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## **PROOF OF EVIDENCE**

**OF**

**RICHARD HEATHCOTE BSc (HONS)**

**ON BEHALF OF WAIN HOMES (NORTHWEST) LIMITED**

## **DEALING WITH VIABILITY MATTERS**

**PROPOSED RESIDENTIAL DEVELOPMENT ON LAND AT A57 DINTING VALE,  
GLOSSOP.**

**PINS REF: APP/H1033/W/24/3339815**

**MAY 2024**

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## Core Documents Referred To:

Viability Assessment (28<sup>th</sup> September 2022) - Devvia Property Consultancy. (CD 1.6).

Non-technical Summary of Viability Assessment (September 2022)- Devvia Property Consultancy. (CD 1.7)

Viability Assessment Addendum, (21<sup>st</sup> June 2023) - Devvia Property Consultancy. (CD 2.19).

CBRE Sales Particulars for HPBC Owned Land to the East. (CD 6.2)

High Peak Local Plan Viability Test Final Report (April 2014). (CD 6.12).

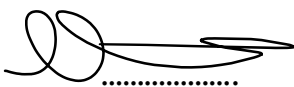
Bruton Knowles Review of Applicants Viability Appraisal (17<sup>th</sup> March 2023). (CD 6.23).

Bruton Knowles Letter on Viability Matters (12<sup>th</sup> September 2023). (CD 6.24).

Bruton Knowles Viability Appraisal (September 2023). (CD 6.25).

## 1.0 Declaration

- 1.1 I hold a degree in Urban Land Economics and have more than 20 years of experience in preparing viability appraisals and reports for planning purposes, acting for national housebuilders, private developers, District Councils, and Housing Associations.
- 1.2 I have more than 30 years of experience in the commercial and residential property market specialising in, viability, development, site acquisition and agency. I have been directly responsible for viability assessments in a significant number of schemes, including those on part of allocated sites.
- 1.3 I am instructed to act for the Appellant in respect of viability matters and particularly the ability of the scheme to provide affordable housing provision and other financial contributions and obligations.
- 1.4 The evidence I provide is true and provided in full compliance with RICS Practice Statements, Guidance Notes and Professional Standards as follows:
  - 1) RICS Practice Statement and Guidance Note - Surveyors Acting as Expert Witnesses 4th Edition (amended February 2023)
  - 2) RICS Professional Standard - Financial Viability in Planning: Conduct and Reporting - May 2019 (published April 2023)
  - 3) RICS Guidance Note 'Assessing viability in planning under the NPPF 2019' (1st edition) March 2021
- 1.5 In addition, the assessment and evidence considered is in full conformity with the PPG on viability (July 2018 and revised May 2019) and all other prevailing guidance, policy and best practice arising from planning decisions, including those determined on appeal.
- 1.6 I confirm that the opinions expressed are my true and professional opinions, based on my experience and evidence as contained.



.....

Dated: 20<sup>th</sup> May 2024

R. Heathcote BSc(Hons)

## 2.0 Introduction

- 2.1 I have been asked to provide an update on our previous viability appraisals and reports for the above site and to also address the 3<sup>rd</sup> reason for refusal set out in the Council's decision notice of 27<sup>th</sup> October 2023, (CD 3.4) that states:

*The proposed section 106 package fails to achieve a policy compliant level of affordable housing and fails to fully mitigate for the substantial tree loss and loss of biodiversity on the site. Whilst the viability issues are noted, in the absence of a policy compliant Section 106 package the residual harm arising from the development is considered to outweigh the benefits of delivering this allocated housing site contrary to Policies DS4, EQ9, EQ5, H3 and H4 of the adopted High Peak Local Plan 2016 and the NPPF.*

And a new matter which was introduced in the Council's Statement of Case at Paragraph 6.7:

*"If a development proposal was brought forward on the allocated site for 130 dwellings, the viability calculations would be different. In that circumstance there is no evidence that a policy compliant level of affordable housing could not be provided and the harm to biodiversity and trees on the site could not be sufficiently mitigated".*

- 2.2 This effectively amounts to a new reason for refusal, a matter taken up in the evidence of Mr Hourigan. It is certainly the position that the Council's own advisers on viability matters nor the officers ever sought that the Appellant address the viability of the whole allocation rather than the planning application that had been submitted and validated.
- 2.3 Prior to the refusal of the planning application the relevant documents relating to viability in this case had resulted in an agreed position between the appellant and the planning authority. They consist of the following core documents:
- Viability Assessment (28<sup>th</sup> September 2022) - Devvia Property Consultancy. (CD 1.6)
  - Bruton Knowles Review of Applicants Viability Appraisal (17<sup>th</sup> March 2023). (CD6.23)
  - Viability Assessment Addendum, (21<sup>st</sup> June 2023) - Devvia Property Consultancy. (CD 2.19).

- Bruton Knowles Letter on Viability Matters (12<sup>th</sup> September 2023). (CD 6.24).
- Bruton Knowles Viability Appraisal (September 2023). (CD 6.25).

2.4 I am instructed to address on behalf of the Appellant the viability issues in this case and particularly the ability of the scheme to provide affordable housing provision and other financial contributions and obligations.

2.5 This update relates to the planning appeal reference **APP/H1033/W/24/3339815**

2.6 The appeal is made by Wain Homes (North West) Ltd (“the Appellant”) against High Peak Borough Council (“the Council”), and specifically their decision to refuse an application (“the Application”) submitted 30 September 2022.

## 3.0 Background

- 3.1 I was responsible for preparing the Viability Assessment (; September 2022), (CD 1.6) that accompanied the Planning Application reference HPK/2022/0456.
- 3.2 My professional opinion, as set out in the Initial Viability Assessment in September 2022, was that the proposed scheme was not sufficiently viable to provide any affordable housing or financial contributions that may be requested.
- 3.3 During the application period consultation responses and officer feedback resulted in a series of revisions to the proposed development, and consequently a reduction in the development from 100 to 92 dwellings. Updated viability appraisals were produced to reflect these changes and the then current market position. A further addendum report, (CD 2.19) was prepared and submitted in June 2023.
- 3.4 Following the submission of this updated report, Mr Guy Emmerson of Bruton Knowles, appointed by the Council, completed a detailed review. This was carried out together with their appointed quantity surveyors (Townsend and Renaudon). Following a series of meetings and discussions relating to the detail of the costs and values of the proposed development Bruton Knowles confirmed their position on the viability of the revised scheme in a written update to the Council on 12<sup>th</sup> September 2023 (CD 6.24) This was accompanied by their updated viability appraisal, (CD 6.25).
- 3.5 Their revised viability appraisal identified the remaining main points of difference between the parties, and concluded that (based on their revised appraisal) there was a total viability surplus of £773,000 that could be provided by the development to contribute towards either affordable housing or other s.106 items. (In their subsequent committee report (CD 2.77) the Local Council reported (para 8.1.4) that there was in fact £793,000 available for planning contributions).
- 3.6 Whilst I remained confident in the basis and findings of our June 2023 addendum report and appraisals, during subsequent discussions between the appellant and the planning authority the appellant reluctantly agreed to provide for contributions up to the level proposed by Council in order for the scheme to be able to move forward to determination at the planning committee meeting on 23 October 2023.

- 3.7 Viability conclusions clearly depend on many variables. However, over the course of the application the majority of the inputs for the site were evidenced, discussed and agreed with Bruton Knowles, the LPA's reviewer, in accordance with the RICS Guidance Note and Professional Statement.
- 3.8 The approach adopted by both parties minimised the issues that needed to be taken into consideration by the appellant and the LPA when reaching a final agreement. This then allowed the application to go forward to planning committee with a clear recommendation for approval with an agreed and defined level of s.106 obligations.
- 3.9 I understand that the agreed position reached relating to viability for the appeal site is not in dispute.
- 3.10 The Council's statement of case (received 24 April 2024) instead now, and somewhat belatedly, suggests that the whole of the site allocation (that includes a further 4.14 acres of council owned land) should have been appraised, and if this had been done then their contention is that a different viability conclusion would have been reached. At no point during the application and our negotiations was it suggested that such an assessment was required. As Mr Hourigan notes in his evidence this matter was also not mentioned at the Development Control Committee on 23 October 2023 and forms no part of the Decision Notice. The LPA's own appointed reviewer did not propose that and did not consider it at any stage to be appropriate or necessary.
- 3.11 It is not my professional view or experience that an applicant is expected or capable of completing a detailed viability appraisal for an entire site allocation that is made up of multiple interests, third party land or another developer's site.
- 3.12 Viability reports prepared at the application stage differ from work done for area wide studies, as they are based on a specific scheme, and are therefore often informed by a far higher level of detail and technical due diligence compared to the generic and high-level assumptions made at the plan making stage.
- 3.13 The High Peak Local Plan Viability Test Report (VTR) (CD 6.12) was completed in 2014. It is therefore now dated. The VTR used high level assumptions to assess viability at the Plan making stage (Paragraph 3.17 of CD 6.12 refers). We offer no criticism of that approach it is a commonly used methodology for assessing Development Plans at the macro level.

- 3.14 The VTR understandably didn't assess a site specific scheme which is acceptable to the LPA (which is the case here save for the formally resolved position of the LPA in the remaining reason for refusal) and neither did it consider proposals in the knowledge of the level of contributions now sought by the LPA.
- 3.15 Moreover, the VTR could not have foreseen world events post its publication such as Brexit, the Covid Pandemic and War in Ukraine that have negatively affected labour availability and rates, materials prices and interest rates.
- 3.16 Furthermore the VTR could not have envisaged the changes to the biodiversity system in England and the need to use the DEFRA Metric (even where mandatory 10% BNG does not apply) all of which have added costs to development.
- 3.17 Whilst the VTR was suitable for its time the PPG allows for the consideration of site rather than the allocation. This is what has been done in this case.
- 3.18 It is not possible to provide a fully detailed assessment of additional third-party land as there are no details of any scheme proposal for the additional land to value and cost. There is no planning application, nor is there any developer to discuss any proposed scheme with, in respect of that additional land.
- 3.19 This will mean that there will also be limited or no information relating to:
- topography,
  - technical constraints, including service provisions, easements, access, or abnormal development costs arising
  - detailed assessment of ground conditions, that may impact foundation design, drainage solutions, and remediation strategy,
  - ecological data to enable an assessment of mitigation requirements and biodiversity net gain (BNG)
  - tree surveys and the constraints they place on the developable area foundation, road and drainage designs.
- 3.20 To include an assessment of additional land without any supporting technical information or a scheme to access will only serve to reduce the reliability of the viability conclusions and the agreement reached in relation to the application site. In this respect it is questionable if such an assessment could conform with prevailing guidance, given the absence of evidence in support.



- 3.21 In addition, it is not the responsibility of separate landowners or developers to cross subsidise another party's site or development, or conversely to take benefit from other land that may improve their own sites viability.
- 3.22 This being the case the original Viability Assessment (CD 1.6) and subsequent Addendum Report (CD 2.19) submitted during the application period were and remain sufficiently robust, in full conformity as required, and therefore fit for purpose, notwithstanding changes that have occurred to some inputs in the months since it was prepared and agreed.
- 3.23 As stated above, whilst there is an agreed position in relation to the viability of the Appellant's scheme, we understand that it is now the Council's contention that if the whole allocation is assessed (to include the Council's adjacent site) then the overall viability could be improved, and that this would then enable a higher level of s.106 contributions and affordable housing to arise.
- 3.24 Despite the obvious and significant limitations of such an approach, I have considered below how this could be assessed based on the limited information available to the appellant on the third party land. In my view, whilst acknowledging that the viability appraisal is necessarily based on limited information, it represents the best evidence currently available of the likely viability of the whole of the allocation DS 4 in the Local Plan.

## 4.0 Appraisal Methodology for the Site Allocation.

- 4.1 In an attempt to reasonably assess the overall allocation, I have added in to the appeal scheme appraisal (completed on the 21<sup>st</sup> June 2023) the potential additional development on the Council land. To do this I have had to make a series of broad assumptions, as we are unable to examine all the necessary inputs that would properly inform a fully compliant Viability Assessment.
- 4.2 That said, the exercise conducted in response to the Council's changed case that requires consideration of the allocation as a whole is sufficient to demonstrate that even if the total allocation is considered as effectively one site it could not achieve a level of return that would support the provision of any affordable housing.
- 4.3 I can confirm that neither I, nor the Appellant or any of their technical advisory team, have had the opportunity to examine land that is not under the control of the Appellant. This being the case a series of reasonable but broad assumptions have been made for the additional land, based on the especially limited information that is known for the adjacent site.
- 4.4 In making these assumptions for the appraisal of the whole allocation it is clearly a conservative approach and, in all likelihood, an underestimation of the costs associated with the development of the Council's site.
- 4.5 Likely additional cost inputs include but are not limited to:
- Biodiversity Net Gain (BNG) is now a legal requirement. Given the current state of the additional Council Land it will likely attract a high existing score, and therefore to achieve a 10% gain will be more onerous than the Appeal Site.
  - All previous appraisals of the appellants site and subsequent negotiations with Bruton Knowles made no provision for any additional costs associated with BNG requirements, nor for the cost of providing additional alternative land to implement these requirements.
  - Increases in build costs. This is illustrated by the BCIS General Build Cost Index, a copy of the Index as at 7<sup>th</sup> May 2024 is included in Appendix B. In June 2023 the index stood at 447.7. By May 2024 this has increased to 472.4. This represents a general increase in build costs over the period since the completion of the Devvia Addendum report (CD 2.19) of 5.517%.

- Changes in financing costs. Since the completion of Addendum Report (CD 2.19) the Bank of England base rate has increased further from 4.5% to 5.25%. It would therefore be reasonable to adopt a similar increase to the finance costs adopted in any updated viability appraisal, i.e. circa 9.75%
  - Addressing on site infrastructure - highway costs given the sites challenging topography and constrained access, existing drainage infrastructure that cross the site and associated easements.
  - Any works to address archaeology and or contamination if discovered.
- 4.6 The wider viability assessment of the site allocation is also likely to be an over-estimation of the capacity, and therefore the total development value, of the Council's site given the apparent physical and technical constraints that are evident from a high level assessment of the site.
- 4.7 It is questionable that the land owned by the Council could be appropriately developed to accommodate an additional 38 dwellings and achieve a high-quality design, sufficient public open space and landscaping given the apparent topographical and ecological constraints. These development constraints are acknowledged by the landowner's agents, CBRE, in their site sales details. (CD 6.2) They state that:
- "... the site is capable of small scale development with access from Kestrel View. However, it is considered most suitable to help deliver biodiversity net gain through enhancement of habitats".*
- 4.8 Despite significant reservations regarding the actual housing capacity of the Council land and the additional costs associated with its development I have used the appraisal at Appendix E of our June 2023 addendum report as a baseline for the attached appraisal of the total allocation. This is included in Appendix A.

- 4.9 It should be noted that the June 2023 appraisal was based on zero affordable housing and zero s.106 contributions. Following further discussions and negotiations, Bruton Knowles adopted a different position on a small number of appraisal inputs. However, the attached appraisal in Appendix A, and the assumptions and methodology outlined below, form a reasonable if limited basis upon which to assess the potential impact on viability of considering the additional land within the same site allocation.
- 4.10 Given the obvious additional constraints of the Council land it provides an optimistic assessment of whether the additional land would lead to a relative improvement in the overall viability position as recently asserted by the Council.
- 4.11 As we have very limited information on the site we have made a series of assumptions these are set on the attached appraisal and summarised below:
- 4.12 The total sales area has been increased on the basis that the additional land could accommodate 38 additional dwellings, taking the total number appraised to 130 in line with the overall site allocation.
- 4.13 Additional sales revenues have been calculated based on the average unit size from the Wain Homes layout of just under 991 sq ft per dwelling. The average sales revenue per sq.ft from our appraisal of £296.00 has then been adopted to calculate the additional (Gross Development Value) GDV. This is included in the appraisal as additional sales revenue of £11,149,898.
- 4.14 The additional sales revenue has been spread through the original sales period rather than extending the overall development and sales period. i.e. the Council land would be a second outlet. This is a favourable assumption that therefore assumes a faster overall sales rate and a lower total finance cost.
- 4.15 We have increased the allowances for legal and agent fees to reflect there are now additional land interests to acquire.
- 4.16 The additional dwellings have been added to the base construction areas appropriately apportioned between apartments and housing in the same percentages as the appellant's scheme.

- 4.17 A similar proportionate increase in the number of single garages has also been made.
- 4.18 An additional double garage provides a separate sales centre for the Council Land.
- 4.19 Costs have been spread through the original development period to align with the assumption on sales rates.
- 4.20 As there is no detailed technical information relating to the additional land, we have taken the total cost of all abnormal items (excluding the cost of future homes) to arrive at an average cost per dwelling of £45,649.76. We have then applied this average cost to the additional 38 plots. This results in an additional abnormal cost of £1,734,691. These costs are spread equally through the full construction period. This is a conservative assumption, as some cost items will need to be completed early in the development programme.
- 4.21 For the additional 38 plots, we have assumed that all will now have to be built to the higher Future Homes Standard due to apply from May 2025, given that no scheme has yet been developed for this part of the site allocation and no application has yet been submitted. The overall allowance for Future Homes costs is also conservative, as a far higher proportion of the appellant site will also now be required to achieve the Future Homes standards due to the delay in the commencement of development from that assumed in the June 2023 appraisal of July 2023.
- 4.22 All other fee percentages, and also the contingency, have been maintained.
- 4.23 Based on the agreed target return of 20% of GDV the residual land value increases from £834,000 for the 92 dwelling Wain Homes scheme to £1,029,228 for the assumed 130 dwelling appraisal of the whole site allocation.
- 4.24 The increase in the residual land value needs to be compared to a revised Benchmark Land Value (BLV) assessment for the total site allocation. The benchmark land value adopted in our updated June 2023 report remained at £1,596,375. (£135,000 per acre).
- 4.25 The additional Council land extends to 4.14 acres and could therefore attract an additional BLV of £558,900. The total BLV for the whole site allocation increases to £2,155,275.

## 5.0 Conclusions

5.1 The comparison between the 2 appraisals is summarised below.

Scheme	GDV	RLV	EUV+	Difference
92 Dwellings Zero Affordable Housing Zero other S106	£26,995,000	£834,000	£1,596,375	-£762,375
130 Dwellings Zero Affordable Housing Zero other S106	£38,141,768	£1,029,228	£2,155,275	-£1,126,047

5.2 As illustrated in the table above whilst the residual land value has increased by £195,228 for the larger 130 dwelling appraisal when an appropriate increase in BLV is also taken into consideration the level of viability deficit increases by £363,672 from £762,375 to £1,126,047.

5.3 This demonstrates that there is no improvement in overall viability accrued from considering the total site allocation as has been suggested by the Council.

5.4 The above assessment of the overall allocation adopts a number of optimistic assumptions relating to the potential development density of the additional Council land and conservative assumptions in relation to potential costs.

5.5 Since the completion of June 2023 addendum report the residential market has remained subdued. This is evidenced by a range of sources:

5.6 The RICS UK Residential Market Survey: April 2024 reports that:

*“the recent recovery in buyer demand stuttering slightly, with the market seemingly impacted by the slight upward move in mortgage rates over the past few weeks. Nevertheless, forward looking sentiment continues to point to a stronger picture for sales market activity coming through over the next twelve months.”*

5.7 Land Registry data for the High Peak Area (the data lagging behind the current market) shows that general house prices increased by 2.90% between June 2023 and February 2024 (the most recent data currently available).

- 5.8 The Nationwide House Price Index in 2024 reports average housing values to be broadly flat between June 2023 (£262,239) and April 2024 (£261,962).
- 5.9 Finally, the Halifax House Price Index indicates a small increase of 1.03% over the same period.
- 5.10 At the same time as residential house prices have remained broadly flat construction costs have continued to increase over the period since the completion of the Addendum report in June 2023 with the BCIS general build cost index rising by 5.517%.
- 5.11 The most recent BCIS building forecast, published on 21<sup>st</sup> March 2024 continues to report rising build costs, though at a lower rate than has been experienced over the last few years. They state that:
- “Building costs will increase by 15% over the next five years, while tender prices will rise by 17% over the same period, according to the latest forecast data from BCIS*
- Annual growth in tender prices has continued to ease, falling from 8.6% in 1Q2023 to 2.9% in 1Q2024. BCIS expects annual growth in tender prices to continue to fall, reaching 1.6% by 4Q2024.*
- On the input costs side, annual growth in the BCIS Labour Cost Index is forecast to grow by 18% between 1Q2024 and 1Q2029. Site rates have been rising in line with inflation and the pace of annual growth in labour costs is expected to slow down.*
- The BCIS Materials Cost Index has shown negative annual growth for the past two quarters and is forecast to drop further by 0.8% in 1Q2024. Over the next five years, BCIS forecasts it to grow by 13%.”*
- 5.12 The number of new homes registered to be built in the first quarter of 2024 was also down 20% down on the same period in 2023, according to the National House Building Council (NHBC).
- 5.13 Figures released by the UK’s largest provider of new home warranties and insurance show 21,967 new homes were registered to be built in Q1 2024. In the same period, 26,240 new homes were completed, 13% down on the 30,071 completions recorded in Q1 2023.

- 5.13 Interest rates have also increased with the Bank of England base rate 0.75% higher than at the time of the June 2023 Addendum report. Expectations are for a number of small falls in the base rate over the coming 12 months, however these falls had to a great extent been priced into the market already and therefore commercial borrowing and mortgage rates have been rising in recent months as the predicted reductions have not yet occurred.
- 5.13 Taking all of the above into consideration; the lack of house price growth combined with the continued growth in construction costs and higher finance costs, will only serve to make the achievement of viability in this case significantly more challenging for both the Appellant's site and the also the Council land that makes up the wider allocation.



## **Appendix A: Appraisal Summary for the Site Allocation**

**(see separate attachment)**

## **Appendix B: BCIS General Build Cost Index**

**(See separate attachment).**