1. Instructions

1.1. Roger Hannah ("RH") has been appointed by Ashall Property, Barratt David Wilson, Bloor Homes, Metacre Ltd, Satnam Group and Story Homes (Developer Consortium ID UPSVLP 0410) to provide this Hearing Statement in respect of Matter 3 (The Spatial Strategy).

1.2. We have reviewed the Matters, Issues and Questions identified by the Inspectors (ID02) in relation to Matter 3. The purpose of this statement is to address questions 35 – 38 relating to viability. We therefore address these in turn below and refer to the Warrington Borough Council Emerging Local Plan Viability Assessment ("LPVA"), dated August 2021, and the associated Main Report - Addendum ("MRA"), dated January 2022. These reports have been produced by Cushman & Wakefield ("C&W") on behalf of the Council.

1.3. This statement should be read in conjunction with the RH Viability Consultation Response Report ("VCRR"), dated November 2021.

2. Question 35: is the methodology used for the Viability Assessment of the Local Plan appropriate and robust?

2.1. We agree with the general methodology in that residual appraisals are undertaken to assess the viability of typologies and site allocations, and then the results are compared to a Benchmark Land Value ("BLV").

2.2. There are however some limitations in respect of the appraisal assumptions and resultant conclusions in respect of viability and deliverability, which are highlighted in the RH Viability Consultation Response Report ("VCRR"), dated November 2021. We will cover the main issues below.

3. Question 36: Does it provide a realistic and comprehensive assessment of revenue and costs for the Main Development Areas and site allocations over the plan period?

3.1. Revenues

3.2. Whilst we remain of the view that the values applied to apartment development in the central Warrington areas are ambitious, particularly in the case of the Town Centre, the revenue assumptions on the whole are broadly agreeable.

3.3. Consideration of Plan Period

3.4. We note that the plan period of 16 years means that the current LPVA and MRA will quickly become outdated. It is not clear how this is intended to be addressed by the Council or their advisors. There is a role for sensitivity testing to understand the impact of potential changes in revenues and costs over the plan period, but we note that there are significant issues with the sensitivity testing, as set out in Section 4.6.2 of our VCRR, which have not been addressed in the MRA.

3.5. The main issue with the sensitivity testing is it is not based on realistic scenarios or supported by any forecast evidence. The premise of the testing is an <u>increase</u> in sales values and a <u>decrease</u> in build costs and/or associated fees and contingencies, which is wholly inaccurate. The sensitivity testing should be based on the forecast scenario of an <u>increase</u> in sales values and an <u>increase</u> in build costs.

3.6. This is not addressed in the MRA, with C&W instead testing their initial assumptions in more detail to assess how much additional affordable housing could be delivered if sales values increase and build costs decrease. They also incorrectly claim that build cost inflation was not apparent in the market in April 2021.

3.7. The cost inflation we have seen over the past 2/3 years has been significant and is largely down to supply chain and labour issues because of Brexit and Covid-19. Contractors, developers and consultants have therefore been operating in markets where costs have been increasing largely as a result of events that occurred in January 2020 and from March 2020 onwards. To suggest that cost inflation was not apparent in April 2021 is therefore not reflective of reality. The forecast data provided in our VCRR that postdates April 2021 merely confirms the experiences of those active in the development market, which has been characterised by ongoing cost inflation since early 2020.

3.8. We therefore remain of the view that the sensitivity testing should be amended and based on realistic assumptions to ensure that potential changes over the plan period are considered. This should be based on an increase in sales values and an increase in build costs. We note that current forecast data suggests that cost inflation will outstrip sales values inflation, and therefore believe that this scenario and its impact on policy delivery should form the basis of the sensitivity testing.

3.9. We also note there is no allowance for Future Homes Standards (2025) in the sensitivity testing. C&W recognise that these costs *"will represent a legitimate cost that needs to be factored into scheme viability appraisals for those plots which will be affected by the changes"*, but then do not include it in any sensitivity testing (which only allows for a reduction in costs), or in the site allocation appraisals which will be affected by the requirements and associated costs. These costs should therefore be included in the appraisals for the strategic sites and typologies with 150+ houses, and any sensitivity analyses of the smaller typologies.

3.10. Costs

3.11. We cover the issues with the cost assessment in the following section.

4. Question 37: are all costs included and are the estimates of these justified? How have infrastructure requirements been factored in and how do these correspond to the Infrastructure Development Plan and costs identified in that?

4.1. As stated in section of 4.3 our VCRR we believe the cost assumptions need to be supported by a specialist cost consultant, as per RICS best practice, in order to be considered robust and reliable. We accept C&W will have exposure to a range of build costs for the purpose of assessing standard housing costs. We also accept that there is board agreement across many of the cost assumptions adopted for the typology testing, with C&W basing their standard assumptions on data that we would expect to be similar to the build cost data we are also exposed to for valuation, agency and general consultancy purposes.

4.2. At the Local Plan level there is however a need for more detailed and specialist consideration of potential site constraints and associated costs, particularly across strategic allocated sites and more bespoke forms of development, to ensure robustness. We therefore believe that a suitably qualified professional should be engaged to review this cost information and provide a review of the strategic sites and more bespoke apartment led typologies as a minimum, as per PPG requirements.

4.3. Typology Costs

4.4. We note that some of the areas of difference highlighted in our VCRR have been addressed by C&W in the MRA, with respect to garages and Part L Building Regulations. That said, the updated garages assumptions are based on a flat rate of 20% of houses requiring garages at an average cost of £8,500 per unit. We have consulted with our developer clients and Brookbanks, who provided specialist QS input into the VCRR, and believe the cost is still too low. The cost inflation seen over the period between the VCRR has been significant and these costs are now typically in the order of £13,000 per unit. We also note that our suggested allowance for garages ranged from 20 – 40% depending on the location and nature of development, and we remain of the view that the allowance for garages should be increased, particularly in the Mid and High Value typologies and allocations.

4.5. We also have concerns over the costs associated with the apartment development typologies in the Town Centre areas. We note the assumed typologies are as follows:

Typology	Gross Site Area (ha)	Net Site Area (ha)	Unit Numbers	Dwellings Per Net Ha/Acre	Coverage (sq ft per net acre)
Town Centre 1	0.07	0.07	10	140/57	32,719
Town Centre 2	0.18	0.18	50	275/111	64,270
Town Centre 3	0.52	0.52	250	480/194	112,180

Figure 1: C&W Typology Assumptions

4.6. These typologies result in much higher density and site coverage compared to low rise housing development (which generally result in density assumptions 35 – 40 units per net ha and 14,000 – 16,000 sq ft per net acre), as recognised in the C&W report commentary.

4.7. These typologies are therefore assuming apartment blocks of height, albeit it is not clear how high C&W would expect these typologies to be. Based on the density assumptions outlined above, we would expect the storey heights to be in the order of 10 – 15 storeys for Town Centre 2 and 20 – 30 storeys for Town Centre 3. We also note that the densities are likely to increase further when reductions are made to the net area to reflect undevelopable land, public open space and privacy distances.

4.8. For more bespoke schemes such as this, we would not expect BCIS costs for 3 – 5 storey and 6+ storey apartment development to be appropriate. The C&W adopted costs on the basis are £1,295 psm (£120 per sq ft) and £1,585 per q m (£147 per sq ft) respectively. These costs are considerably lower than our market experience of this type of development and discussions with specialist QS consultants. For schemes of 10 – 15 storeys, costs are typically in the order of £2,000 - £2,300 per sq m (£185 - £214 per sq ft). For schemes of 20 – 30 storeys we would expect costs to be in excess of £2,500 per sq m (£232 per sq ft).

4.9. The costs associated with parking on schemes of this nature will also need to be considered separately, as this would likely be in the form of undercroft and/or basement parking. C&W recognise in their MRA that garaging is excluded from BCIS data, but the applied rate of £8,500 per unit for housing schemes, would not be applicable to apartment parking schemes on this basis. We would typically expect costs in the order of £25,000 - £35,000 per space for undercroft/basement parking associated with higher rise apartment schemes.

4.10. Again, this emphasises the need for specialist cost consultancy input at local plan level, as average assumptions based on internal C&W data for housing led schemes, and BCIS data for lower rise schemes, are not applicable to schemes of this nature.

4.11. The impact of these cost changes on the viability appraisals associated with these schemes is expected to be significant and we would recommend that the Town Centre typologies are re-appraised on this basis to fully understand the financial viability of apartment led development on brownfield sites. We would generally expect delivery of schemes of this scale to be unviable with 0% affordable housing, with a lower density of development with lower costs required to close the viability gap. We note that 3,750 units are anticipated to be delivered in this area, with limited new build activity to date and the current LPVA appraisals showing that no affordable housing can be delivered in this area.

4.12. Site Allocations

4.13. As per our VCRR, we have had reference to the Fiddlers Ferry ("FF") site allocation. As detailed in Section 5 of the VCRR and our Hearing Statement for Matter 6c, we believe the costs have been underestimated and that the conclusions that the site is marginal are unreliable.

4.14. The abnormal costs associated with a brownfield site of this nature are likely to be significant and the appraisals therefore require the input of a qualified cost consultant. Based on the specialist QS advice received by Brookbanks, we believe an appropriate assumption for abnormal costs is in the order of £35,000 - £50,000 per plot. We provide re-appraisals of the scheme and demonstrate that a residential development scheme on site is unviable based on a reasonable assessment of cost.

4.15. As per our comments in 3.9 we would also expect a cost allowance for the impact of Future Homes Standards (2025) across affected plots on site allocations. The cost impact of this is likely to be significant, with Brookbanks advising an allowance of £8,000 per plot.

4.16. Infrastructure Delivery Plan (“IDP”)

4.17. As stated in our VCRR, it appears that there are costs within the IDP that are not included in the Section 106 contribution assumptions in the viability appraisals. As an example, the Western Link Road is due to cost £220,000,000 with a funding gap of £77,500,000 identified. The Council are listed as a funding source, and we therefore assume that contributions could be sought from developers for schemes that are affected by the need to construct the link road. The LPVA does not appear to account for any of the £77.5m funding gap in the costs.

4.18. We note that the MRA recognises that *“clarity on some of the infrastructure / S106 allowance in the LPVA and how these related to the figures in the Infrastructure Delivery Plan”* as a key comment from the representations. In Appendix 1 of this document C&W highlight that we have identified that IDP costs are not included in the LPVA, and they *“note and agree with this principle which is acknowledged by the Council.”*

4.19. Given the extent of the funding gaps identified in the IDP, with the £77.5m for the Western Link Road as an example, it is unclear why the Council and C&W elect to omit known costs that will impact overall S.106 contributions and therefore scheme viability. This requires clarification by the Council and C&W with a need for the LPVA viability testing to include likely costs associated with the funding gaps set out in the IDP where there is an expectation that developer contributions will be required to meet the deficit.

4.20. On further review of the S.106 cost breakdown provided in the LPVA at Appendix 13, there are allowances for primary school, secondary school, primary care, sports pitches open space, sports facilities and transport contributions across the site allocations and typologies. In the case of the generic typologies, there is a ‘Total’ column and ‘Capacity Allowance’ column, with the LPVA adopting the lower ‘Capacity Allowance’ figures, although it is unclear what the difference is and why the lower figures have been adopted, so this requires clarification.

5. Question 38: what is the basis for the assumptions regarding the phasing of development and the timing of the need for and costs of infrastructure and are these realistic and justified?

5.1. As detailed above, it is not clear that the need for and costs of infrastructure have been appropriately allowed for in the S.106 cost assumptions. This needs to be clarified by the Council and C&W to ensure the viability testing is realistic.

5.2. In the case of on-site works, the LPVA makes general assumptions for abnormal costs per plot in the typology appraisals, but it is not clear how these are phased. Should any upfront infrastructure works be required these would need to be appropriately allowed for at the start of a given development, which generally negatively impacts viability, particularly in the case of apartment development which needs to practically complete before sales are secured and revenue is generated to offset the costs, and associated cost of borrowing.

5.3. In the case of the site allocations, the infrastructure costs should be appropriately allowed for and phased to reflect the need for any upfront works. These will need to be fully considered and appropriately cash flowed in an appraisal. We would recommend that these are provided by C&W for all of the strategic site appraisals to enable a meaningful review in this regard.

6. Summary

6.1. To summarise, there are still areas of concern relating to the viability testing, and therefore the soundness that can be attributed to the findings, that need to be addressed:

i. The current sensitivity analyses do not accurately reflect likely changes over the plan period, because they are based on an increase in sales values and decrease in build costs and/or associated fees and contingencies. We note that forecast data, based on increasing costs since early 2020, suggests that cost inflation will outstrip sales values inflation, and believe that this scenario and its impact on policy delivery should form the basis of the sensitivity testing. We therefore remain of the view that the sensitivity testing should be amended and based on realistic assumptions to ensure that potential changes over the plan period are considered.

ii. C&W recognise that Future Homes Standards (2025) are a known regulatory change that will significantly impact costs, with current estimates in the order of £8,000 per plot. These are currently excluded from all appraisals and sensitivity testing. These costs should therefore be included in the appraisals for the strategic sites and typologies with 150+ houses, and any sensitivity analyses of the smaller typologies.

iii. At the Local Plan level there is a need for more detailed and specialist consideration of potential site constraints and associated costs, particularly across strategic allocated sites and more bespoke forms of development, to ensure robustness. We therefore believe that a suitably qualified professional should be engaged to review this cost information and provide a review of the strategic sites and more bespoke apartment led typologies as a minimum, as per PPG requirements.

iv. It would appear that the funding gaps set out in the IDP that may need to be met by developer contributions are excluded from the LPVA. In the MRA, C&W *"note and agree with this principle which is acknowledged by the Council."* This requires clarification by the Council and C&W with a need for the LPVA viability testing to include likely costs associated with the funding gaps set out in the IDP where there is an expectation that developer contributions will be required to meet the deficit.

v. On further review of the S.106 contribution breakdown in the LPVA, there is a 'Total' column and 'Capacity Allowance' column, with the LPVA adopting the lower 'Capacity Allowance' figures. It is unclear what the difference is and why the lower figures have been adopted, so this requires clarification.

vi. The phasing assumptions relating to infrastructure and associated costs require further clarification to ensure they are appropriate.