Richard Gilbert
Senior Planning Officer
Planning and Development Service
Growth & Regeneration
PO Box 1720, Huddersfield
HD1 9EL

20th February 2023

Sent via email: richardA.gilbert@kirklees.gov.uk

Dear Richard

Viability Assessment – Burns Road, Birchencliffe

I am writing following receipt of the Viability Review undertaken by AspinallVerdi on the Council's behalf, issued in November 2022 following submission of the Roger Hannah ("RH") Viability Assessment in July 2022 on the Applicant's behalf.

We note that there are areas of agreement between us, but we have considered the areas of difference in more detail in this letter, which are set out below:

- Standard Build Costs & Fees
- Development Finance
- Developers Profit
- Benchmark Land Value

With the above differences, AspinallVerdi concluded the scheme is viable with 20% affordable housing provision and S106 contributions of £101,327. This contrasts to our conclusion that the scheme cannot support any on-site affordable housing or S106 contributions.

Scheme Mix

Following the submission of our viability assessment in July 2022, the scheme layout has been updated slightly which results in a reduction in floorspace by 611 sq ft. The total number of units in the scheme remained unchanged. We have attached the revised layout plan and accommodation schedule to Appendix 1 of this letter. We would ask AVL to consider the revised scheme in their updated appraisal, however we would expect a small difference to viability.

Standard Build Costs

In our original assessment of the scheme, we adopted a build cost of £170 per sq ft. This is based on our market experience and a scheme of a similar size and nature which was recently tendered by the Applicant. AspinallVerdi have in turn relied upon BCIS data by adopting the 'median quartile' rate plus 10% for external works.

In addition, referring to RICS, the most recent BCIS five-year forecast published forecasts tender price increases of 24% over the next 5 years. Materials shortages have resulted from a combination of a number of factors:

- Covid-19 has affected supply from mills and factories,
- supply chain bottlenecks due to global demand shocks,
- shortage of haulage drivers,
- container shortages and port delays,
- construction demand fluctuations
- increased administration at UK ports affecting imports and exports due to UK EU Trade and Cooperation Agreement,

- sharp rises in shipping costs and temporary surcharges.

Labour costs are also increasing. Given the current levels of inflation being seen across the cost market and wider economy, we consider the build cost adopted by AspinallVerdi to be artificially low and do not agree to the lower rate adopted or the use of BCIS which is out of date in relation to the current market.

Furthermore, as requested by AspinallVerdi, we have attached a cost plan for the scheme as supporting evidence of the base build cost adopted in our assessment (see Appendix 2). The Applicant has further provided supporting evidence of build costs for recent schemes they have undertaken of a similar size and nature. This reflects an average build cost of £170.53 per sq ft.

We would therefore request that AspinallVerdi review their assessment of the base build costs in light of the supporting cost evidence provided.

Fees

Both AspinallVerdi and Roger Hannah are in agreement with allowances made in terms of professional fees and contingency, however we note that AspinallVerdi have applied fees for contingency and professionals to the base build only. It is industry standard practice to assess this cost as a percentage of the total development costs and not on a per plot basis as assessed by AspinallVerdi.

The site requires abnormal works which has been acknowledged by AspinallVerdi and therefore will attract additional ground and investigation works, surveys as well as other fees associated for a design team including architects, engineers and consultants involved which is reflected in the fee rate adopted. This can be demonstrated with a simple example.

If two sites of 100 units were proposed for development, of an identical mix of unit types and sizes, and one site was steeply sloping, required significant remediation, investigation, abnormal foundations, foul water pumping, water attenuation, infrastructure interventions and retaining walls. If the other site was flat, gravity drained, on soils suitable for standard strip footings, with no retaining works, no import of material, no remediation, it would be incorrect to assume that fees would be the same across both sites. Evidently, the opposite would be the case as additional professional input, surveys, reports, drawings etc would be required on the sloping site that attracted additional abnormal cost items, and therefore a higher professional fee allowance would be required.

We would therefore ask AspinallVerdi to reconsider their assessment of contingency and professional fees as a percentage of the total development costs as opposed to a percentage of the base build only.

Finance / Development Profile

Whilst both parties have adopted a development finance rate of 6.5%, the total finance cost in RH appraisal equates to £210,719 in comparison to £73,954 in AspinallVerdi's appraisal which is artificially low. Argus often underestimates finance costs as it does not properly reflect the true debt position across a scheme when revenue starts to be generated. We enclosed our own cash flow for information to enable a compare the timing assumptions, but we would expect standard costs to be incurred monthly and for abnormal costs (and associated professional fees) to be upfront weighted.

In addition, our report was produced in July 2022, and there have been significant changes to interest rates since then. Interest rates have now risen over six consecutive months from 1.25% in June 2022, 1.75% in August 2022 2.25% in September 2022, 3% in November 2022 at the date of AspinallVerdi's report, 3.5% in December 2022 and 4% in February 2023.

We kept the rate at 6.5% in July 2022 on the basis this had been a largely accepted rate across viability assessments for some time, without foreseeing the most recent rises and with the increase in June seen as a warning to businesses about pushing prices up at that time to reduce inflation. Evidently, this was not just a warning and interest rates have continued to increase, with three increases since then. The 6.5% we adopted at this time was therefore considered conservative, but we kept it at this level to avoid dispute in this area as it had been an agreed rate for some time. This rate is now too low, and we are increasing our rates to 8 - 8.5% across the board (for Red Book valuations and consultancy advice) since the most recent rise. We therefore consider it is important that the finance rate increased to 8 - 8.5% so that the appraisal is more reflective of the current debt markets and the significant changes that have taken place over a relatively short period of time.

Notwithstanding this, the cost difference in the appraisals is likely to be attributed to timing assumptions of certain inputs, such as abnormal development costs, professional fees, marketing fees and the time period allowed before the first sale is completed. We would therefore request that Aspinallverdi amend the timing assumptions in their cash flow to be reflective of the actual delivery programme for the development, as per the assumptions provided in our cash flow.

Developers Profit

The level of developer's profit we expect for undertaking development varies depending on the strength of the market, nature of the scheme and the risk involved. In our assessment we have adopted a developers profit 8% on GDV for the affordable units in the scheme as opposed to 6% on GDV adopted by AspinallVerdi.

A contractor's margin of 10% on cost is usually sought, which would typically equate to 8% on GDV, we therefore consider 6% to be too low and not an acceptable return to the developer. This is particularly the case in a market characterised by high levels of cost inflation and rising interest rates.

We would therefore request that AspinallVerdi reconsider their position to reflect a more appropriate contractor margin and the risks associated with cost inflation, and a more appropriate private sales margin to reflect the challenging nature of the site and wider market risks.

Benchmark Land Value

The application site is greenfield and extends to approximately 2.62 Acres (1.06 hectares). AspinallVerdi have assessed the EUV of the site as £7,500 per acre. They have then applied a multiplier of 10 x to this as a minimum premium given the level of abnormal development costs. This reflects a total BLV of £200,000 (£75,000 per acre) for the site.

In our assessment, we assessed the EUV of the site as £10,000 per acre. We then applied a rate per acre of £200,000 as a minimum premium given the sites allocation for residential development. This reflects a total BLV of £524,000 for the site. In our assessment of the site, we also mentioned the site benefits from Outline consent for residential development and is part of a wider housing allocation in the Local Plan, where we understand the Land on the north and south side of Yew Tree Road was purchased by Harron Homes in October 2017 for a price of £381,679 per acre (11.79 acres). We therefore considered our assessment of the Benchmark Land Value for the application site to be conservative.

There is no real body of evidence to assess the minimum land value a reasonable landowner would accept on sites with the exception of option agreements. From our experience of dealing with option agreements on sites, a minimum land value of £150,000 - £500,000 per acre is usually included depending on factors such as the nature of the site, location and proposed development. We therefore do not consider a land value of £75,000 per acre to reflect the minimum land value required to incentive the landowner to sell, with reference to other land transactions and our knowledge of minimum land values in option agreement.

Furthermore, turning to the multiplier approach, this is something that is becoming common place in viability assessments in planning, but it is problematic for a number of reasons, which are namely:

- The multiplier figure adopted cannot be evidence, and is therefore essentially an arbitrary figure
- It is not an accepted method of valuation and has no grounding in any RICS guidance. The RICS guidance note on viability in planning (2021) sets out a need to following best valuation practice where relevant
- Landowners do not refer to a multiplier approach when assessing the value of their land and deciding whether or not to release their land for development. It therefore does not reflect the workings of the market and has no regard to the minimum return a reasonable landowner would expect when releasing land for development

The use of the multiplier approach is therefore subjective and not a stipulation of the guidance. In this case, there is a presumption in favour of development for a site that is allocated in a Local Plan and it would therefore be reasonable for a landowner to expect a higher return compared to a site that is not allocated. In our view, a rate per acre is more reflective of the market and how a landowner would view the value of their land when assessing the minimum premium.

We would therefore ask AspinallVerdi to reconsider their assessment of the Benchmark Land Value of the site and consider the minimum premium to incentive the landowner to sell in their re-assessment. On this basis we would expect AspinallVerdi to conclude that our assessment of BLV is reasonable

Summary

We have addressed the differences between the RH and AspinallVerdi approaches to the viability assessment. We would therefore request that AspinallVerdi review their assumptions in light of the additional commentary and evidence provided in respect of standard build costs, finance and development profile, developers profit and benchmark land value. Once the appropriate changes are made to the above, we would expect there to be broad agreement between the parties that no affordable housing or planning contributions can be delivered on site.

I trust the above provides sufficient evidence and commentary to support the proposed changes to AspinallVerdi's appraisals. I am available to discuss in more detail at a meeting with AspinallVerdi and the Council should this be required.

Kind regards

Jessica Mistry MRICS
Senior Surveyor
Land & Development

For and on behalf of
ROGER HANNAH LTD

Appendix 1 – Updated Scheme Mix

REVISED ACCOMMODATION SCHEDULE

House type	no	type	sqm	sqm	
Type B	6	4b/7p	137.67	826.02	
Type D	10	4b/7p	126.63	1266.3	
Type E	1	4b/7p	159.96	159.96	
Type F	4	4b/7p	125.4	501.6	
Type G	1	4b/6p	100	100	
			total	2853.88	sqm
			Total	30718.9	sqft

Base build cost plus externals **£170sqft** **£5,222,213**

WCL scheme evidence

Gordon St Stockport - 16 houses		**Saville St - 18 houses**		**Lowton - 19 houses 6 flats**		**Bury Old Road - 7 houses**	
Start date	Mar-21	**Start date**	**Jan-22**	**start date**	**Jan-21**	start date	Feb-22
Completion	May-23	**Completion**	**Jul-23**	**completion**	**Dec-23**	completion	**TBC**
Build Cost	£3,005,304	Build Cost	£2,954,665	Build Cost	£3,815,053	Build Cost	£1,597,691
Sqft	18255	Sqft	16436	Sqft	25501	Sqft	8509
Cost sqft	£165	Cost sqft	£180	Cost sqft	£150	Cost sqft	£188
Specification		**Specification**		**Specification**		**Specification**	
Brick		Brick		Brick		Brick	
Grey windows		White windows		Grey windows		Grey windows	
Fibre slate roof tile		concrete tile roof		concrete tile roof		natural slate roof	
Brick boundary walls		Brick boundary walls		Timber fencing		Timber fencing	

Average build cost across 4 schemes **£170.53**

Key:

- Access road; bitmac finish
- Footpath; bitmac finish
- Paving slabs
- Grass/Lawn/Soft Landscaping
- Proposed tree
- Proposed shrubs
- Existing trees and shrubs

NB: Landscaping shown is indicative only; to be in accordance with separate landscape proposal/layout drawing and specification by specialists.

- Refuse Bins
- Bin collection points

Access as agreed under application 2017/90180

Proposed access as per 2018/90151

New 2m footpath

PRIVATE DRIVE

MEWS COURT

Oversized road to accommodate attenuation storage underneath

Refuse turning Area

Possible drainage easement into adjacent site

Bin Col.

Hedge Boundry with timber post & wire fence incorporated.

Trees 14G to be removed to make way for new PRoW.

Existing Stone Wall

Proposed PRoW

Proposed Stone Retaining Wall

Private Drive

Shared Access

Open Space

Mass concrete retaining wall faced with stone with 1100mm high railings on top

Metal railings to continue

Existing Stone Wall Repaired and fix timber fence on top.

Defines proposed public right of way

1.2m high railway sleeper retaining structure

1.8m high railway sleeper retaining structure

1.8m high retaining wall

Hedge Boundry with timber post & wire fence incorporated.

Possible drainage easement into adjacent site

Type B · Type D · Type D1 · Type D2 · Type E · Type F · Type G

STREAM ---> · 24.25m syphon · SEWER OVER FLOW CHAMBER · CULVERT · Mkr Post · ToW · Sill · Gutter · Ridge · MH · GY · FENCE · GATE · WOOD POST AND WIRE FENCE · RANDOM STONE WALL · RANDOM RTN STONE WALL · BURN ROAD

STND | E 412026.718 N 418976.363 RL 172.380

STNA E 412017.780 N 418920.563 RL 169.225

STN E F 412037.419 N 418867.473 RL 170.557

Gate Type G1: 1800mm high timber single leaf gate comprising of naturally finished external grade timber to match adjacent fencing.

Boundary Treatment: A — 1500mm high precast concrete post and timber infill panel fencing with 1200mm high naturally finished featheredge timber infill panels with a 300mm high precast concrete kicking panel beneath. Where party fencing occurs between two properties, a 1800mm high by 2-panel wide privacy screen is to be installed.

Boundary Treatment: B — 2100mm high precast concrete post and timber infill panel fencing with 1800mm high naturally finished featheredge timber infill panels with a 300mm high precast concrete kicking panel beneath.

Note:
Continuous handrail required to external steps greater than 600mm above ground level.
Access gates to open min 400mm clear of bottom of steps, and/or achieve a full landing width clear where sited at head of external steps.

REV	DATE	AMENDMENT	BY	CHKD
R	06/01/23	Boundary Treatments amended.	GG	GG
Q	22/12/22	Existing tree survey incorporated. Plots 17-22 amended. Proposed PRoW added (Plot 11 amended)	GG	GG
P	05/09/22	Bin Collection Points added to Plots 9-11	GG	GG
O	26/07/22	Plot 11 amended and landscaping and retaining walls surrounding plot updated.	GC	GG
N	20/06/22	Plot 12 & 22 altered, retaining structures added.	GG	GG

PROJECT:	Burn Road, Huddersfield				
CLIENT:	Wiggett Construction				
DRAWING:	Proposed Site Layout (Trees)				
DRAWN BY:	GC	CHECKED BY:	GG	DATE: 26/10/2021	SCALE: 1:200 @ A0
STATUS:	Planning			DRAWING No: 1354/P/001	REVISION: R

1-200 Scale Bar (metres) 5 10 15 20

HNAarchitects
Architecture | Planning | Design
DO NOT SCALE.
COPYRIGHT REMAINS WITH HNA ARCHITECTS Ltd.
HOLLINWOOD BUSINESS CENTRE, ALBERT STREET, OLDHAM, OL8 3QL
TEL: 0161 688 1820
E-MAIL: garry@hna-architects.co.uk : michael@hna-architects.co.uk
RIBA Chartered Practice

Appendix 2 – Cost Plan

BURN RD - BIRCHENCLIFFE

COST PLAN **6th Feb 2022**

COST CENTRE	GROUP ELEMENT/ELEMENT	Sub Element Cost £	Element Cost
0	Facilitating Works		
0.1	Toxic/hazardous/contaminated material treatment	IN Abnormals	
0.2	Major demolition works	IN Abnormals	
0.3	Temporary support to adjacent structures	IN Abnormals	
0.4	Specialist groundworks	IN Abnormals	
0.5	Temporary diversion works	IN Abnormals	
0.6	Extraordinary site investigation works	IN Abnormals	
	SUB-TOTAL		**£0**
1	Substructure		
1.1	Site Strip/Clearance Reduce Level Dig	£77,195	
1.2	Ground Work		
1.3	Concrete Foundations	£317,085	
1.4	Brickwork to dpc	£48,197	
1.5	Ground Slab	£67,110	
1.6	Ground treatments	£0	
	SUB-TOTAL		**£509,586**
2	Superstructure		
2.1	Frame		
2.2	Upper floors	£68,610	
2.3	Roof & Canopies	£112,682	
2.3.1	Structure	£91,950	
2.3.2	Covering and leadwork	£0	
2.3.3	Fascias etc	£0	
2.3.4	Insulation	£41,910	
2.4	Stairs	£23,032	
2.5	External walls	£0	
2.5.1	External cavity walls	£554,280	
2.5.2	Claddings	£0	
2.6	Windows and external doors inc Sealants	£243,497	
2.7	Internal walls and partitions	£0	
2.7.1	Block walls	£0	
2.7.2	Stud partitions	£57,167	
2.8	Internal doors	£56,663	
2.9	Scaffolding	£173,039	
	SUB-TOTAL		**£1,422,830**
3	Internal Finishes		
3.1	Wall finishes		
3.1.1	Wall boards	inc	
3.1.2	Wall plastering	£108,931	
3.1.3	Wall tiling	£22,880	
3.1.4	Painting and decorating walls	£58,807	
3.2	Floor finishes	£0	
3.2.1	Floor screeds including membrane and Insulation	£108,892	

3.2.2	Floor Coverings		£56,463	
3.3	Ceiling finishes		£0	
3.3.1	Ceiling boards		£0	
3.3.1	Ceiling plastering		£105,760	
3.3.3	Painting and decorating ceilings		£18,968	
3.4	Joinery		£0	
3.4.1	First fix		£33,636	
3.4.2	Second fix		£33,636	
	SUB-TOTAL			**£547,975**
4	Fittings, Furnishings and equipment			
4.1	Kitchens		£86,114	
4.2	Solar Panels		£138,320	
4.3	Signage		£0	
4.4	Cleaning		£20,611	
	SUB-TOTAL			**£245,045**
5	Services			
5.1	Sanitary installations		£34,700	
5.2	Services equipment		£34,700	
5.3	Disposal installations		£34,700	
5.4	Water installations		£34,700	
5.5	Heat source		£34,700	
5.6	Space heating and air conditioning		£0	
5.6.1	First fix		£34,700	
5.6.2	Second Fix		£34,700	
5.7	Ventilation		incl	
5.8	Electrical installations			
5.8.1	First fix		£62,910	
5.8.2	Second Fix		£62,910	
5.9	Fuel installations		NA	
5.1	Lift and conveyor installations		NA	
5.11	Fire and lightning protection		NA	
5.12	Communication, security and control systems		NA	
5.13	Specialist installations		NA	
5.14	Builders work in connection with services		inc	
	SUB-TOTAL			**£368,716**
6	Complete buildings and building units			
6.1	Prefabricated buildings and units			
	SUB-TOTAL			**£0**
7	Works to existing buildings			
7.1	Brickwork to External Wall		N/A	
7.2	Repairs to existing services		N/A	
7.3	Damp-proof courses/fungus & beetle eradication		N/A	
7.4	Façade retention		N/A	
7.5	Cleaning existing surfaces		N/A	
7.6	Renovation works		N/A	
	SUB-TOTAL			**£0**
8	External Works			
8.1	Site preparation works			
8.2	Roads, paths, pavings and surfacings Stage 1		£183,909	
8.2.1	Carpak and Roads Stage 2		£74,832	
8.2.2	Footpaths and hard surfaces Externals		£380,502	

8.3	Soft landscaping, planting and irrigation systems	£35,806	
8.3.1	Seeding and turfing	inc	
8.3.2	External planting	inc	
8.4	Boundary walls	£70,393	
8.4.1	Railings, and fencing	£142,916	
8.4.2	Walls	inc	
8.5	Street furniture and equipment ,Sheds,Bins,Bird, Bat Boxes	£21,732	
8.6	External drainage		
8.6.1	Drainage House	£190,251	
8.6.2	Sewer connections	£82,442	
8.6.3	Local authority charges	£0	
8.7	External services	£32,977	
8.7.1	Water mains supply	£34,536	
8.7.2	Electricity mains supply	£34,536	
8.7.3	External lighting	inc	
8.7.4	Telephone/other	inc	
8.7.5	Gas Mains Services	£34,536	
8.8	Minor building works and ancillary buildings Scaff Matt	£114,485	
	SUB-TOTAL		**£1,433,854**
	SUB-TOTAL: FACILITATING AND BUILDING WORKS		**£4,528,006**
9	Main Contractors Preliminaries		
9.1	Site set up	£6,790	
9.2	Running costs	£680,627	
9.3	Clear site	£6,790	
	SUB-TOTAL		**£694,207**
	TOTAL: BUILDING WORKS		**£5,222,213**