

Crosland Moor Quarry, Thewlis Lane, Huddersfield

Summary of Assumptions applied within Residual Appraisals

This Summary has been prepared on behalf of:

Myers Limited

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1. Introduction

- 1.1 Savills has been instructed by Myers Limited to assess the viability of the proposed redevelopment of the land at Crosland Moor Quarry, Thewlis Lane.
- 1.2 The land in question forms part of an area which benefits from a Residential Site Allocation (ref:HS22) for an indicative 500 units in Kirklees Local Plan, to meet the district's future housing needs during the plan period. We understand that this is broken down into 243 units within the Plan's 15 year lifetime and 257 post-Plan, giving due regard to the timeframe of restoration.
- 1.3 We have been instructed to assess the viability of a proposed scheme based on a concept Masterplan provided by Edward Architecture. The concept masterplan also takes account of the proposed conditions on development for site allocation HS22 in relation to redeveloping out this part of the quarry, including an engineered backfill, as per the requirements of the conditions attached to the extant minerals consent.
- 1.4 A pre-application enquiry has been made to Kirklees Council which explores the variation of the condition attached to the minerals consent to enable an alternative restoration method to be undertaken at the quarry, to facilitate the wider redevelopment of the site in due course (in line with the site allocation). The pre-app submission indicates that due to viability issues, the Applicant is unable to comply with the requirements of the conditions attached to the extant minerals consent as previously submitted and approved by Kirklees Council, which is largely due to the costs associated with undertaking an engineered backfill. The Applicant is therefore of the view that an engineered backfill is not a viable option for facilitating in bringing the site forward for a residential development and therefore fulfilling the site allocation. The Applicant is therefore seeking to amend the condition attached to the minerals consent through a Section 73 application in due course to replace the requirement for an engineered backfill with a low level restoration strategy.
- 1.5 Against this background, a scheme of 501 units (referred to herein as 'Option 1') has been provided for us to assess in relation to its viability. This option includes an engineered backfill as per the requirements of the condition attached to the minerals consent.
- 1.6 We have appraised the scheme using Argus Developer, an industry recognised software used to assess development projects.
- 1.7 Within this report, we have set out the key assumptions that have been applied to the residual appraisals. The report demonstrates that given the significant costs associated with the proposed development, and notably those significant costs associated with undertaking an engineered backfill, the Residual Land Value of the proposed development is negative and thus Option 1 is not financially viable for development.
- 1.8 We believe that we have been optimistic in our assessment of GDV and the likelihood is that costs would increase, rather than decrease due to build cost inflation. Any increase in sales revenue would be offset by an increase in build costs.
- 1.9 Although this report has been prepared in line with RICS guidance, it is first and foremost a supporting document to representations being made by Myers Limited to support a Section 73 Application to vary a condition attached to the existing minerals consent. As per Professional Standards 1 of the RICS Valuation Professional Standards January 2022 Incorporating the International Valuation Standards – Global and UK Edition, advice given expressly in preparation for, or during the course of, negotiations or possible litigation does not form part of a formal "Red Book" valuation and should not be relied upon as such.

2. Residual Appraisal Methodology

- 2.1 An objective test of financial viability for projects should be set in the context of a well-established set of appraisal techniques and their applications. An accepted method of valuation of development schemes and land is set out in RICS guidance note *Valuation of development property* (1st edition, October 2019). This approach, called the residual method, recognises that the value of a development scheme is a function of a number of elements; the value of the completed development (gross development value (GDV)), the direct costs of developing the property (gross development cost (GDC)), the return to the developer for taking the development risk and delivering the scheme, the cost of any planning obligations and the cost or value of the site.
- 2.2 In simple terms, this can be expressed as:
- GROSS DEVELOPMENT VALUE less COSTS less PROFIT = RESIDUAL VALUE
- 2.3 The residual approach is used for development situations where the direct comparison with other transactions is not possible due to the individuality of development projects. The residual appraisal method can be used in two basic ways: first, to assess the level of return generated from the proposed project where site cost is an input into the appraisal; and, secondly, to establish a residual site value by inputting a predetermined level of return.
- 2.4 The value of development land is determined by what can be developed on that land and the value, cost and timing of that development. Furthermore, the value of that development is not directly related to its cost, but is created by the interplay of market forces. These market forces include the supply of and demand for development properties in the market. This in turn is influenced by the planning system, the availability of funding through the financial system, occupier demand, and the property investment and capital markets.
- 2.5 Where the residual appraisal method has assessed the level of return, it will be necessary to form a professional judgement as to that return's acceptability in respect of the proposed development. This will have regard to both market forces as described above and the intrinsic risks associated with the scheme being appraised. An acceptable return may fall within a prescribed range or may be required to seek to achieve a minimum target level for a proposed development.

3. Appraisal Assumptions

3.1 The table below provides a summary of the assumptions applied within the appraisals and our comments.

	Input/Assumption	Comments
1.	Timescales	<p>We have not been provided with a detailed development programme and as such have made assumptions for appraising the scheme.</p> <p>We have adopted a construction period equating to 2.5 units per month, therefore 200 months, with a sales period also equating to 200 months but commencing 12 months after the start of construction.</p>
2.	Revenue/Gross Development Value - Residential	<p>We have carried out an assessment of comparable evidence of comparable housing in Huddersfield. Based on our analysis, we would expect average private values at the proposed development in the order of £280 per sq. ft on average to reflect the location and nature of the proposed development and units on site.</p> <p>In respect of the affordable housing, we have assumed a 20% provision with the tenure splits as per Kirklees Council policy on development schemes of this nature.</p>
3.	Purchaser's costs	<p>We have deducted Purchaser's Costs from the land value as per industry practice. These include Stamp Duty Land Tax at the current HMRC scale, agent fees at 1.5% and legal fees at 0.5% of land value.</p>
5.	Estimated build costs & abnormal costs	<p>The Applicant has yet to instruct a full cost plan for the proposed development. Nevertheless they have obtained a quote for the engineered backfill element of the redevelopment, from Blackwell Earthmoving Limited, which equates to a total of £17,845,834. This quote can be provided to the Council and their advisors upon request, under separate cover.</p> <p>In the absence of a full detailed cost plan, we have applied an average £psf on the base build based on our knowledge of residential development schemes in Yorkshire. Larger housebuilders are currently adopting figures in the region of £115 to £125/sq. ft for their base build costs. For the purpose of our appraisals we have adopted an all-in build cost (including base build but excluding preliminaries) of £125/sq. ft.</p> <p>It should be noted that changes to Building Regulations (Parts L and M) are soon to be adopted, as well as the new Future Homes Standard. We have assumed these costs to be inclusive within the £125/sq. ft.</p> <p>With regard to additional abnormal costs, following discussions with Lithos ground engineers, the following abnormal costs have been applied:</p>

Item	Cost per unit	No. units	Total
Gas measures	£625	91	£56,875
Stiffened rafts	£5,000	46	£230,000
Piling	£15,000	46	£690,000
Import of clean cover and crush	£1,640	91	£149,240
Cut and turn	£15,000	91	£1,365,000
Overheads and prelims – 15% of base build			£7,296,469

We would note that these are high level figures that have been provided in the absence of a detailed cost plan. Should the aforementioned figures change, this will have an impact on the residual land values outlined herein.

We have included for a 5% contingency allowance in our appraisals. Given the complexities of the site, with unknown ground conditions and a number of constraints, coupled with the risk of further build cost inflation, arguably a 10% contingency could be applied. In this instance we have been optimistic with regard to the contingency allowance.

6.	Disposal costs	We have included Sales, marketing and legal costs at 3% of the GDV on disposal.
7.	Professional fees	We have included for professional fees at 8%.
8.	Finance rate	In line with RICS guidance we have adopted 100% debt funding; adopting a debit rate of 8% to include for arrangement fees and exit fees.
9.	Estimated profit / developers target return	20% on GDV as per market requirements for developments of this nature in this location.
10.	Planning obligations	<p>We have included the following contributions, which we have been provided with by the Applicant's planning consultant:</p> <ul style="list-style-type: none"> • Offsite highways contribution: £462,150 (approx. £922 per plot) • Offsite POS contribution: £1,235,328 • Travel plan monitoring: £15,000 (standard and not per plot)

		<ul style="list-style-type: none"> • BNG: Unknown so input as £1 at this stage • Education contribution: £907,570 (approx. £1,811 per plot). <p>Any further s106 contributions would have a detrimental effect on viability.</p>
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4. Appraisal Results

- 4.1 We have assessed the development economics of the proposed scheme of 501 units (Option 1), i.e. redevelopment of the entire quarry area including an engineered backfill.
- 4.2 The appraisal produces a significant deficit (negative land value) of -£8.9 million, which demonstrates that based on the aforementioned assumptions, redevelopment of the site under Option 1 is not viable due prohibitive development costs involved in restoring the current quarry to a developable state.

Appendix 1
