Mr [redacted]
Head of Planning Strategy
Stroud District Council
Ebley Mill
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[redacted]

20 July 2021

Dear [redacted]

Stroud District Council: Consultation Draft Local Plan Viability Assessment
Strategic Site Allocation PS36: Sharpness New Settlement

We are writing on behalf of Sharpness Development LLP in relation to the Consultation Draft Viability Assessment prepared by HDH Planning & Development Ltd on behalf of Stroud District Council dated May 2021. This response should be read in conjunction with the previous response to the Pre-Consultation Draft, submitted by Sharpness LLP in July 2020. JLL have reviewed the Consultation Draft (CD) on behalf of Sharpness Development LLP who are promoting the development of a new settlement in Sharpness under site reference PS36 for approximately 2,400 new homes in Phase 1 and a further Phase 2 of circa 2,600 homes. JLL provide comment on the Consultation Draft Local Plan Viability Assessment as set out below.

A. Methodology – Benchmark Land Value

I. Existing Use Value Plus (EUV+). Having reviewed the revised EUV+ methodology explanation and evidence, JLL would comment that it is a widely accepted and recommended methodology to establish the EUV+ applying a premium of 20% to the EUV to incentivise a landowner to sell as defined by the NPPG (Paragraph: 013 Reference ID: 10-013-20190509). £25,000 / ha is adopted as the EUV on the basis of agricultural land with an additional premium of £350,000 / ha added to this. As suggested in previous consultation comments, this is well in excess of a reasonable premium as evidenced in the North Essex Joint Local Plan a figure which established a level of ten times the amount would be a reasonable adoption. The current adoption reflects a rate fourteen times that of the EUV and is therefore considered excessive.

B. Residential Market

I. It is noted that the revised CD has taken into consideration the potential of a residential led development at PS36 and JLL fully support the adoption of £3,200 m2 average open market sales values. There is an ever-growing precedent to support buyers will pay a premium as priorities change and there is increasing momentum and support for more sustainable development and living. This coupled with a more flexible working culture, we believe will fuel the push for demand in Green neighbourhoods and generate strong residential end sales values. For reference, we have had regard to LandInsight which is an industry wide used tool to establish existing residential sales values as there is a lack of relevant new build evidence in the vicinity of the site. LandInsight reports sold prices as follows:

- £2,906 per m2 / £270 per sq ft average since Jan 2018- 2.5 mile radius from Berkeley – Sold Prices
- £3,025 per m2 / £281 per sq ft average since Jan 2018 – 2.5 mile radius from Berkeley – Market Value (Indexed)

Considering a reasonable 20% premium for new build homes, this would equate to values in the region of £3,660 per m2 / £347 per sq ft which is well excess of the adopted rate by the CD.

We note the comments and consideration given to sales incentives which should be in the region of 1.5-2% discount to account for the payment of stamp duty and minor alterations or choices allowed of a buyer but would highlight that this is a sale specific factor which can vary significantly so should be excluded from the assessment as per standard valuation practice.

Affordable Housing

The approach to affordable housing appears broadly sensible to JLL. Analysing the attributed values against the market value of £3,200/m2 for Sharpness PS36, the following values have been adopted;

- Social Rent: £1,280/m2 (40.00% of market)
- Affordable Rent: £1,900/m2 (59.38% of market)
- Shared Ownership: £2,240/m2 (70.00% of market)

The above rates are broadly in line with the market, albeit that social rent is below the 45-50% we would expect of this tenure. The standard approach would be to adopt a broader blended rate of 50-60% of Open Market Value depending on the policy required tenure split.

Commercial

JLL note that the commercial element of PS36 has not been accounted for within the appraisal and therefore the CD has not considered it's positive impact on the wider viability of the site. Accounting for c.10ha of the site, the inclusion of this element of the scheme will improve the viability position.

C. Development Costs

I. The adopted Interest Rates have been increased to 6.5%. Whilst we understand that there is not a one size fits all approach to each input, it is not representative of the size of the proposed development and the likely finance structure of the delivery to assume an interest rate of 6.5%. For larger strategic sites, it is a market standard assumption to adopt a rate of c.5.0% to reflect a finance structure that either includes a revolving facility of a master developer or healthy cash position of a volume housebuilder.

II. JLL fundamentally disagree with the adoption of 17.5% profit across both open market and affordable tenures. The delivery of affordable housing carries significantly less risk than affordable housing and therefore the required developers return should reflect this. For a larger multi-phase developments we would expect a rate of between 15-20.0% on cost for the open market homes, and a rate of 6.0% on the affordable tenures. The profit position of a scheme is of course specific to the development risk and therefore so is the required profit that is reasonably required by a developer.

III. JLL have accessed the adopted build costs which are based on BCIS and query the significant increase in the rates that are being adopted since the PCD was issued. To improve accuracy of the assessment JLL suggest that the lower quartile base build rate for larger allocations should be adopted to reflect the economies of scale which may not be realised by the smaller sites who are likely to be delivered by a SME regional developer as opposed to a larger / volume housebuilder.

D. Phasing / Timescales

JLL would reiterate a previously made point that the phasing of the scheme does not appear commercial in the approach which adopts elongated phasing rather than a more appropriate rate of delivery. In reality a large strategic site would be delivered across multiple phases where a variety of products are to be delivered on site at the same time to capture a variety of buyers, budgets and encourage a diverse new neighbourhood. At a rate of delivery of 50 total dwellings per year, 35 market dwellings a year which equates to c.3 per month this could be replicated on 2-3 additional flags effectively tripling the rate of delivery and significantly improving the viability position.

E. Sensitivity Analysis

Below we have summarised the position of PS36 Sharpness throughout the sensitivity analysis provided within the CD.

Appendix	Variation	Minimum RLV £ / ha	Maximum RLV £ / ha
Main	Core Appraisal	£193,399	N/A
11	10-30% Affordable. Tenure Mix, Intermediate Housing v Social Rent v Affordable Rent	£160,041	£762,233
12	Affordable Housing First Homes	£303,331	£624,642
13	Affordable 0-30%, Design, CIL & S106 £0-30k per unit	-£28,095	£880,825
14	Reduced Policy, 0-30% Affordable Housing v Developer Contributions £0-30k per unit	£162,124	£1,055,122
15	Varied Site Costs 5-25%	-£96,444	£399,901
16	Varied Developers Return (various combinations)	£88,689	£338,157
17	Standardised Infrastructure Tariff, 0-30% Levy @ 0/30% Affordable Housing	-£1,374,051	£880,825
18	Impact of Cost & Value – BCIS & Revenue	-£223,192	£1,000,962

Despite a number of inputs and assumptions of the CD viability appraisals remaining unsuitable for a development of scale such as PS36, the above table and full sensitivity evidence clearly demonstrates that the site can be successfully delivered whilst also providing important policy requirements. Multiple factors which include finance rate, profit, phasing, build cost and the addition of the employment space, will collectively and significantly further improve the viability of PS36 if approached in a more commercial manner.

Additional consideration should be given to the required infrastructure for PS36 to be brought forward successfully but also the importance that this has for other strategic sites in the vicinity and achieving the targets set out within the Local Plan. Therefore if approached with consideration, combined with policy requirements, PS36 would deliver an viable new community. Further, wider consideration of the proposed Phase 2 of PS36 which would follow to provide significant additional housing for the next plan period will further ensure viability.

Conclusion

Whilst it is appreciated that the viability assessment is not able to not consider site specific factors, due to the scale of the site, the viability of PS36 is not accurately reflected within the high level appraisal undertaken in the CD. The sensitivity analysis of the Consultation Draft demonstrates the development is viable even without inputs that are appropriate for a development of scale. It is therefore evident that the site can successfully deliver the proposed scheme and the viability can be significantly improved to include the potential of a viability surplus is considered on a commercial and market facing basis.

Yours sincerely

[redacted]

Associate

[redacted]

Appendix 1: Sharpness LLP Response to Stroud LP Pre-Consultation Draft Viability Assessment- July 2020

[redacted]
Head of Planning Strategy
Stroud District Council
Ebley Mill,
Ebley Wharf,
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GL5 4UB

15 July 2020

Dear [redacted]

RESPONSE TO PRE-CONSULTATION DRAFT OF LOCAL PLAN VIABILITY ASSESSMENT

1. Thank you for the opportunity to comment on the pre-consultation draft of the above document. As a pre-consultation draft, this representation does not purport to be a line-by-line response but rather a high-level submission to a number of key points. We do expect to submit further representations to any future version of the Viability Assessment. This has been written on behalf of Sharpness Development LLP (the LLP) which is a Joint Venture between Green Square Homes and Lioncourt Strategic Land Ltd.

2. The LLP is promoting the development of the Sharpness Growth Point which has a draft allocation under Policy PS36 that proposes the development of 2,400 homes within the emerging Local Plan period together with a further 2,600 homes in the following Local Plan period to give rise to a total of some 5,000 homes. In addition to the homes, there is the development of 10ha of employment, a new Secondary School, Primary Schools and the upgrading of the existing Sharpness Branch Line which is currently the subject of a funding application to the Department of Transport by SDC, as sponsored by local MP, Siobhan Baillie and supported by both the LLP and the Vale of Berkeley Railway Group. The Growth Point is an exciting opportunity to deliver a forward-looking development which will combine high levels of place making with a desire to hold environmental enhancement at the core of everything we do. Hence the desire to re-open the existing freight branch line to passenger traffic between Sharpness, Cam and Gloucester; to design a development that minimises the use of fossil fuels as an energy source, and see good opportunities for both public and personal transport.

3. As a Local Plan Viability Assessment, it is intended that this document will go on to inform the Inspector as to the likely deliverability of the Local Plan proposals. Historically there have been allowances for non-implementation of housing allocations (typically 5%-10%) to cover this point. Equally there are the practical opportunities to demonstrate before an inspector the deliverability of a scheme through supporting the

allocation at the EIP through the submission of an outline planning application and certainly the LLP intends to follow this route with regards to the delivery of Policy PS36.

4. Perhaps the first thing to note about the pre-consultation draft (PCD) is that the methodology used is in complete contrast to any valuation a developer or commercial valuer would use. For instance, it inexplicably assumes that all land required for the development is acquired on day one and that all design and supervision fees associated with the development are also spent on day one. It then utilises a non-commercial rate of interest to calculate the holding charge. This approach has a disproportionately negative affect on larger schemes as it results in an interest charge which is actually substantially higher than the land price. That would never happen in practice. **Accordingly, and from the outset, we do not accept this approach to be a useful tool to assess whether proposed housing allocations are likely to come forward.**

5. The PCD makes clear there are a number of economic uncertainties that in themselves cast doubt on the work; it rightly pays reference to the as yet unknown impacts of leaving the European Union and the impact of Covid-19. The latter of course is increasingly being viewed as much in terms of its economic impact on the World economy as a health issue. Accordingly, as this PCD goes through each iteration, values will need to be updated. However, we are already seeing the UK Chancellor of the Exchequer, Rishi Sunak suggesting the Country is heading into a deep recession and it seems inevitable therefore, that the values used in the PCD should be considered as **relative values** rather than as **absolute values**. Of course, we would all hope that by the time the Local Plan reaches adoption and sites are being delivered that the economy and housing market will have recovered to pre-Covid levels.

6. In reviewing the overall position of the PCD, it is worth starting by reviewing the conclusions in Table 10.4 (reproduced below) and the traffic light system used to consider whether a site is more or less likely to be deliverable or not. Some 10 sites are reviewed, only 4 of which are given a 'green light' amounting to the delivery of 2,280 of the 12,430 homes allocated to the ten sites. This suggests that there is an inherent problem with the viability assessment rather than with the emerging Local Plan; it is simply not credible to suggest that approximately 10,000 dwellings on largely greenfield development sites are at risk of not being delivered.

Table 10.4 Residential Development – Residual Values v BLV 30% Affordable (Social Rent 0%, Intermediate Housing 30%, Affordable Rent 70%), CIL, s106 as estimated					
			Existing Use Value	Benchmark Land Value	Residual Value
Site 1	PS24 West of Draycott	Cam NW	25,000	375,000	432,438
Site 2	PS25 East of River Cam	Cam NE Extension	25,000	375,000	397,388
Site 3	G1 South of Hardwicke	S of Hardwicke	25,000	375,000	374,378
Site 4	PS30 Hunts Grove Extension	Hunts Grove	25,000	375,000	428,671
Site 5	PS34 Sharpness Docks	Sharpness	650,000	780,000	-266,965
Site 6	PS36 New settlement at Sharpness	Sharpness	25,000	375,000	131,119
Site 7	PS19a Northwest of Stonehouse	Stonehouse NW	25,000	375,000	649,095
Site 8	PS37 New settlement at Wisloe	Wisloe	25,000	375,000	364,816
Site 9	G2 Land at Whaddon	Whaddon	25,000	375,000	292,142
Site 10	## Grove End Farm	Whitminster	25,000	375,000	233,502

Source: HDH (May 2020)

7. To understand the problem with the PCD we need to look at some of the underlying assumptions, both in terms of values and in terms of development areas utilised.

8. <u>Valuation Assumptions: Study-wide</u>

8.1. <u>Existing Use Value (EUV)</u>

8.1.1. At paragraph 6.28, the PCD refers to Land Value Estimates, as issued by DCLG in May 2018, which arrives at agricultural values in the area of £22,250/ha. The report then, at Table 6.6 refers to four transactions of agricultural land, the largest of which is just 4ha and even that falls within a SSSI and concludes the EUV to be used for agricultural land should be £25,000/ha. Given the scale of the ten sites being considered at Table 10.4, it seems questionable to base the EUV on transactions that are a fraction of the size of each allocation. If anything, a lower value, not a higher value than that offered by the Land Value Estimates might be expected for the EUV.

8.2. <u>Landowner's Premium (EUV+)</u>

8.2.1. At 6.33 sec the PCD tries to establish what should be considered as a reasonable return to a landowner. This is currently an area of uncertainty in National Planning Guidance as to how this figure is arrived at. In this instance, the authors at Table 6.8 have looked at values used elsewhere and picked a figure of £350,000/ha for greenfield sites and an uplift of 20% over EUV for brownfield sites. This appears arbitrary and indeed none of the examples in the Table actually use £350,000/ha.

8.2.2. We know that more recently (May 2020), the Inspector at the North Essex Joint Local Plan EIP, Roger Clews, has written to the three participating authorities on the findings of the hearings. In that instance, the question asked was 'at what level might a landowner be expected to sell his land for development?' The following is an extract from the Inspector's report (the reference to GC being Garden Community):

"Competitive return to a willing landowner

201. The PPG advises that a competitive return for the landowner is the price at which a reasonable landowner would be willing to sell their land for the development. The price will need to provide an incentive for the landowner to sell in comparison with the other options available, which may include its current use value or its value for a realistic alternative use[37]. Most of the land in each proposed GC's area is currently in agricultural use, with a current use value of around £10,000/acre.

202. Many participants suggested that a price of around £100,000/acre is the minimum needed to provide a competitive return. They included promoters of two of the three GC sites and others with knowledge of the local land market. While there is only limited evidence to support that figure, it appears likely that it is indicative of current market expectations. Care needs to be taken not to base viability assessment on a land price which is too far below such expectations, if landowners are to be persuaded to sell.

203. On the other hand, as a RICS research document[38] points out, basing land values on comparable evidence without adjustment to reflect policy requirements can lead to developers overpaying for land. This may in turn compromise the achievement of the policy requirements, if the developer then seeks to recover the overpayment by seeking a reduction in their planning obligations.

204. Taking these points and the other relevant evidence into account, there seems little doubt that a land price of around £100,000/acre on any of the proposed GC sites would provide sufficient incentive for a landowner to sell. In my view, it is also reasonable to assume that a price below £100,000/acre could be capable of providing a competitive return to a willing landowner, when account is taken of the necessarily substantial requirements of the Plan's policies."

8.2.3. In essence, the participants agreed and the Inspector accepted, that a landowner might be expected to sell their land for development if the land price achieved was the equivalent of ten times existing use value. Note also at paragraph 204 the Inspector acknowledges a lower figure might also be considered to be a competitive return.

8.3. Benchmark Land Values

8.3.1. The PCD arrives at this value by adding the EUV and the EUV+ together, which is like paying for the same land twice. It is particularly worth noting that the North Essex Inspector did not do this; he simply established a point where a landowner would be prepared to sell their land for development. In the Essex example values are expressed per acre whereas the PCD is in hectares.

8.3.2. To summarise the above, the Benchmark Land Value could be as follows:

8.3.2.1. EUV = £2,250 / ha

8.3.2.2. BLM = EUV * 10, or **£225,000 / ha.**

8.4. Sales Rate. It appears the sales rate is assumed to peak between years 6 to 15 at 200 dwellings per annum. It is not at all clear why it is assumed to take 6 years to get to this point.

8.5. Land Acquisition Profile. This is unrealistic as the valuation assumes all land is bought on day one rather than progressively through the development cycle. One of the main drivers n a developer's valuation is the efficient use of money which is shown through a Return on Capital Employed calculation. In simple terms on larger projects, finance is in effect, re-cycled as the development progresses to avoid excessive interest and the harmful negative effect of an opportunity cost arising from tying up too much largely dormant capital in one project at a time.

8.6. Interest. The interest rate of 6% is a figure used by the Treasury and is not a reflection of commercially available rates.

8.7. Taking 8.4, 8.5 and 8.6 together, it is little wonder the interest charge is so high and the perceived land value so unrealistically low; land bought too early, developed too slowly and an unrealistic interest rate charged on the whole.

9. Valuation Assumptions: Particular to allocation PS36 – Sharpness New Settlement

9.1. Sales revenues - Location.

The PCD utilises a figure of £2,900/m2 for Sharpness. From discussion with the consultants, this figure is arrived at by viewing the site as being further away from key markets such as Gloucester in the north. Therefore, the PCD applies £2,900/m2 at Sharpness and £3,000/m2 at Grove Farm. However, this approach ignores the relationship between Sharpness and another key market, that of Bristol to the south. It is worth remembering that at intervening settlements such as Thornbury, two recent developments which between them amount to some 200 properties were sold at averages of £3,386/m2 and £3,495/m2. Even allowing some reduction for the greater distance from Bristol, Sharpness should be comfortably north of £3,100/m2.

9.2 Sales Revenues – Place Making

The PCD makes no allowance for the impact of place making with schemes of this scale; ie the ability to create your own destination. Rather it appears to look at current values and assume the same levels will endure. Even then, the Persimmon development at Berkeley, with little attempt at place making has achieved sales revenues averaging £3,022/m2. This again supports the assertion that values for the scheme should be at £3,100/m2 or higher, particularly once the positive impact of the train station, new secondary school and employment opportunities are taken into account.

9.3 Density.
The PCD adopts a residential density of 32d/ha and therefore assumes at PS36, some 75ha will be required. In fact the emerging master plan for the site is designed at 37d/ha which changes the net residential area to 65ha which dramatically changes the valuation profile.

9.4 Net to Gross Ratio
Table 9.2 is reproduced below. It works on the assumption that larger sites have lower net/gross ratios. By reference to Table 9.8 further below, we do not believe the ratio of 65% has been used consistently through the study – see sites 3, 8 and 10 which are all above the 50ha threshold to review at 65%.

9.4 The following assumptions are used to establish the net developable area.

Table 9.2 Net / Gross Assumptions	
Site Size (ha)	Development Ratio (Net Developable Area)
Up to 1 ha	95%
1-4 ha	80%-90%
4-10 ha	75%-80%
10-50 ha	70%-75%
50-100 ha	60%-65%

Table 9.8 Summary of Strategic Sites

PS24 West of Draycott	Units	700	North West of Cam. HMA mix. Modelled at 32units/ha / 70% net developable (21.88ha). *Total site area 45.85ha.
	Area	31.25	
1	Units/ha	32.00	
PS25 East of River Cam	Units	180	North East of Cam extension. HMA mix. Modelled at 32units/ha / 75% net developable (5.63ha). *Total site area 48.10ha.
	Area	7.50	
2	Units/ha	32.00	
G1 South of Hardwicke	Units	1,200	South of Hardwick, Gloucester Fringe. HMA mix. Modelled at 32units/ha / 70% net developable (37.50ha). *Total site area 67.84ha.
	Area	53.57	
3	Units/ha	32.00	
PS30 Hunts Grove Extension	Units	750	Hunts Grove extension, Gloucester Fringe. HMA mix. Modelled at 32units/ha / 70% net developable (21.88ha). *Total site area 34.87ha.
	Area	33.48	
4	Units/ha	32.00	
PS34 Sharpness Docks	Units	300	Sharpness Docks. HMA mix. Modelled at 32units/ha / 70% net developable (9.38ha). *Total site area 96.24ha.
	Area	13.39	
5	Units/ha	32.00	
PS36 New settlement at Sharpness	Units	2,400	Sharpness. HMA mix. Modelled at 32units/ha / 65% net developable (75ha). *Total site area 190.01ha.
	Area	115.38	
6	Units/ha	32.00	
PS19a Northwest of Stonehouse	Units	650	North West of Stonehouse. HMA mix. Modelled at 32units/ha / 70% net developable (20.31ha). Total site area 35.85ha.
	Area	29.02	
7	Units/ha	32.00	
PS37 New settlement at Wisloe	Units	1,500	Wisloe. HMA mix. Modelled at 32units/ha / 70% net developable (46.88ha). *Total site area 83.81ha.
	Area	66.96	
8	Units/ha	32.00	
G2 Land at Whaddon	Units	2,500	Gloucester Fringe. HMA mix. Modelled at 32units/ha / 65% net developable (78.13ha). *Total site area 173.11ha.
	Area	120.19	
9	Units/ha	32.00	
## Grove End Farm	Units	2,250	Whitminster. HMA mix. Modelled at 32units/ha / 70% net developable (70.31ha). *Total site area 101.06ha.
	Area	101.06	
10	Units/ha	32.00	

Source: HDH (May 2020) **Total site area is the total promoted site area and includes areas not identified as developable due to landscape, heritage or other identified constraints.*

9.18 The modelling is further summarised below.

9.5 Other Land Uses

No allowance appears to have been made in the viability assessment of the 10ha of employment or local retail facilities. At 10ha, this is the equal largest employment allocation in the Local Plan.

10. Taking the above factors into account, we have been able to run the consultants' model for PS36 utilising a more realistic revenue of £3,100/m2 while maintaining a net/gross ratio of 65%. This arrives at a land value of £33.83m, or the equivalent of £293,205/ha. Given that other variables are the same, this result places Sharpness as you would expect, in a similar position to other sites. However, because we are using the consultants' model, this is still unrealistic as it still assumes all land is bought, and fees are spent on day one. Accordingly, this shows an interest cost of some £34.1m. A more realistic development/expenditure profile would see much of that finance cost returned to enhance the value of the scheme and consequently, a significant improvement overall.

11. Summary
A Viability Appraisal is an important document that forms an independent check to help evaluate the likely delivery of the proposals within an emerging Local Plan. The PCD in its current form however has very significant shortcomings and as such currently hinders rather than help the Local Plan process.

Yours sincerely,

[redacted]

Strategic Land Director