadly adopted them in my appraisal.*

4.7 The Gross Development Value arrived at in my appraisal is related to the mix of typical house types assumed. At the recent meeting, the applicants indicated that they were prepared to look at a "balanced" mix of house types, having previously put forward proposals for a mix dominated by 3 and 4 bedroom dwellings. The mix is an important factor influencing the eventual Gross Development Value of the scheme.

4.8 For the commercial land, I have reviewed the representations put forward by the applicants on the likely realisable site values for this land, and though broadly agreeing with their comments, I consider that a value of £500,000 is appropriate.

Acquisition Costs

4.9 In accordance with the Royal Institution of Chartered Surveyors Guidance Note entitled "Financial Viability in Planning," dated August 2012, I have followed the process of initially considering where the value of the site would be if the respective costs of applying all the Council's planning policies and undertaking abnormal works were fully reflected

4.10 I am then obliged to look at the price at which a reasonable, hypothetical, commercially-minded landowner would dispose of the land having regard to the site's Current Use Value (CUV) or any Alternative Use Value (AUV), should one be available.

4.11 The current (former) use is as a quarry and I have had regard to this as a basis for assessment. A former quarry in Lincolnshire, extending to 4.65 acres and previously used for open storage of building materials, sold at auction in July 2015 for £19,354 per acre.

4.12 My valuation would therefore be in the order of £60,000 to £65,000 per acre for the subject site, and reflecting an incentive for a typical owner to sell, I therefore arrive at a benchmark land value for the subject site of £3,000,000. This figure equates to £76,431 per net developable acre and £3,300 per acre for the non-developable parts of the site. My benchmark land value now reflects a hypothetical current/alternative use value plus a modest incentive, to reflect the fact that this site would be likely to struggle to find a purchaser for a valuable alternative use, the magnitude of abnormal costs is significant, and as such the incentive required by the vendor to sell would be much lower than if this was not the case.

4.13 I note that in the applicant's consultants' response to Philip's previous conclusions on land value, they pointed out that in the District-wide study undertaken by us on behalf of your authority, a benchmark land value of between £150,000 and £200,000 per acre was put forward as being appropriate, and therefore contend that the minimum figure should be used for the subject site. However, elsewhere in the report we refer to an assumed £100,000 per net acre for abnormals costs for "difficult" sites; in this instance, the abnormals/strategic infrastructure costs put forward by the applicant's consultants amount to almost £294,000 per acre, and the benchmark land value has to reflect this.

4.14 It is further relevant to test the land value against any known comparable transactions in the market which will provide a general value "tone." A comparison must be done in a consistent way to try to eliminate the differences in planning gain and abnormal costs from one site to another. It is therefore best to compare on a "greenfield / oven ready" basis across all sites. To do this, I have grossed up the figure in the preceding paragraph by the cost of planning gain and abnormals. I arrive at a "greenfield/oven ready" value, equating to £370,391 per acre, which I consider to be a robust value in all the circumstances.

Construction Costs

4.15 I have been able to compare the supplied cost estimates with the build costs per square foot/metre provided by the Building Cost Information Service (BCIS) of the Royal Institution of Chartered Surveyors. I have assumed that all the houses to be built will be of a similar good standard and had regard to the BCIS median build costs figure which includes for preliminaries.

4.16 I am aware, however, that BCIS average prices are only one of several benchmarks which should be reviewed in order to reach a conclusion on an appropriate build cost for any particular scheme. The weight of evidence we have gathered over a period of time in our day to day work strongly suggests that BCIS average prices' relevance to large residential schemes is regarded as highly dubious. My Team Leader, David Newham, has recently reviewed build cost data received by BCIS across the board since January 2011. Of the 106 housing schemes for which data was submitted, only 7.5% of the data was for schemes of 50 houses or more, and only 1 scheme had more than 100 houses (conversely just over 2/3rds of the data was for schemes of sub 20 units). We are now also having regard to other build cost data held by our office, including build costs from planning appeal decisions, external Quantity Surveyor reports, data from area wide studies undertaken by private practitioners, build costs from other viability appraisals received by our office, and tender information from the Homes and Communities Agency ("HCA"), in particular relating to the Deliver Partner Panel 2.

4.17 Nevertheless, in my previous appraisal I may not have given sufficient weight to the construction problems likely to be encountered in developing what is inarguably a difficult site, both in terms of topography and likely ground conditions.

4.18 I have therefore included the applicant's original house construction costs at £915 per square metre which sum was stated to include an allowance for in-plot external works. My reasoning for not increasing this figure by the amount of build cost inflation likely to have occurred since the original appraisal is based on my comments in 4.17 above on the validity of BCIS average price data compared to other evidence on build costs which has emerged since that appraisal was prepared.

4.19 In addition, I have made an allowance for site wide external/infrastructure works.

4.20 Though I had previously used the applicant's *original* costs for abnormals/strategic infrastructure, I accept the applicants' contention that there has been cost inflation on build costs generally over the past 12 months, and have added 7% to my original figure, increasing costs in my previous appraisal by around £650,000.

I believe the cost estimates supplied should be independently checked by the Council's own quantity surveyors and engineers.

Professional Fees/Other Costs

4.21 I have adopted suitable design team fees, marketing/sale and legal costs.

4.22 The applicant's consultants hold the opinion that the contingency on build costs should be at a constant rate of 3% (across base build costs). I did not previously accept this rate, preferring 2% on the basis of my assumption that the site would be developed out by a volume housebuilder. However, I may not have given sufficient weight to the construction problems likely to be encountered in developing the site, both in terms of topography and likely ground conditions, though these might be more properly regarded as an abnormal cost element. However, these likely difficulties could arguably justify an increase in the contingency level on the base build cost. Increasing this from 2% to 3%, costs rise by around £300,000 from my previous appraisal. I had, in addition, previously allowed a 5% contingency on the abnormals costs.

4.23 Other costs such as NHBC certification costs, site investigation costs and planning and building regulation fees have been included as appropriate.

Finance

4.24 I have included total finance costs of just over £1.9m., which sum is less than the £2,522,229 figure adopted by the applicant.

4.25 The finance costs reflect the phased/rolled out nature of the scheme and the requirement to deal with off-site abnormal costs as well as the construction of the dwellings with their attendant infrastructure.

4.26 I have run the Homes and Communities Agency's Development Appraisal Tool (DAT) to assist in the calculation of finance. Factoring in a credit rate of interest as well as a debit percentage, the DAT shows total interest payable of £1,908,329 as mentioned above.

Profit

4.27 For moderate to large sized residential developments it is not uncommon for developers to state a profit figure as a certain percentage based on scheme costs or scheme value. There are no hard and fast rules here and some developers will be content if the profit is expressed as a significant cash sum.

4.28 Adopting the two-tier profit level approach favoured by the Homes and Communities Agency, my appraisal shows a profit on the market value dwellings of 20% of the gross development value (GDV) together with a 6% profit on cost in respect of the affordable units (although in my latest appraisal, none is provided). In particular, my figure for the market value dwellings reflects comparable profit levels for sites where the development risk is greater than the typical site of comparable size.

5.0 Overall Conclusions

5.1 Having run my appraisal I agree with the applicant's view that the scheme is unable to viably support the Council's full affordable housing policy of 45%, as this would produce a loss of over £2.8m at market levels of profit.

5.2 In terms of the applicant's latest viability assessment, the contention is that the scheme is not viable enough to provide any developer obligations, and that the level of developer profit on GDV is at a "sub-market" level for a scheme involving the perceived level of risk. However, even using inputs which differ in several areas from mine, the project is still anticipated to return a positive (rather than a negative) return, and on that basis the applicant may choose to proceed with the scheme despite the lower rate of return.

5.3 In my appraisal, the changes made to some of the inputs as detailed above have a significant impact on the ability of the scheme to support any planning gain. My appraisal now shows that the project cannot support any level of affordable housing, nor can it support any other S.106 contributions. Assuming a market facing level of return of 20%, as advised in 4.28 above, the project falls short of that target profit rate, making a profit on market dwellings of 17.09% (some £1.7m below target).

5.4 I should emphasise that my appraisal embraces the costs and revenues appropriate to the valuation date and is therefore valid only if the building construction work commences by early 2017 and proceeds at a rate consistent with achieving sales in the market. If commencement of the works were to be delayed and is then undertaken at some other time when market conditions may be different, then I believe a re-appraisal will be required adopting the costs and revenues then obtaining.

5.5 Given that, based on my advice, your Council's policy requirements for affordable homes and other S.106 contributions will not be met, then I recommend that a viability review mechanism should be included as a S.106 agreement/planning condition, the trigger point of which is to be agreed. My reason for recommending such a measure is driven by the current uncertainty regarding the nature of the future development of this site, bearing in mind that this is an outline application with no certainty on the eventual site layout, the housing mix and the design and specification of the dwellings.

5.6 I can advise on the detail of such a mechanism if you choose to follow this route.

If the factual matters above relating to floor areas and other planning obligations are wrong, I may have to revise my appraisal and advice.

Some of the content of this report may be regarded by the applicant for planning permission as commercially confidential and, in this regard, I assume that you will restrict the report's circulation as appropriate.

I would be pleased to discuss the foregoing if you wish.

Yours sincerely

John Kipling

John Kipling BSc MRICS
Senior Surveyor
RICS Registered Valuer
DVS

Reviewed by: David Newham MRICS, Sector Leader

RESIDUAL DEVELOPMENT APPRAISAL

Residential Development
(Residual with no S 106)
Halldale Quarry, Matlock

DATE 12-Jul-16
REF JRK/1538995

AH shown in GDV

Valuation date July 2016

			TV Inter	71.50%	TV rented	48.00%	of MV values		
VALUATIONS	Number	sq m each	sq m	at £				ave each	
Detached									
5 bed	10	200.00	2000	2090		4180000		418000	
4 bed	20	170.00	3400	2143		7286880		364344	
4 bed	20	140.00	2800	2234		6256320		312816	
4 bed	40	130.00	5200	2234		11618880		290472	
4 bed - inter	0	130.00	0	1598	0			207687	
4 bed - rented	0	130.00	0	1073	0			139427	
3 bed	25	125.00	3125	2234		6982500		279300	
3 bed - inter	0	125.00	0	1598	0			199700	
3 bed - rented	0	125.00	0	1073	0			134064	
3 bed	25	115.00	2875	2280		6555000		262200	
3 bed - inter	0	115.00	0	1630	0			187473	
3 bed - rented	0	115.00	0	1094	0			125856	
Semi Detached									
3 bed	29	115.00	3335	2189		7299648		251712	
3 bed - inter	0	115.00	0	1565	0			179974	
3 bed - rented	0	115.00	0	1051	0			120822	
2 bed	28	95.00	2660	2280		6064800		216600	
2 bed - inter	0	95.00	0	1630	0			154869	
2 bed - rented	0	95.00	0	1094	0			103968	
2 bed	23	80.00	1840	2326		4279104		186048	
2 bed - inter	0	80.00	0	1663	0			133024	
2 bed - rented	0	80.00	0	1116	0			89303	
	220		27235		0	60523132	ave £/m2=	2222	
			8436	ft2/acre			ave £/ft2=	206	
AH total	0	0.00%							
inter / rented		0	0						
inter / rented percentages		#DIV/0!	#DIV/0!						
Retail A3 land	0.5 acres		@	175000		87500			
Office B1 land	2.75 acres		@	150000		412500			
TOTAL DEVT VALUE						61023132			
								net devpble "greenfield" value	
COSTS									
Site - gross 67.0 acres									
Net developable-residential	34.75 acres at		77500		2693125		per acre	370391	
Net developable-retail/commercial	3.25 acres at		65000		211250				
Remainder	29.00 acres at		3297		95625		total	12871087	
Overall gross	67.00 acres at		44776			3000000			*2000000*
Purchase costs									
Land Registry	0.05%		1500						
Purchase legals	0.35%		10500						
Purchase agents	0.00%		0						
Stamp Duty Land Tax	4.00%	4.40%	120000			132000	3132000		
Construction									*915*
Estate housing	27235 m2 GIA at			915		24920025			*24850000*
Contingency	24920025 at		3%			747601			
Externals residential (exc on plot costs)	34.75 acres at		123000			4274250	29941876	1072	*4414145*
Contingency	4274250 at		3%			128228	30070103	externals	
Externals A3 & B1	3.25 acres at		123000			399750		4674000	
Contingency	399750 at		3%			11993			
Professional fees									
Architects & planning consultants									
Quantity Surveyor									
Civil and Structural Engineers									
Proj Mngmt & CDM etc	total =		6.00%			1796513	32278358		

Planning			42500			
Building Regs			7500			
Abnormals/Infrastructure	contngncy	5%				
Earth/plot works	5779118	288956	6068074			*6068074*
Off site highways	195235	9762	204997			*204997*
Surface water attenuation	998768	49938	1048706			*1048706*
FW pump station	115000	5750	120750			*120750*
Off site rising main	221651	11083	232734			*232734*
Landscaping	686381	34319	720700			*720700*
Off site utilities	1227109	61355	1288464			*1288464*
Site preliminaries			362924			*362924*
Legal costs-appmts, S278,S38,S104, easements			100000			*100000*
Public relations			20000			*20000*
Professional fees			499753			*888958*
Local authority fees			487881			*487881*
Traffic regulation orders			15500	11170483		*15500*
					15984703	*16224078*

S106 Costs						
Affordable housing commuted sum	9.55%	21	at	25000	0	
Local surgery					0	
LAP - inc in landscaping costs					0	0

Sundry					
Defects insurance NHBC/Zurich	220			700	154000
Marketing and sales	60523132	3.00%	of GDV		1815694
Legals-MV residential sales	220			400	88000
Legals-sales to RP	0			200	0

Finance Costs			
From HCA DAT cashflow	7.00%	1908329	
Arrangement	incl above	0	3.13%
Valuation	incl above	0	3.13%
			of GDV
Total costs		50596864	

SUMMARY	
Devt Value	61023132
Total Costs	50596864
PROFIT	10426268
As %age of cost	20.61
As %age of valuation	17.09

Value of Affordable Homes	No	MV	TV	Difference	Value
Detached					
4 bed - inter	0	290472	207687	82785	0
4 bed - rented	0	290472	139427	151045	0
3 bed - inter	0	279300	199700	79601	0
3 bed - rented	0	279300	134064	145236	0
3 bed - inter	0	262200	187473	74727	0
3 bed - rented	0	262200	125856	136344	0
Terraced					
3 bed - inter	0	251712	179974	71738	0
3 bed - rented	0	251712	120822	130890	0
2 bed - inter	0	216600	154869	61731	0
2 bed - rented	0	216600	103968	112632	0
2 bed - inter	0	186048	133024	53024	0
2 bed - rented	0	186048	89303	96745	0
	0				
Value of Affordable Homes =					0

HCA DAT Methodology - Developer's Profit				
MV Residential Profit	20.00% of GDV		60523132	12104626
AH Residential Profit	6% of GDV	As DAT	0	0
	Approx equates to 5% of cost			
				12104626

Surplus / Superprofit 10426268 minus 12104626 = -1678358