Valuation Office Agency

Town and Country Planning Act 1990 - Section 77

Town and Country Planning (Inquiries Procedure)(England) Rules 2000

Viability & Deliverability Review

Proof of Evidence

Site:	Anglia Square including land and buildings to the north and west
Applicant:	Weston Holmes PLC and Columbia Threadneedle Investments
Local Planning Authority:	Norwich City Council
	Tony Williams BSc MRICS Valuation Office Agency
PINS reference:	APP/G2625/V/19/3225505
LPA reference:	18/00330/F
Reference:	NCC5/1

Contents

1 Introduction

1.1 I am Tony Williams, Head of Viability (Technical) at the Valuation Office Agency where I have been employed since 2009.

1.2 Although I have been involved in the Norwich market since 2011 I have sought advice from our local office in Norwich.

1.3 I have been instructed by Norwich City Council to provide a review of the updated viability assessment undertaken by Francis Truss of Carter Jonas following a similar review undertaken on behalf of the City Council of the viability assessment undertaken by Iceni in support of the planning application.

1.4 I am a member of the Royal Institution of Chartered Surveyors ("RICS"), having qualified in 1987.

1.5 I have been employed by the VOA since 2009, recruited into the development viability team which undertakes viability assessments on behalf of local authorities in respect of planning applications to determine the ability of the applicants to provide affordable housing and other planning obligations.

1.6 From 1999 to 2009, I was employed as a Development Manager at Centros Miller/Centros Ltd, a development company owned by Miller Developments and Delancey PLC running town centre mixed-use development scheme. These schemes included:

- A food store development in Byker, Newcastle;
- A mixed use town centre scheme in Boston, Lincolnshire;
- A mixed use town centre scheme in Bury St Edmunds, Suffolk;

In addition, I was involved in other schemes in Lancaster and Portsmouth.

1.7 From 1980 to 1999 I was employed at Grimley & Son/GVA Grimley latterly as a partner specialising in development consultancy and public sector consultancy.

1.8 I gained a BSc in Urban Estate Surveying at Trent Polytechnic (now Nottingham Trent University). In 1987 I qualified as a chartered surveyor MRICS.

1.9 My evidence is set out as follows:

(a) Section 2 Background

(b) Section 3 My Review of Iceni assessment dated 9 November 2019

(c) Section 4 A review of the updated assessment undertaken by Francis Truss of Carter Jonas

(d) Section 5

(e) Section 6 Conclusions

2 Background

2.1 In 2016/2017, I provided high-level advice to the Council in respect of a prospective scheme proposed by Weston Homes and Columbia Threadneedle providing for a large-scale redevelopment of Anglia Square and attended a number of meetings.

2.2 In 2018, I continued to advise the Council in respect of the proposed scheme including detailed discussions with both Weston Homes and Iceni in respect of the inputs into a development appraisal, many of which were agreed on the basis of my experience of viability assessments and ultimately the overall viability of the scheme.

2.3 The planning application which is the subject of the public inquiry was received by the Council on 26 March 2018 and registered under reference 18/00330/F by the Council (the **Application**). The full description of the proposed development is set out in the Council's Statement of Case - Appendix 1(CD11.1). A summary of the development proposal is:

'the comprehensive redevelopment of Anglia Square and adjacent land on Edward Street for: up to 1250 dwellings, hotel, ground floor retail and commercial floorspace, cinema, multi-storey car parks, place of worship and associated works to the highway and public realm areas'

2.4 The Application was submitted as a 'hybrid' planning application where block A (phase 1 of the development) together with public realm areas and the Tower were submitted in 'detail' with the remainder of the Application submitted in 'outline'. It was subject to a number of amendments following submission which were subject to consultation prior to consideration at Planning Applications Committee.

2.5 On 9 November 2018, I issued a review of the Planning Viability Report dated September 2018 undertaken by Iceni Projects following our prior discussions and agreement as to many of the inputs.

2.6 On 6 December 2018, the Council's Planning Applications Committee resolved to grant planning permission for the development submitted pursuant to the Application, subject to the imposition of planning conditions and the completion of a Section 106 planning obligation. The officer's report (the **Committee Report**) to the Planning Applications Committee (CD9.1) including minutes of the meeting (CD9.2) sets out the Council's detailed consideration of the Application.

2.7 Prior to the committee meeting date, the Planning Casework Unit, on behalf of the Secretary of State contacted the Council and requested that it should be notified of the committee's resolution regarding the Application. Following this notification, on 7 December 2018 the Council received a direction pursuant to Article 31 of the Town and Country Planning (Development Management Procedure) (England) Order 2015 requiring it not to grant planning permission in respect of the Application without specific authorisation from the Secretary of State. On the 21 March 2019, the Secretary of State subsequently confirmed in writing his decision to call-in the Application for his own determination.

2.8 The call-in letter (at paragraph 7) (CD11.35) sets out the following matters about which the Secretary of State particularly wishes to be informed for the purposes of his consideration of the Application. These are:

(a) The extent to which the proposed development is consistent with the Government's policies for delivering a sufficient supply of homes (NPPF Chapter 5 (CD1.1));

(b) The extent to which the proposed development is consistent with the Government's policies for building a strong, competitive economy (NPPF Chapter 6);

(c) The extent to which the proposed development is consistent with the Government's policies for ensuring the vitality of town centres (NPPF Chapter 7);

(d) The extent to which the proposed development is consistent with the Government's policies for conserving and enhancing the historic environment (NPPF Chapter 16);

(e) The extent to which the proposed development is consistent with the development plan for the area including any emerging plan; and

(f) any other matter the Inspector considers relevant.

2.9 At the Pre-Inquiry Meeting dated 25 October 2019 the following additional matters were identified:

(a) The effect of the proposal on air quality

(b) Viability and the prospects for delivery of the scheme as a whole

3 Review of Iceni's Planning Viability Report

3.1 In September 2018, Iceni issued their Planning Viability Report (CD7.87) which I reviewed, and I issued my report on 9 November 2018. This was not a formal red book valuation but a review of the viability report provided to advise if the methodology and inputs were reasonable. The principal objective of my brief at the time was to establish the viability of the scheme and the viable level of affordable housing on site.

3.2 My report is attached as appendix 1

3.3 The scheme reviewed was as follows:

- 1,209 dwellings – 75,788 sq m
- Car Parking – 1,540 spaces – 52,573 sq m (excluding 14 spaces in block B)
- Retail Core – 8,855 sq m
- Retail non-core – 925 sq m
- Cinema – 1,548 sq m
- Hotel – 8,977 sq m
- Loading bays etc – 2,315 sq m
- Total – 150,981 sq m

3.4 The schemes reviewed were both a policy compliant scheme with 21.5% affordable and the proposed scheme with 10% affordable.

3.5 All inputs into the appraisals undertaken by Iceni (previously discussed and debated) were reviewed following research into values and costs and I reported as follows:

3.6 **Private Residential Value** – The values adopted by Iceni were as follows:

- 1 Bed Flats - £160,000 (£288 per sq ft on average)
- 2 Bed Flats - £250,000 (£315 per sq ft on average)
- 2 Bed Flats from level 11 in block E - £270,000 (£345 per sq ft on average)
- 3 Bed Houses - £325,000

Iceni adopted these values following research into the key postcode districts of Norwich, NR1, NR2 and NR3. In addition, they stated that they had regard to the fact that it was a regeneration scheme and would create a new residential, retail and leisure quarter, which would have an impact over a wider area, and existing evidence in the locality was not representative for the scheme proposed.

I reviewed these taking into account our researched sales evidence from new build schemes in NR1, NR2 and NR3 from both our own detailed internal database and various internet sites including Rightmove and agreed the values as reasonable taking account of the regeneration nature of the scheme.

3.7 **Affordable Housing** – The values adopted by Iceni in respect of the social rented units were based on 40% of the market value and 60% of the market value for the shared ownership units following discussions with RSLs. This was within the range I normally adopt following our own research and my knowledge of the local area.

3.8 **Ground Rents** – The government had announced that they would crackdown on unfair leasehold practices in respect of ground rents. However since no legislation had been enacted the policy of DVS was to include ground rents. On this basis, I agreed ground rents based on £250 per annum for the 1bed flats and £350 per annum for the 2bed flats capitalised at 5.25%.

3.9 **Commercial** – Cushman & Wakefield advising Columbia Threadneedle provided advice as to the commercial element and the following informed the Commercial rents and yield for the scheme:

- Core Retail – Rentals of £15.56 per sq ft capitalised at 7% with various rent free periods up to 24 months
- Hotel – A rental of £6.21 per sq months ft capitalised at 5.25% with a 12 month rent free period
- Cinema – A rental of £15.56 per sq ft capitalised at 7% with a 10 year rent free period
- Residential Car Park – Value represented £15,000 per space
- Public Car Park – Value represented approx £12,750 per space
- Non-Core Retail – Rentals of £9.75 per sq ft capitalised at 7% with 24 month rent free periods
- I reviewed these rates and yields and taking account of our own research agreed that they were reasonable.

3.10 **The Gross Development Value** – The GDV for the schemes was agreed as follows:

- Policy Compliant Scheme **-** £282,019,198
- Submitted Scheme **-** £294,767,198

3.11 **Grant Funding** – In addition, I was advised that Homes England under the Housing and Infrastructure Fund (HIF) was considering grant funding for the scheme on the basis of £12,200,000 which was included as a phased receipt.

3.12 **Build Costs** – These were provided to Iceni by Weston Homes, independently verified and audited by Gardiner & Theobold, and included as an appendix to the original Iceni report (appendix 8 to that report).

3.13 The Gardiner & Theobald review was on a high-level basis and compared the estimates provided with BCIS benchmark rates and their own internal benchmark rates for comparable buildings.

3.14 They state in section 2, Summary and Key Findings, that the costs were between the BCIS lower quartile rate and the BCIS mean rate save for the car park which is above the benchmark rates.

3.15 They also comment in section 2 that housebuilders can usually build at a much lower cost than if the works were procured via a main contractor under a standard JCT contractual arrangement.

3.16 Following my own review of BCIS rates I also adopted the costs provided as reasonable plus 10% for preliminaries.

3.17 **Other Construction Costs** – The following costs were also included and accepted as reasonable:

- Contingency – 3%
- Archaeology - £2,000,000
- Decontamination - £1,000,000
- Chapel Relocation - £2,000,000

3.18 **Professional Fees** – Iceni included 8%, which was at the lower end of the range we normally adopt for this type of scheme but take account of efficiencies of scale etc for Weston Homes.

3.19 **CIL/Section 106 Costs** – Iceni included the following:

- Policy Compliant Scheme – CIL - £7,978,666
- Submitted Scheme – CIL - £8,807,421
- Section 106 – Car Club - £115,000

3.20 **Sale and Marketing Fees** – The following were agreed as reasonable:

- Marketing – 1.5% of GDV
- Sale – Agents Fees – 1% of GDV
- Sale – Legal fees – 0.5% of GDV
- Letting Fees – 15% of income

3.21 **Finance Costs** – An all-inclusive rate of 6.5% was agreed.

3.22 **Developers Profit** – I was of the opinion that reasonable profit levels were 20% of GDV for private residential, 6% of GDV for residential and 15% on GDV for commercial.

3.23 **Viability Results** – Following agreement on the inputs the following results were reported:

- Policy Compliant Scheme with no HIF and Full CIL – Profit of 1% of GDV
- Submitted Scheme with no HIF and full CIL - Profit of 5.4% of GDV
- Policy Compliant Scheme with full HIF and Full CIL – Profit of 9% of GDV
- Submitted Scheme with full HIF and full CIL – Profit of 12%
- Policy Compliant Scheme with full HIF and no CIL – Profit 12% of GDV
- Submitted scheme with full HIF and no CIL – Profit level of 16% of GDV

3.24 Overall, my review agreed with the inputs and I concluded that the scheme should be viable and deliverable based on the submitted scheme including 10% affordable housing, full HIF and no CIL.

4 Review of the updated assessment undertaken by Francis Truss

4.1 Francis Truss (FT) has now undertaken an updated viability assessment of the submitted scheme, as part of his proof of evidence taking account of various changes including:

- £15.0 million Housing Infrastructure Fund (HIF) grant allocation from central Government increased from £12.2m.
- The existence of a Community Infrastructure Levy (CIL) Exceptional Circumstances Relief Policy

4.2 His proof of evidence states that inputs have been included from Weston Homes in respect of the build cost and Cushman & Wakefield in respect of retail and leisure strategy and values.

4.3 The updated appraisal reviewed does not seek to repeat information, which is still valid from the September 2018 viability report as per the Note of the Pre-Enquiry Meeting.

4.4 I have now reviewed the key inputs updated by Francis Truss, which are detailed as follows together with my comments. Again, this is not a red book valuation but the review is to establish if the inputs are reasonable and the methodology sound.

4.5 **Gross Development Value and Scheme Income** –

- **Private Residential** – I have reviewed the comments made, the additional evidence and also considered the Land Registry House Price Index for Norwich from September 2018 to September 2019 (which shows a marginal fall in values) and overall I agree that the same values should be used for the units in the scheme as in our November 2018 review.

  1bed flats - £160,000 – Reflects a small premium on existing evidence of approx 3%

  2bed flats - £250,000 – Reflects a 10% premium on existing evidence

  2bed flats in Tower - £270,000

  Taking into account that this will be a new environment and a mixed-use scheme, I believe these values are reasonable.

- **Affordable Residential** – 40% of market value for social rented and 60% of market value for shared ownership has been adopted and I am of the opinion that this is reasonable talking into account my experience of values in the region and previous discussions with RSL's.

- **Residential Car Parking** - £15,000 per space for 600 private residential car space again has been adopted and is reasonable.

- **Ground Rents** – As stated in my 2018 report it is still the policy of the VOA to include for ground rents for flatted scheme until legislation is enacted. FT has also included ground rents but capitalised at 10%. However, I am of the opinion that, while they are still legally allowed to be charged at a reasonable rate, a yield of 5.25% is reasonable.

- **Hotel** – FT has now included a rental for the hotel at £10.25 per sq ft capitalised at 6.25% with a 12 months' rent-free period. Based on the comments made (past discussions with operators and current requirements) and the evidence shown I am of the opinion that the revised value is reasonable and shows an increase from £10,858,500 to £14,933,647.

- **Commercial Uses** – I have reviewed the comments of FT and the review by Cushman & Wakefield. In respect of the retail units, the rents adopted are now £12 per sq ft and £20 per sq ft. These are a reduction to those used in September 2018. In addition, they have adopted a yield of 8.5% to reflect the current market. From my own research and that provided, I am prepared to accept these changes as reasonable in the current market including a 24-month incentive package.

- **Cinema** – Cushman & Wakefield are using a rental of £8 per sq ft capitalised at 8.5% with a 10-year rent-free period. Again taking into account my knowledge of the market and the evidence provided I am of the opinion that the value is reasonable and shows a reduction to £736,977 from £1,882,899.

- **Car Park** – Columbia Threadneedle are in discussion to lease this 600-space car park and the rental is based on £425,000 per annum with a 6-month rent-free period capitalised at 4.5%. The value is now £9,247,553, which is an increase from £7,653,170 but it is based on a written offer.

- **Housing Infrastructure Fund** – The scheme has been granted a HIF grant of £15m in order to close a viability gap.

  The HIF grant has been made following detailed discussions between the City Council and Homes England, and a review of the values and costs by Deloittes on behalf of Homes England.

4.6 **Net Development Value** – The total development value including HIF grant, purchaser's costs and income from ground rents is £304,927,566, which is an increase on the NDV in our 2018 report but this did not include the HIF monies. However if the yield on the ground rents is reduced to 5.25%, as detailed above, the overall NDV increases to £307,743,323.

4.7 The Development Costs reviewed are as follows:

- **Build Costs** - In September 2018, Iceni used a total of approx, £197,375,000 provided by Weston Homes and audited by Gardiner & Theobald. Weston Homes have now estimated the costs at £196,800,000 but for consistency, FT has used approx. £197,375,000. I have reviewed the BCIS All-in TPI, which shows a marginal decline from 4th quarter 2018 to 4th quarter 2019, and therefore I am of the opinion that the costs adopted are still reasonable.

- **Professional Fees** – FT has maintained these at 8%, which although low for a mixed-use scheme are considered reasonable based on the current design stage, the Weston Homes factor and economies of scale.

- **Preliminaries** – BCIS rates include for preliminaries however, the costs by Weston Homes are exclusive of these. Once again, 10% has been adopted and I am of the opinion that this rate is reasonable in this case.

- **Contingency** – I consider the rate of 3% is reasonable taking account of the time that Weston Homes have been working on this project, the knowledge gained and the stage of planning.

- **Infrastructure** – The costs have been provided by Weston Homes and included as reasonable in accordance with the 2018 reports.

- **Section 106** – FT has allowed for £115,000, which I am advised, is for a car club contribution. However on the basis that CIL is not being paid additional contributions for green infrastructure are required which I am advised by the Council amount to £60,450 which have not been included by FT.

- **Other Costs** – I understand that further costs have now been identified, estimated by Weston Homes and now included in the updated appraisal as follows:

    1. Off Site Works - £1,064,878

    2. On site Works - £917,172

- **Community Infrastructure Levy** – I am advised that the Council have a CIL Exceptional Circumstances Relief Policy, which may be applied to this scheme.

- **Marketing and Disposal Costs** – Rates consistent with the 2018 reports have been adopted and it is my view that they are still appropriate.

- **Finance Costs** – A rate of 6.5% has been used which is consistent with the 2018 reports and still appropriate.

- **Achieving Vacant Possession** – FT states that the developer and landowner's team have been working on a vacant possession strategy for a number of years and as a result, no compensation is anticipated or included in the appraisal. In addition, no interim income is included from the existing asset, which may be conservative. No detail has been provided but from my experience of mixed-use schemes, this is not unreasonable.

5 Assessment Results

5.1 **Updated Appraisal Results** – The appraisal that has been submitted as part of the Francis Truss Proof of Evidence shows a profit return on cost of 16.44% and profit on GDV of 14.71%.

5.2 I agree that this is at the lower end of the range I would expect for a mixed use scheme but as the Appraisal included as appendix 2 to this proof of evidence shows, would improve to 17.56% on cost and 15.54% on GDV on the basis that:

- The ground rent yield is reduced to 5.25%

- The section 106 costs increased by £60,450 to £175,450

5.3 In my experience of delivering mixed use schemes as a developer although the initial profit level is sought to be maximised they often proceed at a lower initial profit level on the basis that the effect of long term growth is significant.

5.4 Overall Results – The updated appraisal shows a profit level slightly lower that the 2018 reports but the latest update includes for a reduction in commercial values overall and additional public realm costs both on site and off site. In addition, CIL has been excluded and the HIF funding has increased to £15m.

6 Conclusions

6.1 In my report dated 9 November 2018, I reviewed both the methodology and the inputs into the Iceni appraisal. I concluded that the methodology was sound, that overall the inputs were agreed and that the scheme was marginally viable and demonstrates a deliverable scheme.

6.2 I have now reviewed the updated appraisal provided by Francis Truss, as part of his proof of evidence, and again concluded the methodology is sound and most of the inputs are agreed as either industry standards or take account of the nature of the scheme and the parties involved. Although the profit level is lower than normally expected, it is reasonable for this type of mixed-use scheme with the prospect of long-term growth and should be deliverable in a reasonable market.

6.3 I have also undertaken a sensitivity analysis of the appraisal by adjusting the residential sales values and the build cost. I have not taken account of any increase in affordable housing values (on the basis that they will be sold upfront to an RSL) or any changes to the commercial values.

6.4 The results are included as part of appendix 2 but in summary show the following:

- If values increase by 5% but costs remain the same the profit on GDV is 18.76%

- If values increase by 5% and costs increase by 2.5% the profit on GDV is 16.60%

- However if values reduce by 2.5% and costs stay the same the profit on GDV is 13.72%

Appendices

Appendix 1 – DVS report dated 9 November 2018

Appendix 2 – Updated appraisal with ground rent yield of 5.25% and £60,450 additional section 106 contributions plus sensitivity