Kevin Cartwright

From:

Sent:

29 September 2020 13:52

To:

Kevin Cartwright

Subject:

Viability review - North Green Calverton

Attachments:

Follow Up Flag: Flag Status:

Follow up

Flagged

Good afternoon Kevin,

I have now completed negotiations on North Green, Calverton. The email trail below sets out the discussions which have taken place with the applicant's agent and establishes the amendments which I have made in my revised appraisal which derives a residual land value of £311,234 and a surplus of £21,234 (which can be used as a contribution towards affordable housing or s.106) when compared to the BLV at a figure of £290,000.

I have attached a copy of my revised appraisal for your records.

I trust this email will suffice as an amendment to my viability report dated 08 July 2020. Please contact me if you require any further information or correspondence from me in order to conclude matters with the applicant.

Kind regards,





District Valuer Services (DVS)





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DVS Property Specialists for the Public Sector

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From:

Sent: 28 September 2020 11:13

To:

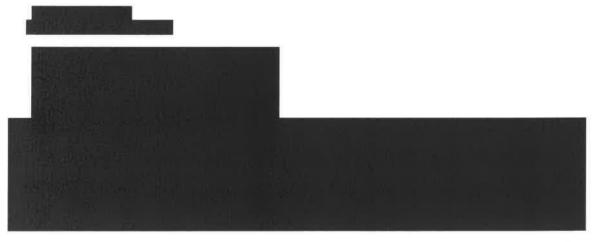
Cc: 'Kevin Cartwright' < Kevin. Cartwright@gedling.gov.uk>;

Subject: RE: Viability review - North Green Calverton



Thank you for the viability re-assessment...

I have discussed this my client and they are happy to accept the revised position which we understand to be no affordable housing requirement and £21,234 S106 contribution (subject to Members approval).



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From!

Sent: Tuesday, 22 September 2020 14:58

Subject: RE: Viability review - North Green Calverton

Good afterno

I have now considered the points set out in your email dated 14 September. Please see my comments below:

Cashflow - I am happy to compromise to the first sale completing 9 months after start of construction, but not to 14 months as you suggest as I consider it would be financially unrealistic for any developer to commence sales of the units at any later point due to the risk of then having a completed development with a high number of unsold units.

Credit rate – I disagree on this point but I will agree to take a pragmatic approach as there is only a circa £200 difference in the residual figures when adopting a credit rate.

Interest rates – Thank you for providing evidence demonstrating the applicant's finance arrangement with NatWest. In addition, I have also reviewed a number of external development appraisal's received in our department over the last few weeks which suggest interest rates are generally sitting between 6% - 6.5% inclusive of arrangement/ exit fees. I consider that an alternative developer may be able to secure a better rate with another Lender and on this basis, I have revised my adopted all-inclusive finance rate from 6% to 6.5%.

This is my final stance on the above points.

Build costs – I have discussed my adopted build costs with my Sector Leader who is in agreement that the lower quartile rates applied are reflective of the type of scheme in which I have assumed the specification to be commensurate to value. If QS costs are provided I will need to also instruct our own QS to review these costings. Their time will be charged out to your client at a rate of £95 per hour excluding VAT.

I have attached my revised appraisal which derives a residual land value of £311,234 and a surplus of £21,234 when compared to the BLV at a figure of £290,000.

I appreciate that you will need to take further instructions from your client. However, I hope that we can agree to settle at a contribution figure of £21,234.

I hope you manage to get away and have a pleasant break.

Kind regards,





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Please note that my email address has changed and is now as shown above. Please update your records and any contact lists accordingly and only use this email address.

Sent: 22 September 2020 11:18

Subject: RE: Viability review - North Green Calverton

Thanks – I go away for a week from tomorrow (if Boris doesn't lock us in) so it would be good if we could try and resolve matters today.

I will be out this afternoon so won't pick up email after 1pm but will be available on the phone if you would like to chat anything through



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From

Sent: Tuesday, 22 September 2020 10:21

To: J

Subject: RE: Viability review - North Green Calverton

Ritty in the

Thank you for your email below.

Please accept my apologies for the delayed response. I will endeavour to review and respond to you today.

Kind regards,







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Sent: 14 September 2020 12:37

Subject: RE: Viability review - North Green Calverton



Thanks for your email and cash flow. I can comment as follows:-

Cashflow

As I thought might be the case, your cashflow indicates sales income offsetting development 6 months after the start of construction. This would be impossible when no properties would be physically complete. Also I think a quarterly cashflow assessment is too blunt a tool to accurately forecast finance cost for small scale projects. Nevertheless you would need to move the first sales income to the January 22 quarter to be realistic (ie 10-12 month build for first units ready for viewing, followed by 3 months viewing, sale of buyers property, mortgage arrangement, legals, searches etc)

I attach a copy of the viability appraisal that was previously submitted. The 'cashflow' tab on the excel sheet illustrates the cashflow with first sale income 14 months after construction start. I would agree that the completion of 20 sales within 6 months on my schedule is too optimistic in current circumstances and should probably be extended to 9-12 months.

I have also attached a note from my client's bank indicating funding terms, arrangement/exit fees and ancillary costs.

My original allowance for 1% arrangement fee is therefore too low.

I cannot agree with your position on credit rates being applied to a single project cashflow assessment. The cash surplus will not attract any significant positive interest in the current financial climate no matter where the money is placed and to assume a credit rate based on some other speculative investment project with unknown risks as some sort of 'cross subsidy' is stretching things a bit far in my view.

Development Profit

I could come back to you with various examples of profit allowances for comparable projects in affordable housing challenge appeals where a 20% allowance is almost universally accepted by Inspectors in the midlands and the north.

I can also confirm that a 20% allowance was used in the site specific appraisals undertaken as part of the Local Plan assessment and I do believe that since the guidance is aimed at consistency in assessment at 'decision taking' stage versus assessments at 'plan making' stage the guidance on application of similar assumptions is clear.

Nevertheless I sense I am not going to persuade you on this point and I do think if you are open to a realistic reassessment of the cashflow/finance cost we should be able to reach an agreement on the overall position with out further independent QS cost assessment.



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From:

Sent: Wednesday, 09 September 2020 16:42

To:

Subject: Viability review - North Green Calverton



Thank you for your email below and your voicemail left earlier today. Apologies I missed your call, I have been in Skype meetings the majority of the day.

I look forward to receiving a copy of your QS cost assessment in due course.

In my opinion, 18.5% developers profit is reasonable and reflective of all associated risks with the subject site. I note your comments in relation to the adopted level of profit in the Local Plan but would comment that this reflects notional development sites and does not necessarily take into account site specific information which I consider I have reflected in my application of a profit rate of 18.5%.

The GBC 2016 Local Plan Viability Assessment states the following:

- 4.30 Developer's profit is generally fixed as a % return on gross development value or return on the cost of development to reflect the developer's risk. In current market conditions, and based on the assumed lending conditions of the financial institutions, a 20% return on GDV is used in the residential viability appraisals to reflect speculative risk on the market housing units. However, it must be acknowledged that affordable housing does not carry the same speculative risk as it effectively pre-sold. There is significant evidence of this 'split profit' approach being accepted as a legitimate approach in Whole Plan Viability and Community Infrastructure Levy Examinations and Affordable Housing Sec 106 BC Appeals.
- 4.31 In response to representations by house builders at a consultation event on the Viability Analysis the profit allowance on the affordable housing element has been increased from 6% to 10% and is considered to represent a reasonable approach to the 'competitive return' required by the NPPF. It should also be recognised

that a 'competitive profit ' will vary in relation to prevailing economic conditions and will generally reduce as conditions improve, generally remaining within a 15-20% range for speculative property.

Furthermore, the PPG sets out the following:

How should a return to developers be defined for the purpose of viability assessment?

'Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.

For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'

I accept that the developer may wish to achieve a 20% return but I am also aware that developers in the market often accept a much lower profit margin. My stance remains on this point.

In relation to finance cost, I have taken your comments into consideration and I am potentially prepared to compromise on my applied rate if you can provide documentation to evidence your client's current finance rate at which they are being charged by their Lender.

I agree with your point that any positive account funds attract 0% credit interest in view of current bank interest rates. However, the assumption is that a prudent developer would reinvest those funds. We receive a high number of development appraisals in our department and credit rates are typically adopted by developers and built into their appraisals as standard.

A copy of my cashflow is available on the HCA DAT appraisal that I have sent over, but I have attached a PDF copy of my quarterly cashflow for ease of reference.

It would be helpful if you could also please provide me with a copy of your cashflow so that I can fully understand your adopted timing of sales and I will consider your point further upon receipt of this information.

Kind regards,



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DVS Property Specialists for the Public Sector

From:

Sent: 01 September 2020 13:31

To: H

Cc: 'Kevin Cartwright' < Kevin.Cartwright@gedling.gov.uk>

Subject: RE: Viability review - North Green Calverton



Thanks for your prompt response.

I have suggested to my client that an independent QS cost assessment is undertaken to determine whether our position on build costs is fair and reflective of the current market for this type of scheme. I must disagree with you that a 20 unit scheme would attract a regional or national housebuilder (and therefore that lower quartile rates are appropriate). However before we go to this further expense I would like to explore the other two issues a bit further.

The level of reasonable development profit is obviously very subjective. However where there is dispute on this issue, we note that Statutory guidance in the Viability PPG states :-

"How should a viability assessment be treated in decision making?

Where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan"

A developer profit level of 20% was adopted in the viability assessment work that supported the Local Plan (and the viability of its S106 and Affordable Housing contribution policies) and also in the Council's Community Infrastructure Levy viability studies.

As such it should be adopted in these assessments. This may be a matter for Kevin Cartwright to provide further instructions to you.

I think finance cost is the area that is less subjective and it would be helpful to see your full cashflow. A few points I would make :-

- 6% to cover both interest and arrangement fees is not realistic in the current market. Lending rates are around 5% for speculative property development (where they exist at all – as an example RBS/NatWest i) have just withdrawn from all property lending in light of Covid). Funding fees are, in my direct experience (from my own residential development projects in the last 12 months) are at a minimum of 3% - 1.5% arrangement fee and 1.5% exit fee). I also don't understand the credit rate of 1.5% - any positive account funds attract 0% credit interest in view of current interest rates.
- I agree with your point about 'commencing sales', in terms of marketing, after 6 months but this should not be confused with obtaining sales income. I am not sure where in your cashflow the first 'income' is ii) factored in. If it is 6 months after the start of construction – this would be physically impossible as no houses would be complete. No house would be complete for 10-12 months after the start of construction and since off plan sales would be highly unlikely in this type of scheme and location there must be a sales lag factor applied to allow for customer viewing, sale of their own property, finance arrangement, legals, searches. Even taking the most optimistic approach this would be a minimum of a further 3 months.

Again I think viewing the detail of your cashflow spreadsheet may assist in clarifying this — if you could forward a сору.





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From:

Sent: Tuesday, or september 2020 12.52

Subject: Viability review - North Green Calverton

Thank you for confirmation that your client has agreed to additional fees to cover post-report discussions. My rate is charged out at £95 per hour excluding VAT.

In response to your email dated 19 August 2020, I have attached a copy of my sensitivity appraisal based on a 100% OMV scheme which you may find more useful. A summary can be found on the 'output' tab. I will respond to each of your points outlined in red below:

Build Cost

AMK £1,539,000 DVS £1,436,000

Difference £103,000

I think the reasons for this are explained in my last email.

I consider that my adopted rate is reflective of the type of scheme. A 20 unit scheme would either attract a regional or national house builder and I would expect any regional/ national house builder to receive bulk discounts on materials. This is a relatively low value scheme and I have assumed the specification to be commensurate to value. If this was a high value scheme, I would expect median costs but not on this type of scheme. Furthermore, I have in the past undertaken a number of development valuations for loan security purposes in the East Midlands on similar sized schemes and from experience I have found that certified QS costs usually sit around the lower quartile rates, subject to a scheme by scheme basis. However, I am happy to reconsider the build costs if you can provide further evidence to support your adopted costs.

Finance Cost AMK £141,000 DVS £58,000

Difference £83.000

£58,000 against a development cost (exc profit) of £2,327,000 at 2% overall doesn't seem quite right and I believe results from an unduly optimistic assumption about the timing of sales in come within the development period.

We cannot understand how it is possible to obtain sales income 6 months into a 12 month construction program. None of the houses would be complete until at least 10 months into the program and off plan sales are highly unrealistic for a development of this type and its target market. Thereafter there will necessarily be a lag for customer viewing, sale of their own property, finance arrangement, legals, searches. Realitically the first sale income is unlikely until 1-2 months after the 12 month construction period is complete.

I understand the differences mainly relate to the timing of the first sale and it also appears that you have not made any allowance of a credit rate. Please note that after further review, I have amended my sensitivity appraisal to reflect a sale rate of 2 units per month as it was previously reflecting a sale rate of 2.5 units per month which was incorrect. I have adopted finance costs at 6% including arrangement/ exit fees and assumed a credit rate of 1.5%. I would comment that in my opinion it would be financially unrealistic for any developer to commence sales of the units towards the end of construction due to the risk of then having a completed development with a high number of unsold units. I have allowed for a lead-in period of three months and assumed sales will commence six months into the construction programme and nine months after site acquisition. I'm not persuaded to amend my assumptions on this point.

This slight adjustment set out above has increased the finance costs and derived a residual land value of £349,098 against my original residual land value of £357,088 reflecting a difference of £7,990 which I will report to my client.

Profit Allowance

AMK £576,000 @ 20% Value DVS £470,000 @ 16.8% Value

Difference £106,000

I appreciate that profit allowance is quite a subjective matter, but having accepted that the scheme will be a 100% market development as it can't viably support affordable housing, I trust you would agree that a location with a risk profile like Calverton in current economic circumstances would be at the upper end of the Government's 15-20% profit range.

On my policy compliant appraisal I have adopted a profit of 18.5% on the OMV units and 6% on the affordable units which reflects a blended profit allowance of 16.82% based on a policy compliant scheme GDV of £2,797,858. Based on a 100% OMV scheme, I have adopted a profit rate at 18.5% (£555,000) of my opinion of GDV at £3,000,000. I consider that my adopted profit rate is reflective of all associated risks.

I trust the above explains my adopted assumptions.

Kind regards,



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Sent: 27 August 2020 20:00

Subject: RE: Viability review - North Green Calverton

Thanks. I have just confirmed to Kevin Cartwright that additional hourly fees will be met by my client.

I don't think we have introduced anything new – just queried three of the assumptions in the report so I hope you will be kind in terms of additional time required.

Regards Adrian



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sent: Thursday, 27 August 2020 13:22

Subject: RE: Viability review - North Green Calverton

Good afternoon Adrian,

I'm still waiting for further instruction from my client to commence discussions in relation to our differences. I've just sent an email chasing this up and I will respond in full once I receive further instructions to proceed.

Kind regards,

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Sent: 19 August 2020 16:36

Cc: Kevin.Cartwright@gedling.gov.uk;

Subject: RE: Viability review - North Green Calverton

Thanks for the response, that's very helpful.

I think, as previously indicated, our prime differences are on build cost and finance costs, and also on profit allowance.

Build Cost AMK £1,539,000 DVS £1,436,000

Difference £103,000

I think the reasons for this are explained in my last email

Finance Cost AMK £141,000 DVS £58,000

Difference £83,000

£58,000 against a development cost (exc profit) of £2,327,000 at 2% overall doesn't seem quite right and I believe results from an unduly optimistic assumption about the timing of sales in come within the development period.

Profit Allowance

AMK £576,000 @ 20% Value DVS £470,000 @ 16.8% Value

Difference £106,000

I appreciate that profit allowance is quite a subjective matter, but having accepted that the scheme will be a 100% market development as it can't viably support affordable housing, I trust you would agree that a location with a risk profile like Calverton in current economic circumstances would be at the upper end of the Government's 15-20% profit range.

I look forward to discussing this with you in due course

R



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Sent: Monday, 17 August 2020 14:04

Subject: RE: Viability review - North Green Calverton

Apologies for the delayed response. I break up today so I have been busy tidying up correspondence on my outstanding instructions.

I have attached the output summary sheet in PDF format which can be found on the tabs along the bottom on the HCA DAT tool. The construction cost excluding abnormals is £1,508,371 which reflects a build cost of £1,376 per sq m and I have applied a contingency of 5%.

I note your comments in relation to build costs and the development program. I need to take further instruction from my client before opening up discussions/ negotiations on these matters.

As mentioned previously, I break up today and I need to travel shortly so unfortunately I need to log off my work laptop now. I return to the office on 26 August and can pick up discussions with you once I return subject to client approval. However, I appreciate that you may need a response before that date depending on when the planning committee meeting is scheduled and therefore, I have copied in my Sector Leader, Jeffrey Solomon who was counter signatory to the report and who should be able to assist in my absence.

Kind regards,



DVS Property Specialists for the Public Sector

Sent: 14 August 2020 13:14

Cc: Kevin.Cartwright@gedling.gov.uk

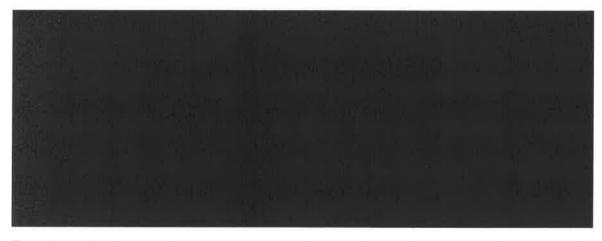
Subject: RE: Viability review - North Green Calverton

Thanks for this. I have to admit I find the HCA DAT tool very hard to comprehend.

Is there a summary sheet that sets out everything on a single page in a way similar to my own model (attached)

For instance, I couldn't find the finance calculation or cashflow. Could you also confirm the total construction cost figure (exc abnormals).

I did have a couple of queries on the report assumptions. I have copied and attached the relevant sections with comments.



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Sent. Friday, 14 August 2020 12.20

Cc: Kevin.Cartwright@gedling.gov.uk

Subject: Viability review - North Green Calverton

Good afternoon Adrian,

I have attached a copy of my appraisal.

I trust this will be helpful in answering your queries.

Kind regards,



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Sent: 13 August 2020 10:21

Subject: RE: Viability review - North Green Calverton

Good morning - Kevin Cartwright has forwarded your report on North Green Calverton. I have a couple of queries which I will send to you both.

Kevin didn't forward the appraisal itself – just the report (attached). Could I just check that you did send the appraisal to him? I have also asked for a copy of the cashflow underpinning the finance cost calculation if you would be able to either send that to me or through Kevin.



Sent: Wednesday, 15 July 2020 13:44

Subject: RE: Viability review - North Green Calverton

I have issued my report to the Local Authority but I do not have client consent to disclose my figures or conclusions. Therefore, I would recommend that you contact Kevin Cartwright at the planning department to discuss further.

Kind regards,



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Sent: 15 July 2020 11:13

Subject: RE: Viability review - North Green Calverton

Good morning, I wondered if you have reached any conclusions on North Green, Calverton?



Sent: Friday, 26 June 2020 11:45

Subject: RE: Viability review - North Green Calverton

Yes, of course. I will call you to discuss if that is the case.

Kind regards,

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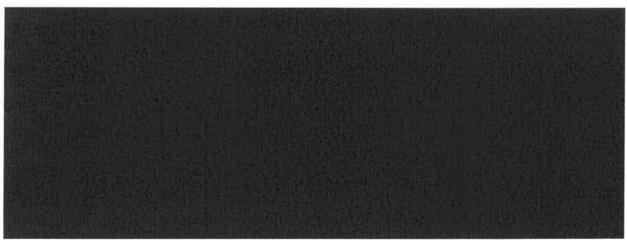
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Sent: 26 June 2020 11:31

Subject: RE: Viability review - North Green Calverton

Ok thanks.

If following your assessment, we are a long way apart in our conclusions, I would appreciate the opportunity to discuss the appraisal with you before your report is finalised.



Sent: Friday, 26 June 2020 10:57

Subject: RE: Viability review - North Green Calverton

Thank you for your email and the attached documents.

I will review in detail and contact you should I require any additional information.

Kind regards,



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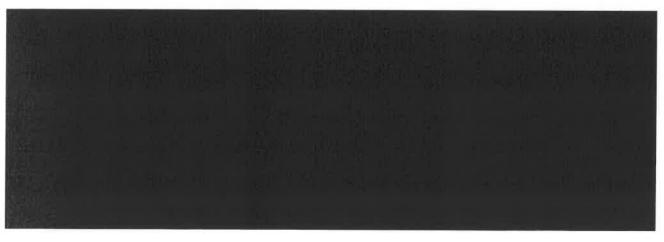
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Sent: 24 June 2020 11:27

Subject: RE: Viability review - North Green Calverton

l attach confirmation from my client that the currently agreed purchase price, subject to planning, is £350,000.

I also attach some background gas monitoring and ground investigation information to support the abnormal cost estimates



Sent: Wednesday, 17 June 2020 13:18

Subject: Viability review - North Green Calverton

I have been instructed by Gedling Borough Council to undertake a viability review of North Green, Calverton. I have a copy of your viability appraisal report but I would like to request some further details to help with my review, please see below:

- Abnormal construction costs I note that you have estimated costs in relation to site abnormals at a figure of £258,000. Can you please provide any relevant site investigation reports and/or formal estimates of these costs?
- Purchase price/ agreed sale price Can you please confirm the purchase price and date of transaction or agreed sale price of the subject land?

I look forward to hearing from you.

Kind regards,

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