

Public Document Pack

SOUTH AND WEST PLANS PANEL

THURSDAY, 5 OCTOBER 2017

SUPPLEMENTARY INFORMATION

**Agenda Item 7 – Application 16/07784/FU – Land at Former St Joseph’s
Convalescent Home, Outwood Lane, Horsforth**

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Report of the Chief Planning Officer

SOUTH AND WEST PLANS PANEL

Date: 5th October 2017

Subject: APPLICATION 16/07784/FU – Development of 28 no. apartments and 13 no. houses including new access on land at the former St Joseph’s Convalescent Home, Outwood Lane, Horsforth, Leeds.

LATE ITEM: Addendum to Agenda Item 7 - Report of the District Valuer

APPLICANT
Yorkshire Housing

DATE VALID
14 December 2017

TARGET DATE
8th September 2017

Electoral Wards Affected:

Horsforth

Yes

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

1.0 INTRODUCTION

- 1.1 Attached is the District Valuers report in respect of the scheme for 28 affordable housing units and 13 houses at St Josephs, Outwood Lane, Horsforth.
- 1.2 The report concludes that if the section 106 agreement requirements for greenspace are required then the scheme would be unviable due to the above policy provision of affordable housing.
- 1.3 Members are requested to note the report.

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Our Reference : 1643684/SC
Your Reference : 16/07784/FU

Please ask for : Simon Croft
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Date : 25 September 2017

IN CONFIDENCE

Dear Carol

DVS Independent Review of a Development Viability Appraisal

Proposed Development Scheme:	Land at Former St Josephs Convalescence Home, Outwood Lane, Horsforth, Leeds
Scheme:	28 Apartments and 13 dwelling houses
Planning Ref:	16/07784/FU
Applicant:	Yorkshire Housing
Applicants Agent:	CP Viability Limited

1. Introduction

Further to your instructions dated 5 July 2017 and my Terms of Engagement dated 10 July 2017. I have now inspected the site and reviewed the viability assessment prepared by CP Viability Limited on behalf of the applicant, and I am pleased to supply my report.

It is understood that Leeds City Council Planning Authority require an independent opinion of the viability information provided by Yorkshire Housing, in terms of the extent to which the accompanying appraisal is fair and reasonable and whether the assumptions made are acceptable and can be relied upon to determine the viability of the scheme.

The report gives overview of the applicant's viability appraisal, then provides advice on those areas of the appraisal, which I consider to be incorrect, along with justifications where appropriate. A summary of the key differences of opinion and impact is then provided.

It is my conclusion that a planning compliant scheme incorporating CIL, 28 affordable apartments and the specified S.106 contributions is unviable.

2. Assumptions and Limitations

This report is for the purposes of determining viability. It is not a Red Book Valuation Report.

3. Date of Viability Review

The viability review has been assessed at August 2017, adopts values, and built costs at this time. I note that the applicant's review is dated 26 June 2017. It is my opinion that the conclusions regarding viability remain valid as at the date of this report.

4. Viability

This report remains valid for 6 (six) months from the date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

5. Conflict of Interest

In accordance with the requirements of the RICS Standards, the VOA has checked that no conflict of interest arises before accepting this instruction. It is confirmed that I am unaware of any previous conflicting material involvement and am satisfied that no conflict of interest exists. Should any such difficulty subsequently be identified, you will be advised at once and your agreement sought as to how this should be managed.

6. Restrictions on Disclosure and Publication

The report has been produced for Leeds City Council. The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers. No responsibility whatsoever is accepted to any Third Party who may seek to rely on the content of the report unless previously agreed.

It is understood that the report may be made available to the applicant and their viability adviser listed above. It is agreed that your authority and applicant/their viability adviser will neither make available to any Third Party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

This report is considered Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (Section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to information) (Variation) Order 2006 and your Council is expected to treat it accordingly.

7. Status of Valuer

It is confirmed that the viability assessment has been carried out by myself, Simon Croft BSc (Hons) MRICS RICS Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the viability assessment competently and is in a position to provide an objective and unbiased viability assessment.

The assessment of the applicant's viability assessment has been prepared in accordance with the recommended practice set out in the Royal Institution of Chartered Surveyors (RICS) Financial Viability in Planning Guidance Note (1st Edition); the RICS Valuation - Professional Standards 2014 UK Edition; the National Planning Policy Framework; and where appropriate the Viability Testing Local Plans (Harman) Report.

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

As part of the DVS Quality Control procedure, this report and my appraisal has been reviewed by Simon de Whalley MRICS, RICS Registered Valuer.

8. Background

The site at the date of this report is a principally brown field site, formerly the St Joseph's Convalescent Home. This building has been demolished. We understand that applicant has submitted a planning application for the construction of 13 semi-detached/townhouses and 28 apartments.

The site is located in Horsforth, adjacent to the A65 New Road Side with access to the rear from Outwood Lane.

9. Applicant's Assessment

I refer to CP Viability Limited's report titled Land at the Former St Joseph's Convalescent Home, Outwood Lane, Horsforth, Leeds, dated 26 June 2017.

I have not conducted any negotiations with CP Viability Limited, the applicant or any of their other advisers. I have however sought their confirmation on a number of items within their report.

The proposed development comprises of 13 semi-detached and townhouses and 28 apartments. The total floor area is 3,156m². The site has a net site area of 0.83 hectares (2.05 acres).

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

There is a single appraisal within the CP Viability Limited report.

The scheme is summarised below:

Type	Bedrooms	Units	Size (m ²)	Total size (m ²)
3 storey semi-detached townhouse	4	6	120	720
3 storey terraced townhouse	4	7	120	840
Apartments	2	28	57	2,807
Total		41		3,156

In summary the report by CP Viability allows for all 28 apartments to be affordable homes, split 60% Social Rented (Lower Decile) and 40% Intermediate (Lower Quartile). This equates to an affordable housing level of 68.3%. My understanding is that this is because the applicant is a housing association and intends to retain the apartments on site. I have been advised by Leeds City Council that it will be a planning condition that the apartments remain as affordable homes.

The applicant's appraisal thereafter shows a Gross Development Value (GDV) of £6,754,046 subject to costs of £5,770,657 resulting in a profit of £983,389, which equates to a 17.04% profit on cost and a 14.56% profit on GDV. I note that the applicant's appraisal incorporates a grant of £602,000. My report will focus on this appraisal.

10. CP Viability Limited Appraisal Assumptions

10.1 Development Period

The appraisal and report by CP Viability provides details in terms of the assumptions for the development period. The report states that they have assumed a pre-construction period of 6 months, a 15 month build period followed by a 6 month sales programme for the market value homes. They have assumed that the apartments are transferred immediately upon completion.

I consider the lead in period to be too long and have adopted a period of 2 months, but have accepted the build period. In my experience a developer is likely to start to sell the market housing during the construction period. I have therefore assumed that sales commence 8 months after construction starts on site and all 13 units are sold in a 9 months period which equates to 1.5 units per month which I consider reasonable for this size of site and location.

10.2 Revenue - Gross Development Value (GDV)

I have considered the applicant's GDV of £6,754,046, which includes market housing, affordable housing and the grant funding.

10.3 Market Housing

The applicant intends to construct 13 units of market housing. These will comprise 6 semi-detached properties and 7 townhouses. I understand that these will all be 3 storey in height.

CP Viability have applied a rate of £3,166.67 per m² to the semi-detached properties and a slightly lower figure of £3,125 per m² to the townhouses. This equates to a unit price of £380,000 and £375,000 respectively.

I have considered these figures and also considered evidence for sales of other new properties within the vicinity. As matters currently stand there is only one local development site, being Horsforth Vale, where Redrow are currently selling residential properties. The details are as follows:-

Horsforth Vale, Calverley Lane, Horsforth

This is a large scheme on the former site of the Clariant Chemical Plant which over the last three years has been redeveloped for housing by Redrow. The majority of the properties on site are two storey detached and semi-detached properties. However my research has

indicated in 2015/16, 13 three storey dwelling houses have been sold. These include townhouses, semi-detached and detached properties, and these are 4 or 5 bedrooms.

The median sales rate for these properties is £3,157 per m².

In my opinion, the location of the subject property is marginally better than Horsforth Vale, this is due to the fact that it is much closer to amenities within Horsforth and backs onto Outwood Lane, which is an attractive tree lined avenue and part of a conservation area. Further the last sale of these properties took place in 2016. I have therefore made an adjustment to reflect these factors and considered the sales rate for the semi-detached and townhouses should be £3,200 per m². I have adopted this value within my appraisal.

10.4 Affordable Housing

As detailed above, it is the applicant's intention to retain the apartments on site as affordable homes. I understand that there will be a planning condition to that reflects this. The applicant's agent, has split the 28 apartments in accordance with the affordable housing policy of Social Rented (Lower Decile) - 60% and Intermediate (Lower Quartile) - 40%.

They have then applied current transfer rates for apartments in suburbs of Social Rented (Lower Decile) - £702 per m² and Intermediate (Lower Quartile) - £904 per m².

I have accepted that these values and ratios and have incorporated them within my appraisal.

10.5 Ground Rent Revenue

Ground rent revenue has a positive impact in terms of viability. Some national builders sell the houses subject to a long leasehold interest and receive an annual rent, typically ranging from £100 to £500 per annum. This practice is being considered by the government in the light of recent onerous cases coming to light and may be banned in the future. However, at the present date ground rent revenue can positively impact on the viability of a scheme.

Whilst it would be normal for the apartments to generate a ground rent revenue. However they are being retained, as affordable homes by the applicant, I have therefore assumed that there will be no ground rent revenue generated from the scheme. I note that the CP Viability whilst not stating this explicitly have implicitly accepted that there will be no ground rent revenue.

10.6 Gross Development Value (GDV)

My opinion of the GDV of the scheme comprises:

Market Housing	£4,992,000
Affordable Housing	£1,247,046
Grant Funding	£ 602,000
Total GDV	£6,841,046

CP Viability GDV is £6,754,046. The difference reflects the fact that my GDV incorporates a slightly higher figure for the market housing.

As part of any future negotiations or appeal process, and in the event of further or better sales evidence, I may revisit this opinion of GDV.

10.7 Construction/Abnormal Costs

CP Viability have provided a construction cost of £3,958,052. They advise this is based on BCIS build costs for new build houses and apartments in Leeds as at the date of their report.

I have checked the BCIS figure and note that as of 21 July 2017, the median BCIS build cost for 3 storey estate housing in Leeds is £1,082 per m², and for 3 to 5 storey apartments the median cost is £1,201 per m². I have increased the apartment build costs by 10% to allow for common areas. I have also added to this in line with the CP Viability, externals at 10% and a 3% contingency, which gives an overall construction rate of £1,363 per m². I have incorporated this figure within my appraisal.

This give a construction costs of £4,301,316.

There is only one abnormal cost relating to the property which are highway improvement works to Outwood Lane, the cost of these works are £40,000.

10.8 Planning Obligations

CP Viability have used within their appraisal the following obligations:

- Community Infrastructure Levy - £149,073

Leeds City Council have also advised that the following figures are applicable to the development.

- | | |
|---------------------------------|----------|
| • Public Open Space | £137,000 |
| • Travel Plan | £20,137 |
| • Upgraded bus stop information | £10,000 |
| • Community Infrastructure Levy | £140,400 |

Therefore in terms of total S.106 contribution, and affordable housing is as follows:

- S.106 Cost - £307,537
- Affordable Housing - 28 units

10.9 Section 106 Hierarchy and Timing

Regarding the timing of these contributions there is no detail within the applicant's report in this respect. I have assumed that all Section 106 costs are spread through the construction period.

10.10 Professional Fees and disposal costs

CP Viability has assumed a figure of 6% as professional fees for this project. I consider that this is what we would normally expect for the scheme and I have incorporated this rate within my appraisal.

In respect of disposal costs CP Viability Limited has incorporated the rate of 1.5% which given the size and nature of the scheme I consider to be reasonable. I have incorporated this figure within my appraisal.

10.11 Finance

The applicant's agent has used a debit rate of 6% and a credit rate of 4%. I consider that the debit rate to be reasonable, however I would normally use a credit rate of 2%. I have incorporated these figures within my appraisal. I note that my interest calculation is £242,785 compared to the applicant's of £160,370.

10.12 Land Value

The site is currently a vacant serviced brownfield site, located in Horsforth, close to the A64 new road site. The site was previously used for a convalescent home. In terms of planning policy, the site is unallocated (white land) within the Leeds unitary development plan, (reviewed 2006).

In the current draft site allocations plan, the site is allocated for housing and is referred to as reference HG2 - 45. This states that the site has a potential capacity for 30 units. It also notes the site is suitable for older person/independent living policy HG4, and it is within a conservation area. CP Viability have stated that they expect that the Benchmark Land Value (BLV) to be no lower than £300,000 an acre. This would equate to BLV for the site of £615,000. They further state that the agreed purchase price of the site by the applicant equates to 'in excess of £950,000 per acre'.

Their appraisal based upon a profit and cost of 17.04% and a profit of GDV of 14.56% shows a residual value of £323,558. This is therefore below there BLV.

I do not agree with the applicants level of BLV.

For the purposes of determining land values there are two general publications which assist surveyors in Viability Appraisals being "Financial Viability and Planning" August 2012 by the Royal Institution of Chartered Surveyors (RICS) and Viability Testing Local Plans June 2012 by the Local Housing Delivery Group (LHDG).

In terms of key points to consider in relation to this viability review the RICS Guidance states.

Paragraph 2.3.2 Box 7 "Site value should equate to the market value subject to the following assumptions that the value has regard to the development prime policy and all other material planning consideration and disregards that which is contrary to the development plan".

Paragraph 2.1.2 "it follows for example that the land value is flexible and not a fixed figure to the extent that site value has to be termed as part of the viability assessment".

The flexibility of land value cannot result in the value going below the Current Use Value (CUV).

It is recognised therefore that the CUV forms some sort of benchmark but how (or whether) it needs to be adjusted is not explained in the RICS document.

To arrive at the value of a typical owner will sell for, the RICS does not favour taking the CUV and adding something on in a formulaic way to incentivise the owner to release the site, (paragraph 3.4.1 (and) at 3.4.4) says "The return to the land owner will be in the form of a value in excess of the Current Use Value but it will be inappropriate to assume an uplift based on certain percentages".

The LHDG guidance states at "treatment of threshold land value" that "threshold land value should represent the value at which a typical willing landowner is likely to release land for development"

For viability assessments the site value is usually assessed by means of a residual valuation (frequently referred to as a development appraisal) and is generally determined last, rather

than a fixed input at a level unrelated to the cost of development, abnormal cost and that planning requirements.

For viability assessments it is the planning policy and material considerations that drive the land value and not the other way around.

The valuation process therefore involves the surveyor judging where the value of the site would be if the respective costs of applying all the Council policies in undertaking the normal works (if applicable) were fully reflected. I refer to this as the natural residual value of the compliant scheme.

This is then viewed alongside the price at which a reasonable hypothetically commercially minded landlord would dispose of the land having regard to the sites' Current Use Value (CUV) or any Alternative Use Value (AUV) should one be available and comparable market evidence of land transactions.

In determining the Benchmark Land Value (BLV) for the site I have considered other recent benchmark land values on other schemes in the vicinity of the subject site. These are as follows: Note - as these figures are confidential so I have anomalised them.

Date	Location	Size (Acres)	Benchmark Land Value per acre	Remarks
Sept 2014	Chapel Allerton	1.79	£392,007	
March 2015	Cookridge	0.79	£284,810	
Sept 2016	Chapel Allerton	3.88	£198,481	
Jan 2017	Bramley	1.79	£231,844	
Jan 2016	Otley	0.57	£879,771	High Density development of apartments
April 2014	Wetherby	1.89	£260,000	
June 2017	Adel	5.89	£585,738	Scheme of detached houses

Further I note that in the case of the Bramley site GDV values for the market housing were £1,798 per sq m and for the Chapel Allerton site they were £2,111 per sq m. I have increased the land values to reflect this difference in house values between these sites and the subject site, as follows:

- Chapel Allerton - £392,007 + 51.5% = £593,890 per acre,
- Bramley - £231,844 + 78% = £412,682 per acre.

I have also considered an alternative approach looking at the market value of comparable sites. I am aware of the sale of a number of comparable sites. I have anonymised the data as follows;

Date	Site	Size (acres)	Sale price	Sales rate per acre
Sept 2012	Adel	6.2	£3 M	£483,870
Nov 2013	Moortown	4.57	£2.4 M	£525,164
Sept 2016	Moortown	2.2	£0.85 M	£386,000

Whilst I generally consider that the benchmark land values give a more robust guide I am mindful of the fact that the subject site is an attractive site located in a high value area. As a consequence I consider that the Benchmark Land Value for this site should be based on £550,000 per acre. I therefore calculate my Benchmark Land Value as follows;

- 2.05 acres @ £550,000 = £1,128,012 but say £1,130,000.

10.13 Remaining Appraisal Inputs

All other costs have been carried forward into my review. I may not agree with all these inputs, and DVS reserve the right to reconsider these as part of any future discussions.

10.14 Profit

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

CP Viability's appraisal shows a profit on costs of 17.04% on profit on GDV of 14.56%. This equates to £983,389. In my own appraisal I have incorporated a profit margin of 17.5% on GDV for the market housing and 6% profit on cost for the affordable units. This gives the blended profit rate of 14.68%. This dual rate approach to profit is also recommended by the HCA.

To demonstrate viability therefore I am looking for the residual figure for profit of a planning compliant scheme to show a positive profit level in excess of the rates detailed above.

11. Key Differences

The key differences between the two appraisals are summarised below:

	CP VIABILITY LIMITED	DVS	Monetary Difference	DVS figure Impact on viability
Land Value	£615,000	£1,130,000	£515,000	negative
Finance	£160,370	£242,785	£82,415	negative

12. DV Appraisal and Conclusion

My appraisal has been undertaken "through the eyes" of a typical developer intent on implementing the planning permission.

As detailed above I have a difference of opinion over a number of inputs to the CP Viability appraisal and the cumulative effect is that my planning compliant appraisal generates a negative outcome, it is not viable.

It is my conclusion a planning compliant scheme with 28 on site affordable units, CIL, and s106 costs is unviable.

A copy of my appraisal is included.

I have tested the scheme with a no s106 cost, but with the CIL and the 28 onsite affordable units and note that the scheme is still produces a negative outcome and so is not viable.

13 Recommendations

If the factual matters above relating to sales revenue, unit numbers, floor areas, tenure split, planning obligation hierarchy, cost of planning obligations, cost of abnormals or any other input are factually incorrect my report would not be valid and I would have to revise my appraisal and advice.

I recommend that any increase in abnormal or build costs should be reviewed by an independent expert.

I emphasise that my appraisal embraces the costs and revenues appropriate to the review date and is therefore valid only if the building construction work commences within 12 months and proceeds at a rate consistent with achieving sales in the market.

If commencement of the works were to be delayed and is then undertaken at some other time when market conditions may be different, then I believe a re-appraisal will be required adopting the costs and revenues then obtaining.

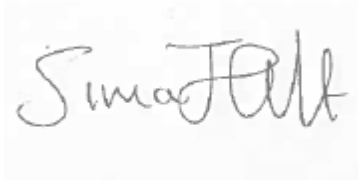
Should it be that on site affordable housing is preferred before any the greenspace contribution another appraisal could be carried out at additional cost, to determine the maximum numbers of affordable units that would be viable as part of a revised report.

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

I would be pleased to discuss any of the foregoing with your authority if you wish. My instruction does not extend to negotiations with the applicant or applicant's surveyor however if your authority think that this would be of benefit this can be facilitated through a separate instruction.

Should the applicant disagree with the conclusions of our assessment, we would recommend that they provide further information to justify the values and costs they have adopted. Upon receipt of further information and with your further instruction, we would be happy to review the information and reassess the schemes viability.

Yours sincerely

A handwritten signature in black ink that reads "Simon Croft". The signature is written in a cursive style with a large 'S' and 'C'.

Simon Croft MRICS
Senior Surveyor
RICS Registered Valuer
DVS

Report reviewed by

A handwritten signature in black ink that reads "Simon de Whalley". The signature is written in a cursive style with a large 'S' and 'W'.

Simon de Whalley BSc Hons MRICS Registered Valuer
Principal Surveyor DVS
Head of Development Viability and Disposals

