[redacted]
Head of Planning Strategy
Stroud District Council
Ebley Mill
Ebley Wharf
Stroud
GL5 4UB

Jones Lang LaSalle Ltd
31 Great George Street Bristol BS1 5QD
[redacted]

jll.co.uk

Our ref HE/bh

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Dear [redacted]

Stroud District Council: Local Plan Viability Assessment 2022 Refresh, August 2022
Strategic Site Allocation PS36: Sharpness New Settlement

We are writing on behalf of Sharpness Development LLP in relation to the Local Plan Viability Assessment 2022 Refresh prepared by HDH Planning & Development Ltd on behalf of Stroud District Council dated 18th August 2022. This response should be read in conjunction with the previous responses to the Pre-Consultation Draft, and the Consultations Draft submitted by Sharpness LLP in July 2020 and July 2021.

JLL have reviewed the 2022 Refresh documents on behalf of Sharpness Development LLP who are promoting the development of a new settlement in Sharpness under site reference PS36 for approximately 2,400 new homes in Phase 1 and a further Phase 2 of circa 2,600 homes. JLL provide comment on the Local Plan Viability Assessment 2022 Refresh as set out below.

A. Site and Scheme Details

We note that PS36 has been modelled at 37units/ha and 65% net developable area against a total site area 131.77ha. The assessed density appears reduced from the previous iteration of the assessment. JLL understand that the sites true net/gross ratio is 57.6%. 57.6% provides a realistic density for a scheme of this size, considering the additional requirements and provisions for ancillary educational, community and commercial uses.

JLL have also re-considered the unit mix proposed by the 2022 Refresh and would comment that whilst a range of housing is accounted for, the adopted mix only allows for 1 bed apartments which is not realistic. JLL suggest this be reconsidered to include more of a range of apartment types across both open market and affordable tenures.

B. Methodology – Benchmark Land Value

The report has maintained the previous methodology for the EUV+ with £375,000 /ha adopted. The current adoption currently still reflects a rate fourteen times that of the EUV and is therefore considered excessive. It is understood that a consistent approach is required for the assessment, but the current approach is not representative, realistic or appropriate for larger strategic sites and therefore again it is requested this be reconsidered as there appears to no substantive evidence for the adoption of 14 times EUV as a premium.

C. Residential Market

It is noted that the revised 2022 Refresh has considered the Green Village principles proposed by the residential led development at PS36 and JLL fully supported the previous adoption of £3,200 m2 average open market sales values and again support the revised increase to reflect Land Registry data and House Price Index evidenced increases of 12-15% of £3,508/m2. However, the further addition of a 5% premium to reflect Garden Village Principles is not based on robust data or evidence and therefore applying an overall 20% uplift to the values appears to be over ambitious at the time of writing, considering the current plateau of sales rates and values. We would therefore support the revision of sales values to £3,508/m2 to reflect an average across the scheme and development period as a representative and current figure for the site.

For reference, we have had regard to LandInsight which is an industry wide used tool to establish existing residential sales values as there is a lack of relevant new build evidence in the vicinity of the site. LandInsight reports sold prices as follows:

- £3,143 per m2 / £292 per sq ft average since Jan 2020- 2.5 mile radius from Berkeley – Sold Prices
- £3,584 per m2 / £333 per sq ft average since Jan 2020 – 2.5 mile radius from Berkeley – Market Value (Indexed)

The adoption of a quantified uplift of 5% to sales values to represent added value from Garden Village Principles pushes the uplift, in our view, to an over ambitious 20% overall increase at £3,680/m2.

JLL also note that at 4.67d there appears to be incomplete commentary in respect of the adopted uplift figures.

D. Affordable Housing

The approach to affordable housing remains broadly acceptable to JLL. Analysing the attributed values against the reports adopted market value of £3,680/m2 for Sharpness PS36, the following values have been adopted;

- Social Rent: £1,300/m2 (**35.3% of open market**, a reduction from 40.00%)
- Affordable Rent: £1,900/m2 (**51.63% of open market**, a reduction from 59.38%)
- Shared Ownership: £2,576/m2 (**70.0% of open market**, remaining consistent with previous iterations)

The above percentage rates are broadly in line with the market, albeit that social rent is below the 45-50% we would expect of this tenure although no allowance is made within the appraisals at this level due to the adopted tenure split excluding this. The standard approach would be to adopt a broader blended rate of 50-60% of Open Market Value depending on the policy required tenure split, the above rates equate to 56.88% of Open Market Values and is therefore considered acceptable.

E. First Homes

There appears to be an inconsistent approach to the inclusion of First Homes within the assessment. At 2.55 it is stated that the Council stance is to exclude them from the assessment but then subsequently at 4.83 it mentions accounting for them within the mix. Clarity on the Council's position on this tenure would be beneficial to the consistency of the assessment and bring it into line with the requirements of the NPPF which sets out First Homes as the government's preferred discounted market tenure and should account for at least 25% of all affordable housing units delivered by developers through planning obligations. (Paragraph: 001 Reference ID: 70-001-20210524).

F. CIL

The assessment covers a range of scenarios in relation to the inclusion or exclusion of Strategic Sites being liable and chargeable for CIL. It is concluded in the assessment that there is not scope to amend the existing and adopted Charging Schedule. It is noted by JLL that further consideration is required in relation to the delivery of infrastructure across the Strategic Sites to ensure a cohesive, commercial, fair and deliverable approach is taken. Sharpness LLP would welcome further discussion with SDC in relation to this to ensure a deliverable approach is adopted by finding a balance between financial obligations and requirements.

G. Commercial Accommodation

JLL note that the commercial element of PS36 has not been accounted for within the appraisal and therefore the assessment has not considered it's positive impact on the wider viability of the site. Accounting for c.10ha of the site, the inclusion of this element of the scheme will improve the viability position of the site.

H. Development Costs

I. The adopted Interest Rates are 6.5%. Whilst we understand that there is not a one size fits all approach to each input, it is not representative of the size of the proposed development and the likely finance structure of the delivery to assume an interest rate of 6.5%. For larger strategic sites, it remains market standard assumption to adopt a rate of c.5.0% to reflect a finance structure that either includes a revolving facility of a master developer or healthy cash position of a volume housebuilder. However, there has been unprecedented movement within the financial markets as outlined below albeit we would anticipate that due to the longevity and scale of Sharpness, this remains an appropriate assessment to reflect an average across the lifecycle of the project.

II. JLL continue to disagree with the adoption of 17.5% profit across both open market and affordable tenures. The delivery of affordable housing carries significantly less risk than open market housing and therefore the required developers return should reflect this. For a larger multi-phase developments we would expect a rate of between 15-20.0% on GDV for the open market homes, and a rate of 6.0% on the affordable tenures. The profit position of a scheme is of course specific to the development risk and it is accepted a reasonable consistent approach is required across the full assessment. However, if the profit assumptions were reconsidered within the assessment, to account for the difference between the tenures, taking PS36 as an example, a reduction of profit on GDV to account for 17.5% on open market and 6.0% on affordable equates to a blended rate of 15.78% and adds £126,082/ha to the land value, making the scheme then fully viable on the basis of the current assessment at a land value of £396.953/ha.

    On the basis of the significance this has to the overall viability of the sites assessed, we would request this be revised.

III. JLL note that BCIS data is being utilised for the assessment. Whilst this approach is standard, the data sample appears to exclude the category of "Housing, mixed developments" which would be particularly relevant to the assessed sites. To improve accuracy of the assessment JLL suggest that the lower quartile base build rate for larger allocations should be adopted to reflect the economies of scale which may not be realised by the smaller sites who are likely to be delivered by a SME regional developer as opposed to a larger / volume housebuilder.

I. Cost of Higher Environmental Standards

The assessment of additional costs appear particularly onerous and needs to be refined to properly assess the delivery of the sought higher environmental standards and increases to Building Regulations. A range of rates per dwelling and per hectare constitute a broad approach to assessment and if a more appropriate model were adopted for greenfield Strategic Sites, this may allow for the higher Environmental Standards to be included within the delivery requirements of the Strategic Sites without compromising on the provision of Affordable Housing.

J. Phasing / Timescales

JLL would reiterate a previously made point that the phasing of the scheme does not appear commercial in the approach which adopts elongated phasing rather than a more appropriate rate of delivery. Again, as set out previously, in reality a large strategic site would be delivered across multiple phases where a variety of products are to be delivered on site at the same time to capture a variety of buyers, budgets and encourage a diverse new neighbourhood. At a rate of delivery of 50 total dwellings per year, 35 market dwellings a year which equates to c.3 per month this could be replicated on 2-3 additional flags effectively tripling the rate of delivery and significantly improving the viability position.

K. Sensitivity Analysis

Below we have summarised the position of PS36 Sharpness from the reports key sensitivity analyses provided within the 2022 Refresh. Across the scenarios, the site is shown mostly as marginal or viable which we are of the opinion could be further improved if the BLV were revised to a more appropriate rate.

- Base Appraisals with CIL- positive land value and marginally viable.
- Base Appraisal without CIL – positive and marginally viable but no surplus.
- Residual Value v BLV – Base Appraisals with Varied Affordable Housing – CIL Scenario A - evidenced as viable at 10% (£413,343/ha) only Strategic Site viable at this level.
- Residual Value v BLV – Base Appraisals with Varied Affordable Housing – No CIL, Scenario A - evidenced as viable at 20% (£426,878) only Strategic Site viable at this level.
- Residual Value v BLV – Base Appraisals with Varied Affordable Housing – CIL, Scenario B - evidenced as viable at 15% (£422,430) only Strategic Site viable at this level of affordable provision.
- Residual Value v BLV – Base Appraisals with Varied Affordable Housing – No CIL, Scenario B - evidenced as viable at 25% (£424978) only Strategic Site viable at this level.
- Residual Value v BLV – Base Appraisals with Varied Affordable Housing – CIL, Reduced Scenario B - evidenced as viable at 20% (£4435,675) only Strategic Site viable at this level of affordable provision.
- App 14 – Affordable Housing v Developer Contributions – range of 30% Affordable plus £5k per dwelling contribution shown as viable vs. 0% Affordable plus £30k per dwelling contribution shown as viable.
- App 15 – Higher and Lower Policy:
    - Local Plan Policies – viable at 20% Affordable
    - Local Plan Policies but 50% Accessible and Adaptable without enhanced standards – viable at 25% Affordable
- Scenario B, with CIL, Part L, Zero Carbon, 10% on-site generation, District Heating – marginally viable and significant improvement with removal of CIL.

Despite a number of inputs and assumptions of the 2022 Refresh viability appraisals remaining unsuitable for a development of scale such as PS36, the above sensitivity scenarios and the full sensitivity evidence clearly demonstrates that the site can be successfully delivered whilst also providing important policy requirements including enhanced environmental standards depending on the ultimate form that they take. Multiple factors which include finance rate, profit, phasing, build cost and the addition of the employment space, will collectively and significantly further improve the viability of PS36 if assessed in a more commercial and market facing manner that reflects more site appropriate assumptions to further demonstrate the deliverability of the scheme.

Additional consideration should be given to the delivery of the required infrastructure for PS36 and other large Strategic Sites so that they can be collectively brought forward successfully and fairly. The required infrastructure across the Strategic sites is shared with those in the vicinity and achieving the targets set out within the Local Plan could be secured from re-assessing the method by which they are delivered. Therefore, if approached with commercial consideration, combined with policy requirements, PS36 would deliver a viable new community. Further, wider consideration of the proposed Phase 2 of PS36 which would follow to provide significant additional housing for the next plan period will further ensure viability.

Conclusion
Whilst it is appreciated that the viability assessment is not able to not consider all site-specific factors, due to the scale of the site, the viability of PS36 is still not accurately reflected within the high level appraisal undertaken in the 2022 Refresh. The sensitivity analyses demonstrates the development can be made viable rather than marginally so and deliverable even without inputs that are appropriate for a development of scale but further that the viability could be significantly improved on to include the potential of a viability surplus if considered on a commercial and market facing basis, enabling delivery of policy and higher environmental standards wherever possible. Fundamental to this, is the adoption of a more realistic and fully evidenced BLV.

Sharpness LLP and JLL would welcome further discussion with SDC and their consultant team.

Yours sincerely

Associate Director
Direct line [redacted]
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