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Planning Development

NON-TECHNICAL SUMMARY OF DEVELOPMENT VIABILITY APPRAISAL (UPDATED NOVEMBER 2022)

PLANNING APPLICATION FOR RESIDENTIAL DEVELOPMENT

AT: FORMER HINCHLIFFE MILL, WATER STREET, HOLMBRIDGE, HD9 2NX

This non-technical summary has been produced to accompany a viability appraisal of the same date and submitted with a planning application for the proposed development of 19 residential units dwellings (increased from 16 previously and reduced from the originally proposed 24 units) at the former Hinchliffe Mill site, Hinchliffe Mill, Holmfirth.

The proposals relate to the 1.9ha [1] of the former Hinchliffe Mill site, which currently include a three-storey stone-built mill building, the mill dam and mill pond, and the surrounding land. The other mill buildings on site which historically formed part of the mill complex have now been demolished leaving a large section of the site vacant.

The viability appraisal site has been undertaken in full accordance with all relevant Government, LPA and professional (RICS [2]) guidance and standards. All inputs to the appraisal have been provided by independent and competent experts in their own areas, and the appraisal provides full transparency and accountability in terms of all inputs and calculations.

The author of the viability appraisal and accompanying report is a suitably qualified practitioner as per the definition in the glossary to the RICS professional statement [3] i.e. an experienced and dual qualified full member of the Royal Institute of Chartered Surveyors and Royal Town Planning Institute. He is educated to post-graduate level through Leeds Metropolitan University and the College of Estate Management.

The need for a viability assessment at this planning application stage is considered to be justified in this case because:

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[1] Gross site area

[2] Royal Institute of Chartered Surveyors

[3] Financial viability in planning: conduct and reporting

- the development includes the renovation and conversion of a former mill building; the site contains a former mill pond which planning policy requires preserving; and the site is in a Conservation Area and therefore requires a higher quality bespoke design solution, including the use of traditional / natural build / landscaping materials;

- this site has particular characteristics and development costs that could not have been taken into account in the borough-wide viability work conducted by Cushman and Wakefield on behalf of the Council as part of the Local Plan process. The specific costs associated with this site and proposed development therefore need to be thoroughly assessed in order to accurately inform the question of development viability.

The Kirklees Local Plan policies relating to the provision of infrastructure and other Section 106 planning gain clearly acknowledge the need to consider the viability of developments coming forward in the borough.

The Council have recently issued their own guidance, which it is stated in the context of NPPF paragraph 58, is "intended to help applicants needing to commission or undertake viability assessment in order to minimise delays in processing and determining planning applications." [4]

RICS Professional Guidance: Financial Viability in Planning, Paragraph 2.1.3 states that a proper understanding of financial viability is essential in ensuring that:

1) land is willingly released for development by landowners; and
2) developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development.

In accordance with NPPF [5] Paragraph 64, notwithstanding the issue of Section 106 planning contributions, Vacant Building Credit is available in this case because of the proposed re-use of the vacant mill building.

The Government states this is to enable:

"an incentive for brownfield development on sites containing vacant buildings. Where a vacant building is brought back into any lawful use, or is demolished to be replaced by a new building, the developer should be offered a financial credit equivalent to the existing gross floorspace of relevant vacant buildings when the local planning authority calculates any affordable housing contribution which will be sought." [6]

In this case, netting of the vacant floorspace, this would equate to 59.72% of the normal 20% affordable housing provision sought by the Council, which equates to 11.94%, or approximately 60% of the normal affordable housing requirements.

The viability appraisal including S106 contributions may be summarised as follows:

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[4] Paragraph 1.5

[5] National Planning Policy Framework

[6] Paragraph 026 of the Government's Guidance 'Planning Obligations'

A) Gross development value (GDV) = £9.05M

B) Gross development costs (GDC) = £9.83M [7]

C) Theoretical benchmark land value as a result of subtracting GDC from GDV [8] (A – B) and accounting for 20% developer profit and the site purchase costs for a developer = **Minus £0.78M**

The affordable housing contribution (equivalent monetary amount) is projected to be £485,421 in this case and has been included in the gross development costs above, as have the following off-site S106 costs:

- Public Open Space contribution: £45,483
- Real time bus information display: £10,000
- Metrocards: £12,276
- Biodiversity net gain: £44,390

The benchmark land value (BLV) [9] has been assessed to be £525,000 and therefore in order for the development to be viable in this case, a shortfall of £701,576 would have to be realised to bring the viability appraisal back in balance, and enable payments towards Section 106 contributions to begin – i.e. the residual site value of minus £176,576 taken from the Appendix J Spreadsheet (viability appraisal excluding S106 contributions) minus the BLV of £525,000.

Referring back to the still extant DCLG guidance, although not entirely reflecting updates to the methodology for viability appraisals (e.g. the use of EUV+ to assess land value), it nevertheless provides a succinct summary of the importance of development viability in terms of the smooth operation of the property development market:

"The test for viability is that the evidence indicates that the current cost of building out the entire site (at today's prices) is at a level that would enable the developer to sell all the market units on the site

[7] This includes developer profit of 20% of GDV as a cost, which is set at a level to reflect Kirklees Guidance (15 – 20% stated to be an acceptable range) and in terms of property specific risk in this case – i.e. this is a riskier than average development site being a former industrial brownfield sites with a substantial old mill building, a large millpond (and its infrastructure). The likely extended development timescale of three years because of site complexities and the likely need to develop the site in manageable phases to reduce risk, provides more potential uncertainty in relation to the predictability and stability of key viability inputs.

[8] Using the Existing Use Value plus a Premium method (EUV+) as per relevant guidance. The site has been valued in terms of its previous industrial use.

[9] Government guidance on viability at Paragraph 013 states: "The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements."

(in today's market) at a rate of build out evidenced by the developer, and make a competitive return to a willing developer and a willing landowner."

In this case, there are concerns that the land will not be willingly released by the current owners, particularly if Section 106 contributions are included. Likewise, if profit levels were to be reduced to say a hypothetical 10% or under, it is highly unlikely the rewards associated with such a level of profit would be judged to be acceptable by a prospective developer (particularly with a complex, risky site such as this), nor would a bank be likely to be willing to lend to a developer in the circumstances, as it would be perceived as being too high risk.

In summary, the purpose of the viability exercise in the context of this current planning application is to demonstrate **whether or not the inclusion of S106 contributions is financially viable**.

This report and accompanying evidence submitted demonstrates that in my professional opinion that the development in question **is not viable with S106 contributions**.

Nick Willock MRTPI MRICS

Robert Halstead Chartered Surveyors & Town Planners

23rd February 2021 (Updated 4th November 2022)