South Lakeland DC Stakeholder Workshop 13 July 2017
Stakeholder Feedback and Analysis

Item	Comment Feedback	Consultee	AspinallVerdi comments
Issues raised and discussed in the workshop:			
Higher costs of development	General view amongst developers that Cumbria is 'more expensive' to develop in compared with other areas, due to higher design standards, drainage issues, topographical constraints etc.	Workshop discussion point	We have accessed BCIS build costs rebased to South Lakeland and reviewed the build costs submitted as part of site-specific EVAs as advised by the Council's retained site specific viability consultants, LSH. The average of those fell between the lower quartile and median BCIS costs. We have therefore applied this average build cost from the EVAs (£909 psm) within the appraisals. We have also included +15% allowance for external works. In addition, to the above we have added an additional allowance of +3% for 'normal' abnormals. See our Residential Cost assumptions on page 54- 56 of the main report.
Impact of draft Cumbria Design Guide	How have the requirements of the draft Cumbria Design Guide been factored in to the appraisals? – There was concern from stakeholders that the Cumbria Design Guide added to the cost of schemes.	Workshop discussion point	ditto
Profit	Lenders require 20% profit across the board.	Workshop discussion point	We consulted on a baseline profit of 17.5% to the private housing (open market sales (OMS) values) - with a sensitivity analysis which shows the impact of profit between 15-20%. We also consulted on 6% profit to the on-site affordable housing (where applicable).

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			Having regard to the comments in the workshop, we have changed our approach to a profit rate comprised of 20% on private housing and 6% on affordable housing (where applicable). This blended, is between 18-19% which is considered acceptable given evidence from site specific EVAs. See the Profit Assumptions section of our main report (pages 56-57).
Risks of developing sites	Does the Threshold Land Value take into account risk issues in developing sites?	Workshop discussion point	The appraisals 'in the round' take into consideration the risks of developing sites. In this respect there are adequate allowances for developers profit, contingency and land value etc. Where sites are particularly 'risky' (e.g. brownfield sites with substantial remediation costs or sites including historic buildings etc.) this 'risk premium' should be reflected in the price of the land at a site specific level.
Discount from MV/development value to TLV	Where has the 25% discount from Market Value come from in calculating the Threshold Land Value?	Workshop discussion point	This has come from precedent from other District-wide viability studies. See the Guidance on Land Value Adjustments on page 29-30 of the main report and also our specific comments and rationale within the Land Value Market paper (Appendix 4).
Floor space assumptions	How have floor space assumptions been factored in? In particular, the space requirements of the M4(2) accessibility standards.	Workshop discussion point	We have ensured that our assumptions meet or exceed the nationally described housing standards by DCLG. We have sought to analyse the size of units that have been delivered based on the Land Registry and EPC data and also considered evidence from site specific EVAs. In terms of affordable house sizes, our starting point was the average floor area of units delivered since 2008. These areas have been adjusted to take into consideration Category M4(2) and M4(3) standards. See the Unit Size Assumptions on page 48-51 of the main report.

AspinallVerdi

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Marketing incentives	How have marketing and incentives, part exchange etc. been factored in to sales prices?	Workshop discussion point	We have made a total allowance of 4.5% for disposal costs. This is nominally broken down as: 3% (Marketing & Disposal); 1% (Sale Agents); 0.5% (Sales Legal Fees). We have noted in the main report that the marketing and promotion costs have to be considered 'in-the-round' with the sales values and gross profit (where developers have internal sales functions). See page 56 of our main report. [Note that the Cumbria House Builders Group advocated 3.25%].
Confidentiality	Will stakeholders' comments be treated confidentially?	Workshop discussion point	Yes. We have always been very clear that all commercially sensitive information would be treaded in confidence so that we can build up the evidence base in a transparent and collaborative manner.
Legal fees	Concern over high legal fees on a number of sites – needs to be factored in to viability appraisal.	Workshop discussion point	We have made an explicit allowance for acquisition legal fees at 0.5%. This is in addition to 1% acquisition agents fees (which may not be payable in all circumstances) and SDLT. We consider that these allowances are acceptable 'in-the-round' for a plan-wide viability study.
Overheads	Have large overheads for larger builders been specifically factored in?	Workshop discussion point	No. We cannot discriminate between large and small developers in a Plan level study. This is a high-level study and we have not made any special assumptions around the size of the 'builder'. Overheads is considered to form part of the profit allowance i.e. developers profit is gross profit. Note that large house-builders will have 'in-house' design teams and marketing functions which are factored into our appraisals explicitly as professional fees and marketing and disposal costs. Also national housebuilders are likely to be able to build more cheaply than BCIS costs.

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AONB	How will the study address the specific characteristics of the AONB?		We have carried out a separate analysis of the AONB which is contained in a separate report. Note that this is still 'area-wide' and not site specific.
Written Feedback received prior to the extended deadline:			
Sheltered Housing and Extra Care values	The values AspinallVerdi proposed for their assumptions were too high.	McCarthy & Stone	We have specifically requested from McCarthy & Stone a schedule of selling prices and floor areas so we can sense check our Land Registry data. This has not been forthcoming to date.
Land Values	That the brownfield land values referenced in the AspinallVerdi proposed assumptions are considerably lower than what is actually experienced by McCarthy & Stone.	McCarthy & Stone	We have specific requested details of the land transactions that McCarthy & Stone refer to in order to help benchmark land values. This has not been forthcoming to date.
Developers profit	The Draft Viability Report also proposes using profit at 17.5%. General concern in this regard as 20% has remained the norm in this uncertain post Brexit Environment and certainly should be used for retirement housing products given the greater risks recognised generally with this part of the market.	McCarthy & Stone	We consulted on a baseline profit of 17.5% to the private housing (open market sales (OMS) values) - with a sensitivity analysis which shows the impact of profit between 15-20%. We also consulted on 6% profit to the on-site affordable housing (where applicable). Having regard to the comments in the workshop, we have changed our approach to a profit rate comprised of 20% on private housing and 6% on affordable housing (where applicable). This blended, is between 18-19% which is considered acceptable given evidence from site specific EVAs. See the Profit Assumptions section of our main report (pages 56-57).
Construction costs	The use of Lower Median BCIS values is suggested. Such	McCarthy & Stone	We have used the BCIS *Median* rates for Older Persons housing.

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	schemes are only likely to occur on brownfield sites and close to urban centres, most of which are recognised for their high environmental quality. Median or possibly Upper Quartile rates should be used as a result.		We have not been provided with any specific construction cost evidence for this type of development, and given the analysis of general needs construction costs (e.g. BCIS v local site specific EVAs) we are content that this is sufficient. Note also that applied to the above rates is an uplift for extra care housing (+4%), external works (+10%), contingency (+3%) and 'normal' abnormals (+3%).
Contingencies	Contingencies are proposed at 3%. It is generally recognised that this should be 5% for retirement type models and/or Brownfield sites	McCarthy & Stone	We have not been provided with any specific construction cost evidence for this type of development. We are content that 3% contingency is sufficient given the additional allowances for 'normal' abnormals and site clearance / demolition cost (in the brownfield context).

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Late representations received from JohnsonMowat [JM] on behalf of the Cumbria House Builders Group [CHBG] (Applethwaite Homes, Holker Group, Oakmere Homes, Persimmon Homes, Russell Armer Homes, Story Homes)			
Information JM have viewed	Para 1.7 - our instruction specifically concerns policy implications for the residential market, our focus within this paper has considered the following documents:- • Draft Viability Report Introductory Sections • Land Value Paper • Residential Market Paper	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	We published a suite of documents for consultation, as follows: • Policies Review matrix (SLDC & AONB) • Typologies matrix (Residential, AONB, Retail) • Residential Market review paper • Land Market review paper • Retail and Commercial Market review paper • Viability Report (front end) • The stakeholder presentation slides which include various appraisal assumptions It appears from the following representations that JM have not had sight of all of the relevant documents.
Incomplete material	Para 1.8 - the Aspinall Verdi background material put out for consultation is substantially incomplete and currently provides no benchmark appraisals. It is anticipated work will be updated	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	We have published our methodology and a complete set of assumptions based on our research to date. We were very clear in the stakeholder workshop that we were inviting stakeholder comments on the assumptions ***before*** we ran the appraisals. Our aim was to provide transparent and evidence based

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	upon close of the consultation following industry comment.		assumptions for stakeholders to comment and provide additional evidence. The appraisals will be published subsequently.
Published assumptions	Para 2.2 – The Aspinall Verdi Viability Report of 20th July 2017 has been presented in 'draft' form, subject to industry comment and therefore remains silent with respect to many inputs which will bear significant impact on future appraisals.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	No – all the assumptions have been published in full. See above.
Build Costs	Para 2.6 - The Aspinall Verdi Viability Report of 20th July 2017 does not provide any commentary or conclusions with respect to appropriate build costs across the District.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	These were published in the stakeholder presentation slides. We have had regard to BCIS build rates and local evidence from LSH (retained SLDC site specific viability consultants).
Externals	Para 2.13 - …we consider a minimum 12% uplift to represent externals above the standard build cost, ….	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	Our assumption was published with the stakeholder presentation. We have used 15% for externals. This could be considered 'high' in the context of the Cumbria House Builders Group evidence.
High quality design	Para 2.14 - .. there is an expectation that residential applications will be subject to a high quality materials pallet and site design.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	This has always been the case and these costs are embedded within the BCIS data.
Density	Para 2.18(I) - Greater than normal separation distances between dwellings and neighbouring	JohnsonMowat [JM] on behalf of	JM have not provided any specific evidence (case studies) to support this assertion. We have used appropriate densities based on Core

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	properties reducing coverage/ density and increasing infrastructure costs per m2 of dwelling as a result	the Cumbria House Builders Group	Strategy Policy CS6.6 which states that the Council requires an average density of 30 dwellings per hectare (dph).
Single sided roads	Para 2.19 (II) - disproportionate amount of costly single sided road development.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	Where developers are buying narrow sites which cannot be developed off both sides of the road, the disproportionate infrastructure cost should be factored into the land acquisition price.
DPD 'Optional Standards' (Part M4(2) and (3))	Para 2.19 - we question whether Aspinall Verdi have incorporated such standards into the baseline viability costings.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	Yes we have - Our assumptions were published with the stakeholder presentation.
Profit	Paras 2.21 – 2.29 – [JM] are clear that minimum profit level used within viability testing should be a rate of 20% on GDV.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	We consulted on a baseline profit of 17.5% to the private housing (open market sales (OMS) values) - with a sensitivity analysis which shows the impact of profit between 15-20%. We also consulted on 6% profit to the on-site affordable housing (where applicable). Having regard to the comments in the workshop, we have changed our approach to a profit rate comprised of 20% on private housing and 6% on affordable housing (where applicable). This blended, is between 18-19% which is considered acceptable given evidence from site specific EVAs. See the Profit Assumptions section of our main report (pages 56-57).
Abnormal Costs	Para 2.30 – 2.35 - The very nature of the South Lakeland topography dictates that a number of expensive measures are required across the majority of sites. These are likely to include : -	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	We have accessed BCIS build costs rebased to South Lakeland and reviewed the build costs submitted as part of site-specific EVAs as advised by the Council's retained site specific viability consultants, LSH. The average of those fell between the lower quartile and median BCIS costs. We have therefore applied this average build cost from the EVAs (£909 psm) within the appraisals.

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	I. Cut & Fill II. Retaining wall house types III. Engineered bankings IV. Garden retaining structures		We have also included +15% allowance for external works. In addition, to the above we have added an additional allowance of +3% for 'normal' abnormals. This is a direct response to the verbal feedback received during the stakeholder workshop. See our Residential Cost assumptions on page 54- 56 of the main report.
Professional fees	Para 2.36 - Johnson Mowat operate with a range of Professional fees of between 7% and 10% of construction costs. For unconstrained 'oven ready' sites subject to fewer constraints or barriers to delivery, a rate of 7% will generally be acceptable. However for more complex brownfield sites, we would lean toward the higher of the scale in order to reflect the additional work required.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	We have applied professional fees of 6.5% based on an average of recent EVA evidence.
Transfer values	Para 2.39 – 2.44 -	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	This is unclear. At para's 2.41 and 2.44 JM seem to contradict each other. In any event, subsequent to the stakeholder workshop SLDC has carried out further consultation with RP's and we have revised the Transfer Value assumptions (see page 52 of the main report).
Sales and Marketing Costs	Para 2.45 – [JM] have assumed a relatively standard 3.25% on GDV to account for agents, legal fees, marketing & promotion (including show home).	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	We have applied the following assumptions which were published on the stakeholder workshop slides: 3% (Marketing & Disposal)

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			1% (Sale Agents) 0.5% (Sales Legal Fees) Total = 4.5% We state within our report that the marketing and promotion costs have to be considered 'in-the-round' with the sales values and gross profit (where developers have internal sales functions). On the basis of the evidence provided by the Cumbria House Builders Group, this could be considered 'high' and could be reduced.
Finance Costs	Para 2.46 - … 6% is an absolute minimum and should be kept under review moving forward.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	We have applied interest at 6.25% which was published on the stakeholder workshop slides. On the basis of the evidence provided by the Cumbria House Builders Group, this could be considered 'high' and could be reduced to 6%.
Land Registry Sold Prices / Discounts	Para 3.3 - Whilst we note that Land Registry provides a source of data for sold prices, this is to be treated with some caution. The Aspinall Verdi report makes no reference to net achieved sales values, having allowed for any incentives and promotions by the housebuilder. This in turn causes further difficulty, given that there is no 'one size fits all approach'.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	At a District wide level the Land Registry data is the most reliable source of data and is generally accepted at Plan Level EIP. It is in the developer's interests to provide transparent data to the Land Registry. Note that JM has not provided any alternative methodology/data and accepts that there is no 'one size fits all approach'.

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	Para - In our experience, net values as a result of sales incentives typically result in discounts of anywhere up to 8%. Given the quality of the build spec required in South Lakeland, we would advise consideration to be given to discount of at least 5% against values provided by Land Registry.		Note that we have +1 ¼ % margin on the Sales and Marketing Costs (see above) which includes sales incentives, promotion and discounts. We have not been provided with any specific evidence (e.g. completion statements from the CHBG) to justify sales discounts.
Gross or Net floor areas	Para 3.5 - no reference as to whether these figures are based on gross or net floor areas, however we assume that if these are calculated using EPCs as suggested, then they will be based on the gross internal area.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	Our unit size assumptions are set out explicitly within our main report pages 48-51.
Sales Values	Paras 3.8 – 3.19 - … We therefore suggest a 5% discount be benchmarked against the Aspinall Verdi values in order to better reflect achieved sales values to inform future Policy considerations.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	JM conclude by suggestion that the AspinallVerdi values should be discounted by 5%. Is this the same 5% as the discounts above or an additional 5% (making 10%?). JM provide anecdotal evidence from the CHBG. We would welcome any more specific evidence (e.g. completion statements where these differ from the Land Registry). We note that JM acknowledge, " *In summary, the view of the consortium is that due to the differing sales values within each HMA, it is difficult to quantify an average value which could be applied to any given development. Providing a blanket average is not without difficulty given the number of variables involved, and clearly the achieved sales values on any given site will be subject to the specific site location, the overall build quality of the scheme and the current market conditions. The test of anticipated values will ultimately be a*

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			matter for individual viability appraisals in support of applications whereby viability is a challenge." – agreed.
Land Values	Para 3.22 - It is not clear whether Aspinall Verdi's references to £s p/acre and £s p/ha are based on gross or net developable areas.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	The TLV Assumptions stakeholder workshop slide and the commentary in the Land Value paper are clear that the TLV is on a net developable area basis.
Land Values	Para 3.22 - Nor is it clear whether Aspinall Verdi's assumptions in terms of threshold land value are that all sites will be cleared and remediated (if they are brownfield) and are fully serviced parcels (if they are greenfield), so that in either scenario they are readily developable, or 'oven ready'.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	The working assumption is that the sites are serviced and 'oven – ready'. Abnormal costs of servicing sites should be deducted from the site acquisition price. In the case of brownfield sites, the issue is 'what the previous use has been' (EUV) and 'what are the historic costs of remediation'? Again the working assumption is that abnormal costs should be deducted from the site acquisition price. We acknowledge that in certain circumstances the 'polluter pays' principle does not work there are unforeseen costs and in this respect we have allowed £50,000 per acre for generic site remediation on brownfield sites.
Land Values	Para 3.24 - Aspinall Verdi refer to the Oxenholme, Kendal Appeal Decision3, whereby a s.78 Inspector considered a TLV of £400,000 net p/acre appropriate for a residential site of 148 No. dwellings within Kendal. It is therefore unclear why Aspinall Verdi subsequently conclude within the Land Value Paper that an appropriate land value for Kendal would now be £340,000 p/acre.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	This is only one piece of evidence and we have considered all of the evidence 'in the round' within our Land Value report. This includes the EUV for agricultural land and the principle of discounting back from MV to allow for infrastructure and policy costs. These principles are clearly explained within our main report and Land Value paper.

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Land Values	Para 3.26 - we note that Aspinall Verdi consider sales values in Kendal of £2,600 pm² against a land value of £340,000 p/acre, yet in Kendal Rural, values are considered at £2,900 pm² against a land value of £525,000. This broadly equates to a 12% increase in sales values against a 54% increase in land value.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	Noted. This is a useful observation. However the CHBG has not provided any specific land value data (despite specific requests). This could be construed that the Kendal Rural TLV should be reduced.
Land Values	Para 3.27 - The consortium queries which agents & housebuilders were approached prior to the initial draft report ..	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	• Peill & Co (didn't respond) • Whittaker & Co (didn't respond) • Hackney & Leigh (didn't respond) • Thomson Hayton Winkley (didn't respond) • LSH • Michael CL Hodgson • Corrie & Co • Hyde Harrington.
Land Values	Para 3.27 – reference table 1.5 (North of Carter Road, Kents Bank, Grange-over-Sands) and Biggins Road, Kirkby Lonsdale	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	Comments noted. Will be considered as part of any future review.
Land Values	Para 3.27 – strategic land, the threshold land value needs to allow for planning promotion costs, option fees etc.	JohnsonMowat [JM] on behalf of the Cumbria House Builders Group	Yes. This is included in the TLV and the multiplier over EUV.