

## **Wigan Core Strategy – Viability Advice – November 2010**

### **Viability Assessments for “6 Strategic Sites”, Wigan**

#### **1. Advice requested**

We have been appointed by Wigan Council to advise on viability issues concerning a number of key development sites in its emerging Core Strategy. The sites are large and in a number of cases will require major investment in infrastructure and/or other works if they are to be developed.

We have been provided with basic details for each site together with the Council's preferred development scheme in terms of mix, type of user etc. On each site we have initially considered the preferred scheme, together with possible alternatives, and reached conclusions regarding the potential viability for each of the scenarios.

‘Viability’ is tested against the level of expectation of developer profits if the scheme were to proceed.

In each case we have undertaken residual valuations of the sites to arrive at an estimate of the amount that would remain to purchase the land, after allowing for all development costs (including the developer profit). This land value is then considered and conclusions reached as to whether the site is likely to be delivered to the market on the assumptions made.

Our valuation advice is provided in accordance with the RICS Appraisal and Valuation Standards, in which Market Value is defined as:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The valuation and report have been prepared by a Chartered Surveyor who conforms with the requirements of the Appraisal and Valuation Standards and in this respect you should also be aware that the Valuation Office Agency has been involved in other valuations for the Council within the last two years.

As agreed, this report has been prepared without detailed information on some aspects of the property, e.g. site investigations, contamination reports etc. The assumptions made in respect of these aspects are set out in each case. These assumptions are assumed to be correct but any variation in these figure will have an impact on the figures reported.

For each of the sites, we have been provided with:

- Site layout plan and site areas.
- Council's preferred development scheme
- Costs for potential infrastructure works.

## **2. Situation and description**

Site Plans are provided in Appendix 1.

The Sites are known as:

- Site 1 - The Bell, Lamberhead Green
- Site 2 - South of Hindley
- Site 3 - Northleigh
- Site 4 - Landgate, Ashton
- Site 5 - East of Atherton
- Site 6 - Garrett Hall, Astley

A set of initial 'Pen Portraits' of the sites was provided to us and a copy of these is attached in Appendix 2.

The sites were inspected in June 2010, but inspections were limited by availability of access particularly where they are in third party ownership. No building survey has been made nor have the services been tested. We have not been informed of, nor arranged for any investigations to be carried out to determine whether or not any deleterious or hazardous material has been used or incorporated into the properties, nor been informed of any contamination (other than that specified later in this report) affecting the sites or buildings.

## **3. Tenure**

Unless otherwise stated, we have assumed that the sites are held Freehold or Long Leasehold; that good title can be shown and that the property is not subject to any unusual or onerous restrictions, encumbrances or outgoing.

## **4. Easements, restrictions, covenants and conditions, access**

We are not aware of any onerous easements, restrictions, covenants or conditions affecting the value of the land and have assumed that none exist.

We have assumed that all mains services are available to the sites from the adjoining highways or sites.

## **5. Town and Country Planning**

The sites have been considered in the context of the pen portraits and hypothetical planning schemes which may not represent any finally acceptable planning consent.

The Preferred Option schemes may be considered as reasonably possible planning outcomes but a number of the scenarios may represent schemes which could be highly contentious in Planning terms and where consent could be difficult or impossible to obtain.

However, the scenarios are included to illustrate what may be required to make the sites viable, in market development terms, given the constraints considered necessary to enable development.

## 6. Valuation considerations

I have been instructed to make a number of Planning Assumptions and to consider various scenarios, but as you will appreciate, any conclusions will be a function of the final Planning Consent achieved in terms of use, density, etc.

No enquiries have been made and no information provided on the property's planning status and potential and it is assumed that there are no planning proposals that adversely affect the property. As stated above our valuations are based on the assumption that appropriate planning consents will be obtainable and that these will not contain any onerous conditions.

The valuations take into account the current market conditions, which are exceptional. I must stress that the market changes at the present time are very difficult to estimate and there are virtually no contemporary transactions to evaluate.

We have undertaken residual valuations for each of the sites and compared the resultant land value with the market value for the site either in its existing or an alternative use. In arriving at these residual valuations a number of assumptions have been made. The valuations were prepared using a proprietary software package – 'Argus Developer'.

Notably, we have made assumptions on potential sale prices of completed housing (including possible sales of housing to RSLs for affordable units) and commercial property; building costs (primarily adopted base figures from Royal Institution of Chartered Surveyors' Building Cost Information Service); finance charges (assumed finance rate 6%); developers profit (varied according to type of use but 18% profit on value for market housing); fees (8-10%); marketing, letting and sales fees.

## 7. Opinion on viability, for varying scenarios, for each site

**Note: these sites are all relatively large potential schemes, which are likely to involve development over long periods of, perhaps, for the majority 10 to 25 years. For some of the sites, such as South of Hindley, the development itself is not expected to commence until well into the later stages of the Core Strategy period.**

**The results below reflect the current uncertain property market, at current levels of values and costs and as such, represent a 'snapshot' taken at a particular point in the property cycle. The study shows that almost all the sites do not currently provide sufficient viability for a development on the basis envisaged in our brief.**

**However, if a relatively small increase in margins were to occur, either by way of a reduction in building costs; or by an increase in house prices; or a combination of the two; then the results could be significantly improved. Whilst the short term economic outlook does not appear likely to produce such improved margins, it should be remembered that these are all longer term projects and there is a strong possibility that changed economic conditions will create viable and deliverable developments on the sites, within the period over which they are to be developed.**

**The study assumes that each site will be developed in isolation and that the market is not ‘flooded’ by all the proposals coming forward at the same time. Two of the sites (at ‘Northleigh’ and South of Hindley’) could create a positive impact on each other, with whichever is developed first likely to create an improved local environment, which will benefit the other – such an improvement, which will improve the viability of the ‘second’ site, has not been reflected in the figures provided as, of course, there is no certainty as to when, or if, one of the schemes will be developed.**

## **7.1 Site 1 - The Bell, Lamberhead Green**

- Site 62 hectares. In Green Belt. Alongside M6 at Orrell
- Preferred Use – 60% employment, 40% open space
- M6 link road – estimated cost £6 million, plus possible £1 million for upgrade to Martland Park.
- GVA Grimley appointed to advise on the strengths of economic case for development versus other possible sites

### **Conclusions**

This is a well located site close to the M6 and could be an important employment site if developed with the road links. The proposal, set out in the Preferred Options version of the Core Strategy, assumed a site of 62 hectares being released from the Green Belt.

Whilst not reviewed in the same detail as the other sites, it is not likely to be viable for the proposed uses and with the associated costs, in the current market.

## **7.2 Site 2 - South of Hindley**

- 113 hectares
- Preferred Use - 50% housing (30 dwellings per ha); 25% employment; 25% open space.
- Costs - New road £10.3 million; statutory contributions £2.19 million

### **Assumptions made/provided**

- Coal washing income balances with other abnormal costs
- Affordable housing provision 25% (split equally social rented/discounted for sale)
- Open space not purchased
- Contingency of 5%
- All land bought up front
- Road built first
- Finance over whole scheme
- 4 phase development
- Employment land sold as plots £100,000 per acre (speculative building unlikely/risk)

## **Conclusions**

Based on the above the residual for land is around £70,000 per developable acre. This is considered unlikely to be acceptable to a landowner and on that basis the scheme would not be deliverable.

Using the above assumptions but removing the employment uses would result in the site being used for 75% housing with 25% open space. With all other fixed costs and variables as previous, except assuming a 6 phase development, residual for land is £106,000 per developable acre. Whilst this is considered to be at the lower end of deliverability it may be acceptable to a landowner and so we would consider this amended scheme to have 'marginal viability'.

### **7.3 Site 3 – Northleigh**

- 59 hectares
- Preferred Use - 50% housing (30 dwellings per ha); 15% employment; 35% open space
- Costs - New road £7.3 million; Statutory contributions £1.24 million
- Remediation costs of £11.6 million

#### **Assumptions made/provided**

- Affordable housing provision 25% (split equally social rented/discounted for sale)
- Employment land sold as plots £100,000 per acre (speculative building unlikely/ risk)
- Contingency of 5%
- Open space not purchased
- Land gifted to developer, valued at nil
- Road built first
- Finance over whole scheme

## **Conclusions**

Based on the above the development is in deficit by £3.24 million and is not viable.

Using the above assumptions but removing the employment uses would result in the site being used for 65% housing with 35% open space. With all other fixed costs and variables as previous, developers profit is 16.5%. Whilst this is considered to be at the lower end of deliverability it may be acceptable to and so we would consider this amended scheme to have 'marginal viability'. The site has also been increased in size to 77 hectares (in the Revised Policies and Proposals version of the Core Strategy) which if delivers more housing, would have a positive influence on viability.

#### 7.4 Site 4 - Landgate, Ashton

- 45 hectares
- Preferred Use – not specific but majority employment with 5 hectares housing (30 dwellings per ha); open space to be maintained.
- Costs – New road £2.11 million; Statutory contributions £171,000 plus £1,130 per dwelling open space contribution.

##### **Assumptions made/provided**

- Affordable housing provision 25% (split equally social rented/discounted for sale)
- Employment land sold as plots £100,000 per acre (speculative building unlikely/risk)
- Contingency of 5%
- Open space not purchased
- Land gifted to developer, valued at nil
- Road built first
- Finance over whole scheme

##### **Conclusions**

Based on the above the development is in significant deficit and is not viable.

Using the above assumptions but removing the employment uses would result in the site being used for 30 hectares housing with open space being maintained. With all other fixed costs and variables as previous, residual for land is £109,500 per developable acre. Whilst this is considered to be at the lower end of deliverability it may be acceptable to a landowner and so we would consider this amended scheme to have 'marginal viability'.

#### 7.5 Site 5 - East of Atherton

- 45 hectares
- Preferred Use - 33% housing (**40** dwellings per ha); 33% employment; 33% open space.
- Costs - New road £4.0 million; Statutory contributions £680,000.

##### **Assumptions made/provided**

- Affordable housing provision 25% (split equally social rented/discounted for sale)
- Employment land sold as plots £100,000 per acre (speculative building unlikely/risk)
- Contingency of 5%
- Open space not purchased
- Road built first
- Finance over whole scheme

## Conclusions

Based on the above the residual for land is around £49,000 per developable acre. This is considered unlikely to be acceptable to a landowner and on that basis the scheme would not be deliverable.

Using the above assumptions but removing the employment uses would result in the site being used for 66% housing with 33% open space. With all other fixed costs and variables as previous, residual for land is £99,000 per developable acre. Whilst this is considered to be at the lower end of deliverability it may be acceptable to a landowner and so we would consider this amended scheme to have 'marginal viability'.

### 7.6 Site 6 – Garrett Hall, Astley

- 24 hectares
- Preferred Use - 80% housing (15 dwellings per ha); 20% open space.
- Costs – road junction £300,000; Statutory contributions £326,000.

#### Assumptions made/provided

- Affordable housing provision based on 6% of Gross Development
- Contingency of 5%
- Open space not purchased
- Premium housing development
- Finance over whole scheme

## Conclusions

Based on the above the residual for land is around £118,000 per developable acre. This is considered likely to be acceptable to a landowner and on that basis the scheme would be deliverable and viable.

### Overall comments

As discussed the figures are based on a number of major assumptions, some of which may prove to be incorrect or may be 'flexible'.

In particular we have used relatively low housing densities for most of the sites; and assumed 25% affordable housing requirements on most of the sites with 50% of this contribution being for social rented units, which are the most expensive for a developer to provide.

We have taken your road cost and other figures. The remediation figure of £11.6 million for Site 3 Northleigh looks particularly high when much of the land to be remediated is open space.

In our appraisals we have assumed that a developer will purchase the site 'up front' and pay for the necessary infrastructure costs. In reality, this will rarely happen on such large sites and developers will buy in phases, obtain options etc. They may also

look to phase any road schemes. These mechanisms will reduce their initial costs which will create significant finance cost benefits.

Similarly, they will seek to negotiate on the amount and type of affordable housing. We have made overall assumptions on this but you may consider that the loss of affordable housing on some sites may be outweighed by provision of infrastructure works which may benefit the larger area. The type of affordable housing may also be varied. For instance at Site 5, East of Atherton, there is large social housing nearby, which might reduce the need for affordable on the site or affect the tenure type needed.

Having calculated the initial appraisals it is a fairly straightforward exercise to change variables – as set out above, it may be that you decide affordable content is not required at a particular location but infrastructure is and this input change can be computed if needed.

At our meeting you asked if we could provide figures showing the various ‘costs’ involved in provision of affordable housing on the sites.

Broadly, your existing policy is that developers contribute 6% of Gross Development Value. On the appraisals undertaken, based on a 25% affordable content (with 50/50 split social rented/discounted for sale) the ‘cost’ to the developer is actually around 10% of Gross Development Value. This illustrates another area where the appraisals could move towards viability if the affordable housing content, or ‘cost’, was to vary.

## **8. Additional assumptions**

The following assumptions have been made which the Agency shall be under no duty to verify unless they are prima facie incorrect or unreasonable.

- that no deleterious or hazardous materials or techniques were used in the construction of the property or have since been incorporated;
- that good title can be shown and that the property is not subject to any unusual or onerous restrictions, encumbrances or outgoings;
- that the property and its value are unaffected by any matters which would be revealed by a local search and replies to the usual enquiries or by any statutory notice, and that neither the construction of the property nor its condition, use or intended use was, is or will be unlawful or in breach of any covenant;
- that inspection of those parts that have not been inspected would neither reveal defects nor cause material alteration to any valuation;
- that all information provided by you with regard to details of tenure, tenancies, planning consents and all other relevant information is correct. The advice is therefore dependent on the accuracy of this information and should it prove to be incorrect or inadequate the accuracy of any valuation may be affected;
- no environmental assessment of the property has been provided to or by the Agency, nor has the Agency been instructed to arrange consultants to investigate any matters with regard to contamination or presence of radon gas. It has been assumed that the property (including its site) and neighbouring properties are free of radon gas and not contaminated and no search of contaminated land registers has been made.

**9. Valuation date**

The valuation date is the date of this Report. I would draw your attention to the fact that values change over time and that a valuation given on a particular date may not be valid on an earlier or later date.

**10. Value added tax**

The opinion of value noted above and consideration to be paid is exclusive of any VAT payable.

**11. Validity**

This report is provided for the benefit of the Council and your professional advisers in connection with the subject property. It should not be published in any way without our express consent as to the form and context in which it is to appear and no liability whatsoever is accepted to any third party. This report should not be regarded as valid for a period in excess of three months from the date hereof nor if the circumstances are altered.

This report is considered Exempt Information within the terms of paragraph 7 of schedule 12A to the Local Government Act 1972 (see Section 1 and Part 1 to the Local Government (Access to Information Act 1985), and your Council is recommended to treat it accordingly.

Yours faithfully

**I Carruthers**  
**Commercial Development Adviser**

**Appendix 1**

**Site Plans**

**Appendix 2**

**“Pen Portraits” for Each Site**