25th October 2022

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Dear Sirs,

Stroud District Local Plan Review Additional Technical Evidence - Limited Consultation Response - PS37: New Settlement at Wisloe

We write in connection with the Stroud District Council Local Plan Viability Assessment 2022 Refresh prepared by HDH Planning and Development ('HDH') which we refer hereinafter to as 'the Updated Assessment'. As appointed advisor to the joint landowners - *The Ernest Cook Trust and Gloucestershire County Council*, Savills welcomes the opportunity to respond to the consultation process, focusing on site allocation PS37: New Settlement at Wisloe.

We have reviewed the Updated Assessment and as part of this exercise focus on the updated key assumptions set out by HDH. We do not however seek to discuss the conclusions set out within the Updated Assessment. We have provided commentary where considered appropriate including in respect of the appraisal modelling and would note that our silence in respect of other areas does not necessarily imply our agreement. Moreover, our professional view may differ from time-to-time in accordance with market movements – as clearly demonstrated since the previous date of assessment, and changes in professional and planning guidance and our position is therefore reserved.

Fundamentally, as stipulated within our previous representation dated July 2020, we maintain that the Local Plan should not put in place policies that mean those tasked with major development investment decisions must operate at the margins of viability. As witnessed from recent events, rapid economic changes such as the current pandemic and build cost inflation can have a significant and long-lasting market impact. It is important that the viability of the development plan is therefore resilient, and that the viability work supports this.

It should be noted that there are areas at this stage where we have been unable to undertake a full review of the information provided and supporting evidence base due to the timescales made available to respond during the limited consultation period. Moreover, due to the evolving status of the masterplan covering the subject site allocation it is not at this early stage possible to form definitive conclusions at this stage.

Our response is therefore foremost intended to assist the Planning Inspectorate in its consideration of the robustness of the Updated Assessment undertaken by HDH which concluded in August 2022. We would welcome the opportunity to respond to any queries which may arise following review.

Background

HDH undertook the Local Plan Viability Assessment dated May 2021 on the basis of the contents of the Draft Plan for Consultation (November 2019), and following approval of the Stroud Local Plan pre-submission Draft Plan in May 2021. This earlier assessment of viability was intended to help inform the development of the emerging Local Plan, including both policy requirements in the form of affordable housing and developer contributions, and to consider the scope to review Community Infrastructure Levy ('CIL').

A technical consultation to inform the 2021 Viability Assessment was undertaken during June and July 2020. Representatives of the main developers, development site landowners, ‘call for site’ landowners, their agents, planning agents and consultants working in the area and housing providers were invited to comment on an early draft of this report. This included a response from Savills on behalf of the above landowners.

The Updated Assessment dated August 2022 effectively updates and replaces the earlier assessment whilst refreshing the main inputs and assumptions to take account of changes in national and local policy, and changes in development revenue and cost assumptions. It sets out the methodology and key assumptions adopted. It contains an assessment of the effect of the policies in the draft Local Plan, in relation to the potential development sites to be allocated.

The earlier viability assessment included a wide range of policy options and a possible review of CIL. The Updated Viability Assessment however focuses on the policies in the draft Local Plan and does not consider CIL further.

Response to Updated Assessment

We understand that following the previous consultation carried out during the Regulation 19 period, the Draft Plan, background evidence and the consultation responses were submitted to the Government’s Planning Inspectorate to commence an examination of the Draft Local Plan in October 2021. During summer 2022, the Council and its appointed advisors updated some technical documents relating to transport, infrastructure and viability and published some background evidence on the accessibility of sites to services and facilities.

In order to assist the Planning Inspectorate in considering the updated technical evidence, all representors have been invited to be given the opportunity to comment on this additional evidence as appropriate. Accordingly, our comments concerning specific areas of HDH’s draft consultation at this stage are summarised as follows:

Description	Assumptions for SDC	Comments
Methodology	Traditional Approach to Local Plan Viability Assessment	The approach to viability methodology is principally outlined by HDH within Sections 2 & 3, and indeed throughout. The overarching methodology to viability assessment remains reasonable albeit there are a number of areas where we are either unable to agree to the assumptions adopted and/or which are unclear on review. HDH’s approach is consistent with traditional viability assessment in calculating gross development value (GDV) before deducting development costs to derive a Residual Land Value (RLV). The RLV is compared with a Site Value Benchmark (SVB) to assess scheme viability. In establishing SVB, HDH maintain an Existing Use Value ‘Plus’ (EUV+) methodology which accords with relevant planning and professional guidance and established best practice.

		We would observe that despite being noted within our previous response, commercial land uses remain excluded by HDH within the Updated Assessment in respect of the subject allocation.
Site Value Benchmark	£25,000/hectare (£10,000/acre) (Agricultural EUV) £50,000/hectare (£20,200/acre) (Paddock EUV) SVB = EUV + £350,000/hectare (£152,000/acre) *Note unchanged from previous assessment.*	As set out in the PPG, SVB is key to assessing viability because ensuring an appropriate premium to a landowner is key to ensuring the delivery of the Local Plan. Should this be set at a level that is too low, land will not come forward and development will not take place. Whilst we acknowledge there to be different assumptions used in Brownfield site assessment, at a high level the land value assumptions supporting EUV for agricultural and paddock land are unremarkable and broadly consistent with other Local Plan viability assessments prepared nationally. When applying HDH's methodology a SVB of £25,111,607 - equivalent to £375,000/hectare (£152,000/acre), is derived on a gross basis. The SVB reflects a multiplier equivalent of 15 times EUV. SVB is fundamentally a site-specific consideration and we are therefore unable to comment further at this stage and until all existing uses and condition etc of the subject allocation are fully understood. We would however observe that the allowance falls within a typical range for borough wide viability testing purposes. We would also note HDH's method of assessment represents one of several methods in determining SVB.
Market Sales Values	£3,565 psm (£331 psf) – Site 8, PS37: New Settlement at Wisloe as per Table 4.19 (P85) *Previously £3,100 psm (£288 psf)*	Within the Updated Assessment HDH apply an uplift equivalent to 15% to the previously adopted sales values resulting in an updated blended market sales value of £3,565 psm (£331 psf). This follows a review of asking and achieved pricing data during the interim period. HDH suggest a cautious approach has been taken noting market uncertainty which is reasonable. The general approach taken by HDH including indexation is generally considered reasonable for the intended purpose of updating the initial viability assessment. We welcome the typology approach to the assessment of GDV in principle. We do however maintain some concerns raised within our

		previous representation concerning pricing differentiation on the basis of site location, the range of unit typologies, product and quality differential and environmental impacts etc. Whilst we do not have any material concerns at this stage concerning the approach taken by HDH within the Update Assessment, we would note that viability is a point in time exercise and sales values should be re-assessed as at the point of any future planning application. We would also highlight the material market uncertainty and other market considerations including the imminent withdrawal of the government's Help to Buy initiative which could have a material impact on the residential market. Ground rent income remains excluded from HDH's assessment which is confirmed at Para 4.69. This is appropriate for planning viability assessment purposes. Outwith the above we would draw attention to the comments included within our previous response dated July 2020.
Build-to-Rent (BTR)	£2,657 psm (£247 psf) - £3,588 psm (£333 psf) *Previously £254 psf capitalised value (all areas)*	It is not known at this stage whether a potential future scheme would bring forward housing falling within Build to Rent tenure. The values contained within Table 4.22 appear to suggest the capitalisation of estimated rental values to derive a capital value on a gross basis. We would agree with the assertion on Page 89 made on behalf of various others that a 'net' based assessment i.e. allowing for operational expenditure etc, would be more appropriate and reflective of the Build to Rent market nationwide. Whilst we acknowledge HDH' approach predicates on the basis of gross valuation assumptions it is unclear whether other appropriate valuation considerations are applied, for example purchaser's costs. We would also note the value differential between smaller unit typologies when compared with larger housing which would appear unusual. For example, 4 bedroom houses are suggested to attract a premium of c.28% when compared to smaller one bedroom flatted dwellings on a comparison £psf basis. We would anticipate the reverse being true from experience.

Affordable Sales Values	£1,300 psm (Social Rent) £1,900 psm (Aff. Rent) £2,496 (Intermediate) *Previously £1,280 psm (Social Rent)* *£1,900 psm (Aff. Rent)* *£2,461 - £2,953 psm (Intermediate)*	Given the level of information available to us we are unable to make comment concerning the HDH methodology in determining affordable housing values. However, on review we would observe the values to fall within a reasonable range for the intended purposes of this exercise. Values should however be re-assessed at the point of a future planning application once detailed design and configurations for any affordable housing tenure mix is known.
Commercial Values	Not included within Wisloe viability assessment. Assumptions set out at Table 12.3. <u>Offices</u> £16.25 psf MR (new build) 6.75% – 8% cap subject to size £188 - £228 psf cap val *Unchanged since previous assessment.* <u>Industrial / Distribution</u> £7 - £7.50 psf 4.5% - 7% cap £92 - £158 psf cap val *Previously £6.50 psf MR* *7% – 9% cap.* *£66 - £93 psf cap val* <u>Retail (‘elsewhere’)</u> £18.60 psf 9% cap £186 cap val *Previously £10 - £15 psf* *9% cap.* *£111 psf cap val* <u>Retail (foodstore etc)</u> £26 psf MR 5.25% cap. £465 psf cap val	Commercial uses remain excluded in respect of the subject allocation so any comments below are provided on an observational basis only. This is despite 5 ha (12.4 ac) of employment use including a local centre being included within the site allocation. Moreover, without a finalised masterplan the potential commercial accommodation is currently undefined. In reality a wide range in potential rental values and investment yields is possible depending on factors such as size and configuration, location and specification etc. We would continue to note that the adopted rent and yield profile for each use class will inherently differ greatly on a scheme-by-scheme basis. As noted within our previous representation, hotel valuation is a specialist area of valuation typically assessed upon profit based methodology although HDH appear to adopt only a comparable based assessment. It is not yet known whether the masterplan will include hotel accommodation and we are unable to comment further at this stage.

	Unchanged since previous assessment. <u>Hotel</u> £5,000/key pa 5% cap. £376 psf cap val	
Developer's Return (Profit)	17.5% on GDV all tenures *Previously 17.5% on GDV for private housing and 6% on GDV for affordable housing.*	Within the previous viability assessment HDH applied varying levels of developer's return (profit) to the respective residential tenures to reflect the level of risk associated with each. A profit of 17.5% was applied to market residential and 6% to affordable residential tenure. Savills previous representations should be noted in addition to the below. HDH have acknowledged the various responses provided during the consultation stage and have adopted a revised blended 17.5% on GDV for all residential tenures citing the impact of Covid-19 amongst others as justification for additional risk at this current time. The criteria to consider in arriving at an appropriate figure for developer's return (profit) include, amongst other things, location, property use type, the scale of development, the weighted cost of capital and the economic context. Developers, banks and other funding institutions maintain minimum expectations in terms of financial returns that are aligned with the risk profile. Simply, there must be a reasonable prospect that the return will be commensurate with the risks being undertaken. The development market has unequivocally become increasingly uncertain with an increasing level of risk faced by developers at the present time. At a macro level the conflict in Ukraine commencing February 2022 has had an acute impact on the global economy including a significant impact on rising oil and gas prices and the restriction of exported goods from Ukraine and Russia. This has added to the recent inflationary pressure already being experienced by developers and it remains to be seen what impact inflation will have on the UK economy in the medium term. Key economic indicators currently give rise to material uncertainty and risk across both the development sector and wider UK economy. The Bank of England further raised interest rates

		during September 2022 to 2.25% representing the highest level in 13 years in response to rising inflation which rose to 9.4% in July 2022 with forecasts of higher levels to come. This has led to multiple high street lenders placing borrowing rates under review with continuing upward movements in interest rates anticipated in the near future. The impact of the above is expected to add to the ‘cost of living crisis’ resulting from rising living costs likely to rise further in coming months with a 1.75% decline in real disposable income forecast, exacerbated by the ongoing conflict in Ukraine with the resulting impact of a fall in consumer confidence. As a consequence of this, the Bank of England has forecast the UK economy will contract by 0.25% during 2023 with likely sluggish growth from 2024. A rise in UK unemployment is also forecast by the Monetary Policy Committee (MPC) in the short-term period. In accordance with the above we welcome HDH’s further consideration and revised assumption base. Notwithstanding, we would advocate the application of varying profit targets which more accurately reflected within sensitivity analysis where the level of affordable housing varies. We would otherwise acknowledge the allowance of 15% on GDV for non-residential and Build to Rent tenures. This is considered reasonable for planning viability assessment purposes.
Build Costs	Median Quartile BCIS – Varying assumptions for typologies informing base build cost £1,496 (£139 psf) (blended) base build cost exc. Net Zero initiatives. *Previously Lower Quartile BCIS – Varying assumptions for typologies informing base build cost* *£113 psf (blended) base build cost* *+ 26% uplift to £143 psf*	Savills are not appointed as cost consultants and we are therefore unable to make a fully qualified professional judgment on the adopted cost assumptions by HDH. Our below comments are based only on our professional experience in planning viability. Despite reservations about the reliance upon BCIS it is accepted that planning guidance supports the use of BCIS in build cost estimations and should therefore arguably be considered appropriate for the intended purposes. The Updated Assessment makes an allowance of £1,496 psm (£139 psf) representing BCIS Median data rebased for Gloucestershire. Further to Savills’ previous representation we note HDH’s comments at Para 7.6 and welcome build costs now being applied to median BCIS costs within the Updated Assessment.

		A further 9% allowance is added to the base build costs in respect of environmental commitments before site costs equivalent to an additional 13% are included noting a reduction from 15% on the suggested basis of Garden Village principles. This appears to be a slight deviation from the previous assessment whereby a higher allowance was seemingly included (see Savills' previous representation). Based on our own experience market knowledge we would generally observe HDH's initial assumptions in respect of base build costs fall within a reasonable tolerance for the intended purposes. We would however note that given the ongoing level of inflation the level of contingency applied separately should be of material consideration with the adoption of too low an allowance presenting a challenge to robustness in assessment.
Contingency	5% *Previously 2.5%*	Within Savills' previous representation an allowance of a minimum 5% was suggested following concerns over various contingency allowances being applied across the wider assessment. We acknowledge HDH's comments at 7.41 which confims an updated allowance equivalent to 5% has been included in the Updated Assessment. Notwithstanding the above, the recent and projected level of cost inflation might reasonably support an allowance in excess of 5% would be justified as part of any contemporary viability assessment especially whereby such allowance is likely to be eroded by build cost inflation over a relatively short term as has been recently experienced. We would separately observe that contingency is applied to base construction costs only whilst excluding S106 items. We would query whether this is reasonable or appropriate in viability assessment.
Professional Fees	8% plus £223,200 planning fees *Previously 8% plus 1% planning fees (effective 9%)*	HDH appear to have reduced the total professional fee allowance since the date of the previous viability assessment where an effective allowance of 9% was included. The Updated Viability Assessment adopts a figure marginally in excess of 8% when incorporating the notional planning fees.

		Savills remains of the view that the effective HDH allowance for professional fees is insufficient for complex strategic land development. An allowance of a minimum 10% should be included for assessment purposes alongside sensitivity as appropriate. We would further observe that the HDH allowance falls slightly below a range of Local Plan Viability Assessments which we have had regard to nationwide and gives rise to inconsistency in assessment. In response to HDH's comments at Paras 7.32 and 7.35, it is acknowledged that sale, acquisitions and finance fees are not accounted for within the professional fee allowance. This statement is unusual given such costs are invariably accounted for separately within viability assessment.
Site Acquisition & Disposal Costs	1% acquisition (agent) and 5% legal fees 3.5% sales, legal and promotion fees (all residential tenures)	The adopted acquisition cost allowances are considered both reasonable and appropriate for viability assessment purposes. The adopted disposal costs are considered reasonable and appropriate for viability assessment purposes. Notwithstanding, we would observe that the adopted allowances fall toward the minimum end of a reasonable range and there may be circumstances where higher allowances are required.
Finance	100% Debt funding at 6.5% (All-in). 100% Debt funding at 6%, plus 1% arrangement fee	HDH suggest under Para 7.59 that following consultation, the finance allowance has been adjusted to 6.5% to include interest and associated fees (revised upward'), Within the previous assessment an allowance of 6% plus separate 1% arrangement fee was included – understood to be equivalent to 7% on an 'All-in' basis. As a point of principle it would be absurd for the all-in finance allowance to have reduced since the previous assessment date (note above comments under developer's return) whereby we would now consider an allowance of a minimum 7% to be reasonably justified for assessment purposes. This view is shared by Savills' Debt Advisory team noting that development debt has

		become increasingly harder and more expensive to obtain. Moreover, at Para 7.57 HDH appear to agree with the basis for the inclusion of a higher finance allowance but seem to disregard such consideration within the Updated Assessment. Whilst finance rates are development-specific and time-specific in market terms, at this moment we would consider the adopted finance rates to fall below a reasonable allowance and would welcome detailed consideration of this point by the Planning Inspectorate. In order to ensure robustness within viability assessment we would query whether HDH might incorporate a credit allowance within their appraisal to take account of upward pressure on the BoE's base rate. The impact of including a credit rate would be favourable to scheme viability. In summary to the above, a finance rate of 6.5% is considered increasingly unreflective of the UK development market whereby development finance has become increasingly more difficult to obtain. We would maintain that an appropriate allowance now falls in excess of 7%.
Timescales		Development timescales are highly sensitive to site-specific factors. In the absence of a finalised masterplan we are unable to provide further specific comment within this response. Notwithstanding the above, there appears to be disconnect between the projected development trajectory set out under Table 7.5 when compared with HDH's modelling in respect of lead in period, annual delivery rates and project phasing. We would welcome further clarity in this respect.

Summary & Conclusions

The ongoing viability assessment carried out by HDH demonstrates the impact of policy requirements alongside changes in development revenues and costs. We recognise and welcome HDH's acknowledgement of a number of matters which were responded to during the previous period of consultation particularly in respect of residential build costs, developer's contingency and developer's return (profit). We do however consider there to be certain areas which remain unclear or where further consideration should reasonably be afforded at least by the Planning Inspectorate at review.

We trust that the information provided is useful and would welcome the opportunity for further engagement to ensure the appropriate evidence informs due process. We would expect the viability assessment inputs to be amended following formal review of all responses. We would request that the Planning Inspectorate consider the comments above amongst those of other consultees.

There are many changes taking place in the development industry, not only related to the recent global pandemic, cost inflation and increasing market uncertainty, but also in respect of the building regulatory system. For a plan that operates over several years and whose next review may not take place for a number of years, it is important to consider the likely impacts now to avoid unnecessary viability issues in future years.

Should you have any queries in relation to the above please do not hesitate to contact me. We would be happy to provide additional comment and support discussions with the Council and its advisors in due course.