

Gloucester City Council

**Further review of Winneycroft
Lane**

Draft Report

Draft
April 2016

1.0 Introduction

- 1.1 Gloucester Council have commissioned Parkwood to undertake a further review of the viability work undertaken to support the decision making process for Application 14/01063/OUT, Winneycroft Lane.
- 1.2 The aim of the report is to provide independent advice to help inform members in their decision making. The report builds upon the advice already received by the Council from Peter Brett Associates and seeks to clarify a number of issues raised in that report as well as those raised by the Council and the applicant.
- 1.3 The report covers the following key areas:
 - Values
 - S106 costs
 - Opening up and development costs
 - Dwelling mix
 - Reappraisal

2.0 Values

- 2.1 There is a small difference between the values used in the Turner Morum report and the Lionel Shelly Report. Turner Morum have also expressed a concern that the values they have used are considered at the top end of what could be achieved and if their other cost assumptions are being tested then so should the value assumptions.
- 2.2 In response the Council have requested further evidence on values to support the figures used in the appraisals. There are a number of ways to provide this information. This includes a market report produced by a local estate agent, a review of new build properties currently on the market and a review of Land Registry transactions for new build properties. Given the time constraints for this work, there has not been time to commission a separate market report, therefore a review of current advertised properties and Land Registry has been undertaken. To put this in context it is noted that the following have been used for the appraisals:

Table 2.1 Values used in the appraisal

| Dwelling type | Turner Morum | | | Lionel Shelly | | |
|------------------------|-----------------|-------------|---------------|-----------------|-------------|---------------|
| | Unit value | Size (sqm) | £ p sqm | Unit value | Size (sqm) | £ p sqm |
| 2 bed terrace house | £172,200 | 76.2 | £2,260 | £175,100 | 76.2 | £2,298 |
| 3 bed terrace house | £189,000 | 83.6 | £2,260 | £190,500 | 81.3 | £2,343 |
| 3 bed semi house | £199,500 | 88.3 | £2,260 | £197,750 | 88.3 | £2,240 |
| 3 bed detached house | £204,750 | 90.6 | £2,260 | £199,875 | 101.8 | £1,964 |
| 4 bed+ detached house | £273,000 | 120.8 | £2,260 | £266,500 | 110.2 | £2,598 |
| 4 bed + detached house | £346,500 | 153.3 | £2,260 | £350,250 | | |
| | £213,792 | 94.6 | £2,260 | £217,729 | 95.5 | £2,280 |

- 2.3 As Table 2.1 sets out the values used in the latest reports average £2,260 per sqm / £210 per sqf (Turner Morum) and £2,280 per sqm / £212 per sqf (Lionel Shelley).
- 2.4 To test the appropriateness of these values both advertised new build properties and data from Land Registry has been considered. The closest new build developments to Winneycroft Lane, currently on the market are located at Robinswood Farm, Brockworth and Quedgeley and Hucclecote. However

the site at Robinsworth is not considered as comparable as it is not representative of the type of development likely to come forward at Winneycroft (it is only 7 dwellings) .The table below sets out the prices these are advertised at:

Table 2.2 Current advertised new build properties April 2016

| Developer and location | Dwelling type | Unit value | Size (sqm) | £ p sqm | £ p sqm (5% discount allowance)* | £ p sqf (5% discount allowance)* |
|--|-------------------------|-------------------|-------------------|----------------|---|---|
| Persimmon - Kings Mead, Quedgeley | 3 bedroom terrace house | £194,995 | 96 | £2,031 | £1,930 | £179 |
| Taylor Wimpey - Kings Copse, Quedgeley | 3 bed terrace house | £225,000 | 100 | £2,250 | £2,138 | £199 |
| | 3 bed semi | £240,000 | 112.5 | £2,133 | £2,027 | £188 |
| | 3 bed terrace | £218,000 | 100 | £2,180 | £2,071 | £193 |
| | 3 bed terrace | £210,000 | 80 | £2,625 | £2,494 | £232 |
| Bovis Homes - Imperial Place, Brockworth | 3 bed terrace house | £229,995 | 80 | £2,875 | £2,731 | £254 |
| | 3 bed semi house | £246,995 | 111 | £2,225 | £2,114 | £197 |
| | 4 bed semi house | £248,995 | 111 | £2,243 | £2,131 | £198 |
| | 3 bed terrace | £257,995 | 90 | £2,867 | £2,723 | £253 |
| Barratt – Mayfield Place, Hucclecote | 3 bed semi | £249,995 | 100 | £2,500 | £2,375 | £221 |
| | | £230,219 | 98 | £2,381 | £2,273 | £211 |

* Price advertised is not necessarily the price sold therefore a conservative approach is taken by applying a 5% discount to the advertised price

- 2.5 As can be seen, with the discount applied these values are in between those used within both the Turner Morum and Lionel Shelley appraisals. Whilst they are similar, the relatively small sample and limited development types means caution should still be applied in using these figures.
- 2.6 As a further test of values, Land Registry has also been analysed. The data in Table 2.3 is taken from the last two years of transactions for new build properties in Gloucester.

Table 2.3 Land Registry data Feb 2014 – Feb 2016

| Dwelling type | Average unit value | Average size (sqm) | Number of transactions | £ p sqm | £ p sqm (2.5% discount allowance)* | £ p sqf (2.5% discount allowance)* |
|---------------|--------------------|--------------------|------------------------|---------------|------------------------------------|------------------------------------|
| Flat | £134,000 | 56 | 6 | £2,393 | £2,333 | £217 |
| Terrace | £190,000 | 77 | 30 | £2,468 | £2,406 | £224 |
| Semi | £196,000 | 96 | 31 | £2,042 | £1,991 | £185 |
| Detached | £292,000 | 121 | 32 | £2,413 | £2,353 | £219 |
| All | £222,000 | 87.5 | 99 | £2,329 | £2,271 | £211 |

*Land registry data does not allow for 'extras' that are often included as an incentive to buy, e.g carpets, white goods etc), therefore a 2.5% discount is applied

- 2.7 As with the advertised new homes an adjustment has been made to figures. This adjustment takes into account that a housebuilder will often add incentives that would normally cost the purchaser such as carpets and white goods. Again there is a note of caution using these figures as Land Registry does not supply floorspace data so average sizes typical of the property types have to be used. However the data does show that the figure of £2,271 per sqm / £211 per sqf is a marginally higher figure than used by Turner Morum in their latest appraisal.
- 2.8 Therefore based on the evidence from Land Registry and advertised new homes, it is considered that £211 psqf is an appropriate figure to use for the appraisals. It should be noted that if a viability review clause is added to the S106 then these values can be revised and based on actual sales for the first phase of the development.

3.0 106 costs and phasing

S106 costs

- 3.1 A schedule of financial contributions was prepared to inform the decision making. The schedule sets out total contributions of £3,336,673. Turner Morum have used a higher figure within their appraisals, a point questioned by PBA in their report. In response Turner Morum have set out their understanding of contributions as follows:

Table 3.1 S106 contributions within schedule

| S106 category | S106 item | S106 contribution |
|----------------------------|---|--------------------------|
| Education | | £2,694,821 |
| | Pre-school | £343,745 |
| | Primary | £1,227,660 |
| | Secondary | £1,123,416 |
| Community | | £342,588 |
| | Libraries | £82,320 |
| | Community building | £260,268 |
| Highways and travel | | £287,977 |
| | Travel plan | £96,280 |
| | Corncroft/Painswick Road junction works | £104,079 |
| | Norbury Road junction works | £87,618 |
| Legal costs and monitoring | | £17,400 |
| Total | | £3,342,786 |

- 3.2 Turner Morum acknowledge that there is a difference of £6,113 between what was agreed in the schedule and what has been used in their appraisal – this is because EC Harris, the applicants cost consultant consider the junction works at Norbury Road to be slightly higher.
- 3.3 It should also be noted that three of the items within the proposed S106 are now accounted for within the direct works as they will be delivered by the developer – these include the Corncroft and Norbury Road improvements

and the Community Centre. The revised S106 figure would be **£2,890,821**. However, by agreeing to this it does have a knock on effect within the appraisal where a number of the calculations are derived as percentages of the construction cost, which will exclude S106 items. Therefore other than the very minor difference there is agreement in respect to this element of the contributions. However it is questioned as to the justification for both the education and library costs, which seem high for type of development.

- 3.4 Whilst there are figures provided for most items within the schedule there is a gap in respect to open space maintenance. The schedule suggests that open space maintenance will be undertaken by a management company. Normal practice is that these management costs are passed on to the owner of the dwellings via an annual management charge. There is no evidence that the addition of a management charge suppresses values of properties, therefore on this basis they should not be included within the appraisal.
- 3.5 However, Turner Morum's understanding is that the Council will want to adopt the open space and therefore they have suggested the following sums to be included within the appraisal:

| S106 item | S106 contribution |
|--------------------------------|--------------------------|
| Public open space commuted sum | £866,980 |
| Play space commuted sum | £287,500 |
| Play facilities | £50,000 |
| Total | £1,204,480 |

- 3.6 The Council have confirmed that their understanding of these figures is that they allow for 20 years maintenance, whereas the council would only require 15 years if they were to adopt the open space. This would mean the total costs would reduce to **£915,860**. However it should be noted that at this stage the figure is an estimate as until the detailed plans are agreed, it is not possible to identify a specific figure. The total revised S106 sought by the Council will therefore be in the region of **£3,806,681**.
- 3.7 Whilst this will have a marginal effect on viability the bigger issue is whether to include these figures at all within the appraisal.

Section 106 phasing

- 3.8 The S106 schedule also sets out phasing for the S106 contributions. It is clear from this that the education contributions are required prior to first completions on the development. It is not known what the reasoning is for this and it is questioned as to the justification from the County Council in seeking these payments at this stage, especially as there is a viability issue. By requiring all the education contributions up front it puts significant pressure on the cashflow and ultimately negatively effects the development as there is a

need to finance these upfront payments prior to any return from dwelling sales.

- 3.9 As it stands Turner Morum have followed the schedule and included the education costs up front within their cashflow. It is recommended that this is revisited and the payment schedule amended to spread this cost through the development cycle rather than upfront.

4.0 Opening up and development costs

- 4.1 The PBA report sets out the difference between Turner Morum and Lionel Shelley in respect to these types of costs. Since that report there has been some changes to the Turner Morum / EC Harris approach – however whilst this has narrowed the gap, there are still clear differences between the two reports.
- 4.2 The Turner Morum assessment is backed by a cost review prepared by EC Harris. Lionel Shelley's appraisal is backed by work undertaken by Currie & Brown. It is apparent that neither cost consultant has been in contact with each other, so there is potential for misunderstanding in approach from both parties.
- 4.3 The costs outlined by each cost consultant are as follows:

| | EC Harris | Currie & Brown |
|---------------------------------------|-------------|--------------------------|
| Direct works | £5,873,225 | £5,417,495 |
| Section 106 | £4,095,301 | £ 4,095,301 – no comment |
| Overheads and prelims | £323,999 | £270,875 |
| Professional and local authority fees | £1,784,958 | £1,408,228 |
| Abnormals | £3,003,144 | £3,003,144 – no comment |
| Total | £15,080,627 | £14,195,043* |
| Difference | + £885,584 | |

*Please note that as some of Currie and Brown figures are based on %, these may be subject to change if overall construction costs vary

- 4.4 As there has been no engagement between the two cost consultants it is advised that a conservative approach is taken and that the higher costs are used for the purposes of testing. Furthermore as it is intended to include a review mechanism within the S106, this could include revising the development costs with the benefit of actual costs being available for the first phase of the development. At this point if costs have been over estimated the Council will have recourse to seek other contributions, where these have been reduced from policy requirements as a result of the schemes current viability. Of course it should be noted that costs can also go up and potentially lead to a further reduction in development contributions.
- 4.5 In terms of phasing it is noted that Turner Morum have included a large percentage of these costs up front (50% of the direct works, fees and abnormal within the first year at around £5m) on the basis that they will be providing serviced plots, added to this is the upfront education costs,

previously discussed. Finally the complete cost of the land is also included in year 1 at just over £5m. This combination means that total finance costs are relatively high because of the upfront loading. It does not seem reasonable for all these costs to be loaded at the beginning of the project, especially as no allowance has been made for the sale of land to the developer.

5.0 Dwelling mix

- 5.1 The Council have requested further advice on the dwelling mix, especially in relation to affordable housing and flatted development.
- 5.2 In respect of affordable housing it considered that the assessment should utilise the HMA and the approach set out in the JCS Plan viability report (January 2016). That report recommends the use of the JCS wide mix for affordable housing which is 75% Affordable Rent and 25% Intermediate/Shared Ownership.
- 5.3 Whilst it is acknowledged that Starter Homes may replace some of the affordable housing elements in the future, for the purposes of determining any application now they should not be included as the legislation and regulations are not yet in place.
- 5.4 In respect of flatted development it is agreed with Turner Morum that in this location flatted development would not be of benefit in terms of viability, even when taking into account potential cost savings in respect of education contributions. If through detailed matters there are reasons to include more flatted development then the impact of this can be considered at the review stage in respect of the impact on viability.
- 5.5 It has been noted that in looking into more detail on the development mixes that the approach taken by Turner Morum seems to have changed between the latest appraisals submitted and those previously considered. The average size has changed from 97.9 sqm to 94.6 sqm. Whilst a seemingly small difference, this has had the effect of reducing the market dwelling development value from £83.7 to £80.8m, a near £3m reduction.
- 5.6 It would appear that a change to the mix in the dwellings has caused the change as all other inputs (i.e. dwelling sizes and price per sqm) are unchanged. It is unclear as to why Turner Morum has changed their approach. The table below shows the change:

Table 5.1 Dwelling mix

| | Latest appraisal | Previous appraisal |
|----------------------|------------------|--------------------|
| 2 bed terrace house | 20 | 30 |
| 3 bed terrace house | 24 | 38 |
| 3 bed semi house | 205 | 116 |
| 3 bed detached house | 63 | 95 |
| 4 bed detached house | 50 | 76 |
| 5 bed detached house | 15 | 23 |
| Total | 378 | 378 |

| | | |
|--------------|------|------|
| Average size | 94.6 | 97.9 |
|--------------|------|------|

5.7 If this is simplified and compared in percentage terms with Lionel Shelley's appraisal then the comparison is as follows:

Table 5.2 Dwelling mix comparison

| | Latest appraisal | Previous appraisal | Lionel Shelley |
|--------------|------------------|--------------------|----------------|
| 2 bed house | 5% | 8% | 8% |
| 3 bed house | 77% | 66% | 67% |
| 4+ bed house | 17% | 26% | 25% |

5.8 The main difference comes with the number of three dwelling properties and whilst it is accepted that in this location 3 bed dwelling will be popular a figure of just over three quarters does seem very high. Therefore for the purposes of testing it is recommended that this figure is reduced back to what was originally proposed. If the detailed permissions significantly change the mix then this can be reassessed during the review process.

6.0 Further viability testing

- 6.1 To be consistent the further testing will use the same viability model that informed the PBA report. The further testing reflects the finding of this report and uses the following key assumptions in respect to the scenarios tested:

Table 6.1 Key assumptions

| Input | Base scenario | Notes |
|---|---|---|
| Development costs | | |
| S106 costs | £3,806,681 | Section 106 costs as set out by Turner Morum and schedule with slight adjustment to commuted sum payment to reflect a 15 yr rather than 20yr requirement |
| S106 phasing | | Assumed that District Council will seek agreement from County Council to spread education payment rather than up front as indicated in schedule and applied within Turner Morum appraisal |
| Direct infrastructure costs | £5,873,225 | Latest EC Harris costs applied. Costs have been spread across first 5 years. |
| Abnormal | £3,003,144 | Latest EC Harris costs applied. Costs have been spread across first 5 years. |
| Overheads, prelims and local authority/ professional fees | £2,108,957 | Latest EC Harris costs applied. Costs have been spread across first 5 years. |
| Market housing assumptions | | |
| Market housing values | As previously at £2273 per sqm / £211 | Value based on advertised New Home prices (adjusted) and Land Registry (adjusted) – Value is between Turner Morum and Lionel Shelley estimates |
| Market housing mix | 8% 2 bed, 66% 3 bed, 26% 4+ bed and an average blended size of 97.9 sqm | Reverted to Turner Morum's previous development mix |

| | | |
|---|---|--|
| Garages | 95 single garages at £5k each and 99 double garages at £7.5k each | Reverted to Turner Morum's garage numbers and type |
| Affordable housing assumptions | | |
| Affordable housing % | 10% | |
| Affordable housing mix | 25% SO 75% AR at an average size of 75.6 sqm | Proportion is as set out in JCS Plan viability study and JCS HMA for JCS wide requirements. Size calculated using same property sizes set out in Turner Morum appraisal |
| Affordable housing value | 65% of market value for SO and 55% of market value for AR | Values are same as set out in the JCS Plan Viability Study |
| Other inputs | | |
| Gross and net | 20.3h and 10.72 | Same as Turner Morum |
| Contingency | | Consistent with Turner Morum no additional contingency has been included. However it should be noted that abnormal and direct costs all have contingency built into their figures of between 7.5% and 10%. |
| Construction costs, finance and professional fees | | These are all at the same rates as used by Turner Morum. |

6.2 The results of the base scenario are set out in table 6.2. The results show that at 10% affordable housing the site is deliverable but viability is still marginal. This assumes a benchmark land value of around £100,000 per gross acre. Turner Morum has suggested that land owner expectation is higher than the £100,000 allowed for in their appraisal. This suggests that to achieve a higher residual value the profit expectation (currently around £17m) would have to be reduced. For example to achieve a residual equivalent to £150,000 per gross acres (or around £700,000 per net hectare), the blended profit would reduce from 19.3% to 16.5% (GDV).

Table 6.2 Base scenario results

| Scenario | Dwellings | AH | Residual £ph | Benchmark £ph | Headroom £ph | Viable |
|------------------|-----------|-----|-----------------|------------------|-----------------|----------|
| 1. Base scenario | 420 | 10% | £501,871 | £495,072 | £6,799 | Marginal |

- 6.3 If members were minded to seek higher contributions for affordable housing then other costs will need to be reduced. This could in part be profit as suggested above, but this does risk the development coming forward if this is also being reduced to pay for the land. Changing when contributions are to be paid is another way of improving cashflow and viability. However the above results have already spread the contributions through the development cycle. The other area that could be looked at would be to change the balance between S106 infrastructure contributions and affordable housing i.e. reducing the S106 infrastructure payments to increase the affordable housing.
- 6.4 As previously discussed there may be an opportunity to reduce the S106 to remove the obligation towards open space maintenance. If this were removed as shown in Table 6.3 the headroom would be just over £87,000 per net hectare. Also shown is what impact this could have on affordable housing if the money was used to fund affordable housing instead of the open space commuted sum.

Table 6.3 Alternative S106 contributions

| Scenario | Dwellings | AH | Residual £pnh | Benchmark £pnh | Headroom £pnh | Viable |
|--|-----------|-----|------------------|-------------------|------------------|----------|
| 2. Reduced S106 – no maintenance payment | 420 | 10% | £582,133 | £495,072 | £87,061 | Yes |
| 3. Reduced S106 – no maintenance payment, increased affordable housing | 420 | 14% | £501,787 | £495,072 | £6,715 | Marginal |

- 6.5 It should be noted that whilst the affordable housing could be increased to 14% on the basis of in the reduction to the infrastructure requirement of the S106, this approach would still result in marginal viability as discussed previously.

7.0 Recommendation

- 7.1 As with any appraisal process there are a variety of approaches and variables that can change the outcome.
- 7.2 In this report it has been demonstrated that the mix of the development will have an effect on the viability outcome. Therefore if this outline application is approved the Council should work carefully with the developers of the site to ensure that the mix meets market requirements to maximise returns as well as local needs identified in the SHMA. A balance will need to be struck as the site is marginal in terms of its delivery as small changes can have a big impact.
- 7.3 The cashflow is also important. In particular the results assume that the City Council will undertake further negotiation with the County Council in respect to when those payments are scheduled. If they do remain an upfront payment then the viability should be revisited.
- 7.4 As shown in the report a reduction in the infrastructure elements of the S106 will either allow for greater margin in respect of the development and less risk of non delivery or potentially a small increase in affordable housing.
- 7.5 It is recommended that a viability review is included as suggested in the committee report. This will allow consideration of the actual build and site preparation costs, land deals and any changes to house prices. Also by this point the mix of the development will also be established.
- 7.6 Therefore it is recommended that the Council accepts the offer of 10% affordable housing on the basis of 75% affordable rent and 25% Intermediate/Shared Ownership and that a review mechanism is included.