

BURROWS-HUTCHINSON LTD
CHARTERED SURVEYORS, DEVELOPMENT PLANNING
and VIABILITY CONSULTANTS

206 High Street
Honiton EX14 1AJ

Tel : 01404 43441
E-mail: admin@burrows-hutchinson.com

BRIDGEND COUNTY BOROUGH COUNCIL
Replacement Local Development Plan 2018 - 2033

ADDENDUM to 2021 REPORT

based on

Updated Financial Viability Appraisals

undertaken by

Burrows-Hutchinson Ltd

on

6 Potential Strategic Housing Sites

identified in the Council's

Preferred Strategy Consultation Document (October 2019)

MAY 2022

A.J.L.B.

Contents

1.	EXECUTIVE SUMMARY	1
2.	WHAT HAS CHANGED since 2021?	2
	Gross Development Values	2
	Construction Costs	3
	Strategic Transport Assessment	4
	Community Infrastructure	4
	Site-Specific Changes	4
	Benchmark Land Values	5
	Sensitivity Testing	5
3.	CONCLUSIONS	6

Appendices

A : LOCATION PLAN

B : SUMMARY of IFVA's

List of Acronyms / Abbreviations

BCBC	Bridgend County Borough Council
BHL	Burrows-Hutchinson Ltd
DVM	Development Viability Model
GDV	Gross Development Value
GIA	Gross Internal Area
IFVA	Independent Financial Viability Appraisal
LDP	Local Development Plan
NIA	Net Internal Area
PPW	Planning Policy Wales
RDP	Replacement Deposit Plan
RLDP	Replacement Local Development Plan
SHA	Strategic Housing Allocation
SoCG	Statement of Common Ground
SPG	Supplementary Planning Guidance
The Manual	Welsh Government Development Plans Manual (Edition 3) : March 2020
VSG	Viability Study Group
WG	Welsh Government

1. EXECUTIVE SUMMARY

- 1.1 Burrows-Hutchinson Ltd (“BHL”) carried out **Independent Financial Viability Appraisals** of six possible Strategic Housing Allocations that were broadly identified for future development in Bridgend Council’s Preferred Strategy consultation document published in October 2019. The six sites are identified on the location plan at Appendix A to this Report. The initial IFVA’s were reported in March 2021.
- 1.2 The primary objective of this work was to establish whether it would be “financially viable” for the development of each of the sites, if allocated in the Replacement Local Development Plan, to meet detailed policy objectives, which include (in summary)
- meeting all appropriate criteria and national policy objectives for sustainable development;
 - creating communities that have a genuine sense of identity and place;
 - making appropriate and necessary contributions to the need for affordable housing and educational facilities.
- For any development proposal to be “financially viable”, it must also be demonstrated that it is capable of delivering a competitive, market risk adjusted return to the developer; and a land value that is sufficient to encourage a land owner to sell for the proposed use.
- 1.3 Given the passage of time since the original report, BHL has been asked to update its IFVA’s for these the sites, taking on board the following points:
- the new Welsh DQR’s and ACG’s published in July and August 2021 respectively;
 - changes in market values and construction costs in the 12 months since March 2021;
 - the recommendations from a Strategic Transport Assessment undertaken for the Council; and
 - changes to the Concept Masterplans for three of the sites.
- 1.4 As before, in line with the preferred approach set out in Welsh Government’s Development Plans Manual (Edition 3), this work has been undertaken after appropriate consultation on key issues and principles with each site promoter.
- 1.5 Based on the updated IFVA’s, BHL confirms that **all six potential Strategic Housing Allocations are still considered to be financially viable** in the context explained in para 1.2 above. This report should be read alongside – and in the same context as – the 2021 report. As before, a summary of the six updated financial appraisals is at Appendix B to this Report.
- 1.6 BHL confirms that its work on these appraisals has been undertaken in accordance with both the RICS Professional Statement entitled Financial Viability in Planning: conduct and reporting (May 2019) and the RICS Practice Statement and Guidance Note for Surveyors acting as Expert Witnesses.

2. WHAT HAS CHANGED since 2021?

- 2.1 This section of the Addendum Report contains a summary of the way in which the matters listed at paragraph 1.3 above have been addressed, through BHL’s revisiting and updating the Independent Financial Viability Appraisals (“IFVA’s”) that were carried out between January and March in 2021.
- 2.2 The updated IFVA’s covered by this Addendum Report were undertaken during the course of February and March 2022 (i.e. 12 months later); and are based on all available information at that time. Except as stated in the remaining paragraphs below, the development site details and assumptions in BHL’s 2021 Report have not changed.

Gross Development Values

- 2.3 When the updated IFVA’s were being prepared, the latest data available from the UK House Price Index published by HM Land Registry was to December 2021. Relative to the Bridgend County Borough as a whole, the index showed increases ranging from just under 12% to just over 19% (see Table 1 below) over the course of 2021, broadly corresponding to the 12-month period since the initial IFVA’s were carried out.

Table 1 : HM Land Registry UK House Price Index for All Property Types in Bridgend

Name	Period	Sales vol	HPI All	Av Price All	HPI Det'd	Av Price Det'd	HPI Semi	Av Price Semi	HPI Terr	Av Price Terr	HPI Flats	Av Price Flats
Bridgend	2021-01	134	134.14	£171,943	136.37	£264,095	134.53	£165,358	133.13	£133,376	124.05	£90,868
Bridgend	2021-02	208	133.84	£171,555	136.10	£263,579	134.32	£165,090	132.78	£133,031	123.20	£90,249
Bridgend	2021-03	228	135.49	£173,673	137.81	£266,875	136.11	£167,292	134.32	£134,570	124.17	£90,953
Bridgend	2021-04	209	136.46	£174,913	138.88	£268,948	137.07	£168,474	135.30	£135,555	124.59	£91,267
Bridgend	2021-05	193	140.62	£180,251	143.21	£277,335	141.32	£173,696	139.32	£139,581	128.18	£93,896
Bridgend	2021-06	298	143.73	£184,226	146.26	£283,248	144.24	£177,292	142.75	£143,019	130.74	£95,765
Bridgend	2021-07	175	141.47	£181,332	143.76	£278,411	142.23	£174,815	140.36	£140,627	128.75	£94,314
Bridgend	2021-08	151	141.55	£181,434	144.10	£279,074	142.46	£175,103	140.22	£140,482	127.93	£93,709
Bridgend	2021-09	101	140.46	£180,038	143.36	£277,635	141.67	£174,136	138.53	£138,794	126.65	£92,770
Bridgend	2021-10	98	147.26	£188,755	151.47	£293,344	148.37	£182,361	144.71	£144,979	131.69	£96,464
Bridgend	2021-11		151.28	£193,913	156.11	£302,332	152.49	£187,425	148.24	£148,520	135.01	£98,896
Bridgend	2021-12		156.83	£201,020	162.67	£315,025	157.90	£194,080	153.44	£153,732	138.72	£101,618
Percentage change			16.9%		19.3%		17.4%		15.3%		11.8%	

- 2.4 Analysing the available data from the same source, between sales of “new build” and of other existing properties (see Table 2), the index shows a much higher increase (22.7%) in the selling price of new homes than the increase in the market value of second-hand property (10.5%). Indeed, BHL is aware of evidence from specific sites that supports the increase in “new build” values indicated by the index below.

Table 2 : HM Land Registry UK House Price Index for Bridgend : New Build and Existing Property

Name	Period	Sales Vol	HPI New	Av Price New	HPI Extg	Av Price Extg
Bridgend	2020-11	202	135.11	£230,336	131.47	£161,150
Bridgend	2020-12	216	135.04	£230,217	132.57	£162,497
Bridgend	2021-01	134	137.78	£234,882	133.39	£163,509
Bridgend	2021-02	208	139.41	£237,663	132.91	£162,921
Bridgend	2021-03	228	144.03	£245,546	134.30	£164,616
Bridgend	2021-04	209	148.58	£253,299	134.98	£165,448
Bridgend	2021-05	193	155.05	£264,326	138.94	£170,304
Bridgend	2021-06	298	156.55	£266,886	142.16	£174,254
Bridgend	2021-07	175	153.45	£261,601	139.98	£171,578
Bridgend	2021-08	151	154.26	£262,982	140.00	£171,604
Bridgend	2021-09	101	156.61	£266,994	138.63	£169,929
Bridgend	2021-10	98	165.77	£282,610	145.22	£178,008
Percentage change			22.7%		10.5%	

- 2.5 However, in accordance with best practice – to avoid testing to the limits of viability^A in the plan-making process (which would add to the risk of key sites becoming undeliverable) – BHL has applied a conservative increase of approximately 10% to the estimated sales values of all open market homes in updating its initial 2021 IFVA’s. The same increase has been applied to the estimated gross revenue from Intermediate tenure affordable homes (primarily LCHO) in producing each 2022 IFVA.
- 2.6 It is considered that this “conservative” approach to sales values is further justified by the impending introduction of new Building Regulations (principally in Part L and Part F), which will have some impact on development costs during the period of the Replacement LDP. This is dealt with in more detail under the heading of Construction Costs below.
- 2.7 In July 2021, after the initial IFVA’s had been prepared, Welsh Government published a new set of Design Quality Requirements (the “new Welsh DQR’s”). Appendix B to the published document lists minimum gross internal floor areas that must be achieved for all affordable homes, irrespective of tenure.
- 2.8 A month later, new Acceptable Cost Guidance figures (“ACG’s”), from which the transfer value of social rented affordable homes are determined in Bridgend, were also published. BHL has used these updated/increased values throughout the 2022 IFVA’s for all the affordable homes that re shown to be for social rented tenure; and (where necessary) has also adjusted the size of particular dwelling types to match the new Welsh DQR’s.

Construction Costs

- 2.9 Between the last quarter of 2020 (4Q 2020) and the first quarter of 2022 (1Q 2022) the BCIS All-In Tender Prices Index showed an increase of 6.7% (see Table 3). 4Q 2020 is relevant as the date at which Bridgend Council’s Statement of Common Ground established “plot cost” rates to be used in the Council’s high-level viability modelling.

Table 3 : BCIS All-In Tender Prices Index

Recent changes		Percentage change				
Date	Index	Equivalent sample	On year	On quarter	On month	
1Q 2020	335	Provisional	1.2%	0.6%		
2Q 2020	335	Provisional	0.0%	0.0%		
3Q 2020	330	Provisional	-1.5%	-1.5%		
4Q 2020	328	Provisional	-1.5%	-0.6%		
1Q 2021	328	Provisional	-2.1%	0.0%		
2Q 2021	331	Provisional	-1.2%	0.9%		
3Q 2021	339	Provisional	2.7%	2.4%		
4Q 2021	344	Provisional	4.9%	1.5%		
1Q 2022	350	Forecast	6.7%	1.7%		

- 2.10 Other published indices in February/March 2022, although arguably less directly relevant to viability assessments such as these, were suggesting higher percentage increases in the cost of labour and materials (particularly the latter) for the same period. BHL also had conversations with site promoters on their particular experience of cost changes; following which it was

^A The Report published by the Local Housing Delivery Group under the chairmanship of Lord Harman in June 2012 (Viability Testing Local Plans) advocated use of a ‘viability cushion’ to deal with this issue; a principle that has been endorsed by other, subsequent guidance. Welsh Government’s Development Plans Manual refers to a need for viability assessments at the plan-making stage to be “realistic” and “robust”.

decided to apply an 8% increase to all construction costs in updating the 2021 IFVA's to reflect current costs (as at February/March 2022). That 8% increase has been applied in all the 2022 IFVA's, not only to "plot" and "external" costs for each development site, but also to all other physical infrastructure associated with the six strategic housing allocations ("SHA's"). On costs such as professional fees and contingencies, which are based on a percentage of construction costs, have automatically increased by the same percentage.

- 2.11 BHL is conscious that changes to the Building Regulations (Part L and Part F in particular) are likely to lead to higher construction costs in the early years of the Replacement LDP, which may or may not be matched by an increase in property values to reflect the greater energy efficiency of the new homes built to the new Regulations. BHL is also aware that there is less optimism within the industry generally about the relationship between future costs and values than was found to be the case some 12 months ago.
- 2.12 An agreed allowance of £3,000 per dwelling (as an average figure across all dwelling types and sizes) was made in the 2021 IFVA's for the first stage of those changes to the Regulations that are being introduced in 2022. The cost implications of the further changes that are due to be introduced in 2025 are less clear, in spite of various group discussions that have taken place between BHL and industry stakeholders in recent months.
- 2.13 Although viability assessments in the course of the plan-making process are required to take account of "all known costs", and to take account of "future changes to regulations" that are expected during the course of the plan period; they are also to be based on current costs and values – i.e. not "second guessing" potential changes in the economics of development as a whole. It is in this context therefore that BHL considers that its "conservative" approach to estimated sales values (see paragraphs 2.5 and 2.6 above) provides a "viability cushion" for costs relating to regulatory changes that are expected, but less imminent than those that are being introduced in 2022; and that this is an appropriate approach bearing in mind that other factors involved in viability assessments are open to change in the course of a 3-year period.

Strategic Transport Assessment

- 2.14 In the course of 2021, the Council undertook a Strategic Transport Assessment relating to the highway network in the vicinity of the six SHA's. This identified a need for additional financial contributions from some of the sites, to cover the cost of alterations and improvements to existing roads and junctions in the vicinity of those sites. BHL has been provided with the cost estimates for those works, which have been applied to the relevant updated IFVA's for 2022.

Community Infrastructure

- 2.15 BCBC's recently adopted SPG 5 Outdoor Recreation Facilities and New Housing Development was still in consultation draft format when the 2021 IFVA's were carried out. Nevertheless, in undertaking those IFVA's, BHL had regard to the draft proposals in making its assessments of the likely cost for making suitable provision for outdoor recreation on the six SHA's. Thus, it is not considered necessary to make any further change in those previous assumptions for the updated 2022 IFVA's.

Site-Specific Changes

- 2.16 There have been some adjustments, since the 2021 IFVA's were carried out, to the proposals/concept masterplans for three of the SHA's. These have all been taken into account in the updated 2022 IFVA's; and can be summarised as follows:
- a) The proposed development at Island Farm (Site No.1 on the Location Plan at Appendix A) is now being treated separately from the proposal for the Craig-Y-Parcau land. A total of 788 new homes are now proposed on the Island Farm site, at a density now of 45 dwellings per hectare, through the inclusion of a slightly higher proportion of flats, including some open

market apartments, chiefly around the proposed community hub identified on the latest masterplan. Flats may be provided on the upper floors above community facilities. This report is only concerned with allocations of a “strategic” scale; and confirms that the Island Farm Site is viable as a single entity, independent of the Craig-Y-Parcau land.

- b) A review of proposals for the Porthcawl Waterfront Regeneration site (No.5 at Appendix A) has resulted in a minor reduction (from 1,115 to 1,100) in the forecast number of new homes on this site. It is not considered that this very minor change will affect the viability of this proposed development, for which BHL’s IFVA already incorporates a significant “viability cushion”. BHL understands that an additional £1 million has been generated from disposal of the foodstore, compared with the assumption made in the 2021 IFVA; but that this additional revenue will be applied to the creation of additional/improved public realm and facilities.
- c) The proposed number of dwellings on the Pencoed Campus SHA belonging to Bridgend College has increased from 770 to 803 new homes. This brings the development density into line with what might be considered to be standard expectations for a greenfield site (see Appendix B).

2.17 BHL is aware that potential changes to the flood risk assessments/maps associated with TAN 15 could have an impact on the proposed Parc Afon Ewenni SHA. However, in the absence of any clear determination of this issue, BHL has simply updated the 2021 IFVA on the basis of the Masterplanning that had been done at that time.

Benchmark Land Values

2.18 It may be assumed that as house prices increase, so landowners’ expectations over the value of residential development land may also increase. This depends, of course, on a realistic view being taken of the balance between all relevant changes in costs and values in the viability equation as a whole. For the six SHA’s covered by this report, all the 2022 IFVA’s show that a 10% uplift in the benchmark land values, from those used in the 2021 IFVA’s, can be achieved without threatening the viability. It is therefore considered that the land values likely to be generated from each SHA should be “sufficient” to encourage the land owners to sell for the proposed use^B.

Sensitivity Testing

2.19 In accordance with best practice, the results from each updated IFVA have been sensitivity tested to show the effect on developer’s profit of the following changes to the basic inputs:

- plus/minus 10% in gross development value;
- plus/minus 10% in build (plot + external) costs;
- plus/minus 15% in land value.

2.20 For all six SHA’s, this indicates a broad range of possible outturns. In the least profitable scenarios – for example where a 10% shortfall in GDV is accompanied by a 10% rise in build costs – the profit margin may be significantly less than that to which a developer would aspire at the outset of the project; but those scenarios are equally matched by the opportunities to exceed the margin estimated at the outset. At no point in the sensitivity tables derived from any/all of these IFVA’s is the developer likely to incur a financial loss on the project. That is an important consideration from a funding viewpoint.

^B From the paragraph entitled “What is Viability?” on page 38 of the Development Plans Manual

3. CONCLUSIONS

- 3.1 The IFVA's undertaken by BHL, both in 2021 and 2022, have involved a level of site-specific investigation that is appropriate for what Welsh Government's Development Plans Manual describes as "key sites"^c. Nevertheless, and as is commonly the case, it must be recognised that the level of information available in some cases is limited in extent, particularly as far as infrastructure and site "opening up" costs are concerned. So, the IFVA's summarised in this Report, and the earlier one, are still essentially "high-level" estimates of financial viability.
- 3.2 As previously, BHL has again engaged separately and independently with the promoters of each of the six potential SHA's, to discuss the extent of the information available about known or likely site-specific development costs in particular; but also to review the promoters' views on other costs and values more generally. Proposed development densities and dwelling types (including the proposed/likely mix of dwelling types on each site) have been "sense-checked" again to establish that those aspects of each development still appear realistic.
- 3.3 Some of the information used in these IFVA's is commercially sensitive, especially at this stage in the plan-making process. For that reason, this Report contains a site-by-site summary of the core information used in, or derived from, each IFVA at **Appendix B**; rather than a full account of all costs and values used in each appraisal.
- 3.4 It is understood that this Report will form part of BCBC's Evidence Base in support of the RLDP, which will be publicly available. As is customary in such circumstances, BHL confirms that it has undertaken these IFVA's on what amounts to a joint instruction from BCBC and the six site promoters, for the purposes of establishing whether each potential SHA is likely to be viable. The IFVA's, both in 2021 and 2022, have been carried out with all reasonable skill, care and diligence, and in a manner consistent with the RICS Practice Statement and Guidance Note for Surveyors acting as Expert Witnesses. Nevertheless, no duty of care can be accepted to third parties for the whole or any part of this Report or the contents of the IFVA's.
- 3.5 BHL confirms that at current costs and values there should be no fundamental concerns about the viability of any of the SHA's covered by this Report. The IFVA's undertaken have been based on realistic and reasonable assumptions concerning costs and values, and demonstrate that all the SHA's are capable of meeting the proposed RLDP policy requirements in full, whilst also providing competitive returns to both the landowner(s) and the developer(s) involved.
- 3.6 All the IFVA's have been undertaken using the DVM; and a copy of the Excel file for each site has been given to BCBC and to each site promoter. This will facilitate any review of the data and assumptions upon which BHL's IFVA's have been based, should that be necessary and/or appropriate at a future date.
- 3.7 This Report is solely concerned with the issue of financial viability, and not with any broader issues or constraints that might have an effect on the deliverability of these six SHA's. Such broader issues are beyond the remit of this Report.

Andrew Burrows MA FRICS

Director

Burrows-Hutchinson Ltd

Strategic Asset Management

Economic Regeneration and Viability

Energy Conservation and Performance

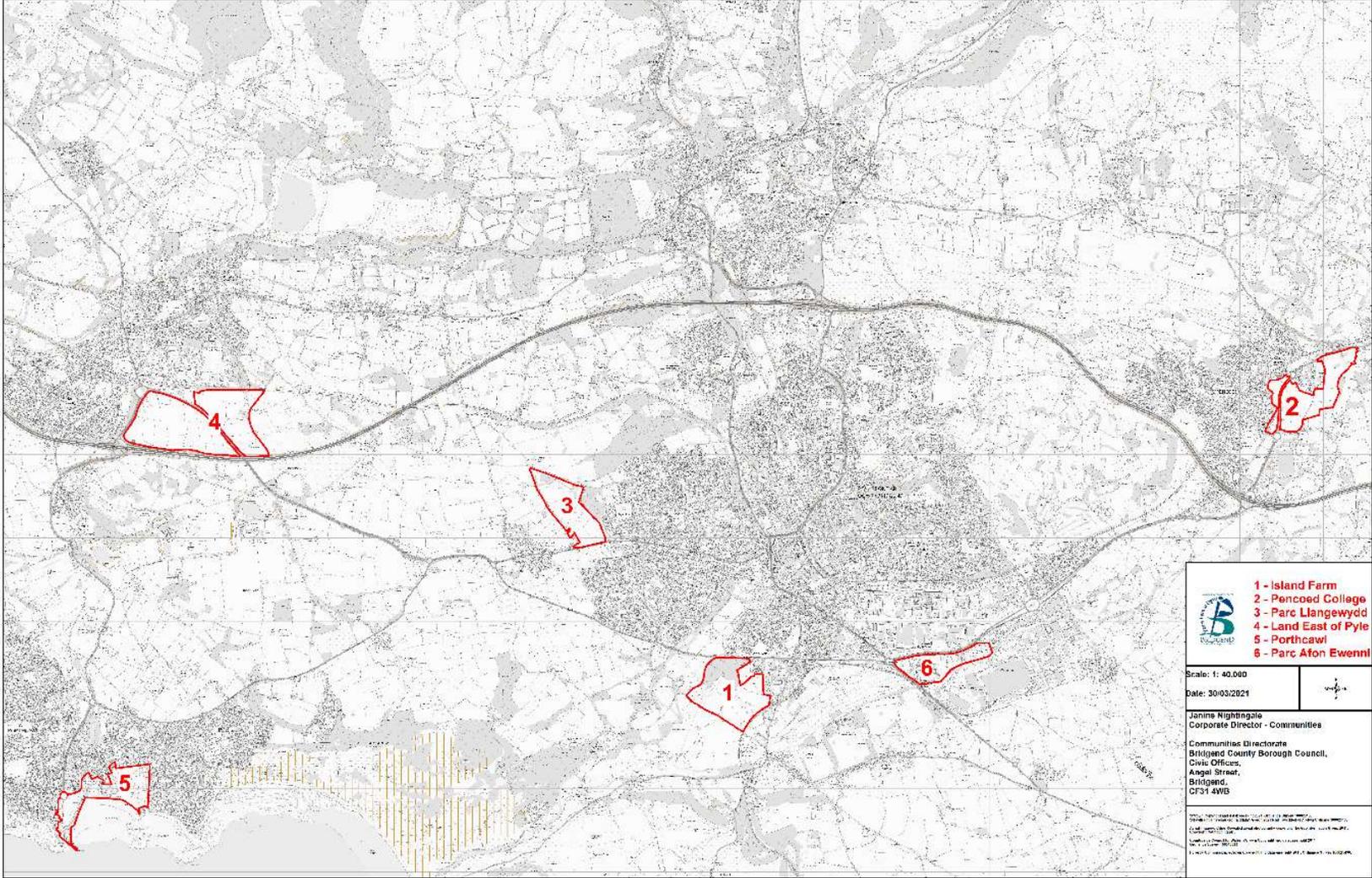
25th May 2022

^c See para 5.89 in the Development Plans Manual

APPENDICES

APPENDIX A : LOCATION PLAN

STRATEGIC SITES BRIDGEND COUNTY BOROUGH



APPENDIX B : SUMMARY of IFVA's

SUMMARY of Updated IFVA Inputs & Outputs for BRIDGEND SHA's

Site	Island Farm	Pencoed College	Parc Llangewydd	East of Pyle	Porthcawl	Parc Afon Ewenni
Development Period	6/23 - 10/30	6/23 - 12/30	11/23 - 06/334	6/23 - 03/39	6/23 - 6/31	6/23 - 4/31
N° of dwellings	788	803	850	2,000	1,100	675
% Affordable	20%	20%	20%	15%	30%	20%
ACG Band	Band 4	Band 4	Band 4	Band 4	Band 4	Band 4
Density (sqm/net ha)	3,760	3,508	3,507	3,624	4,236	3,186
Average GIA (sqm) *	83.5	86.3	92.7	105.1	70.2	81.8
OM Values (£psm)	£2,666	£2,623	£2,576	£2,453	£2,832	£2,619
Monthly Sales Rate **	8.0	9.0	6.0	10.0	9.6	7.0
Build/Plot Costs (£psm)	£1,000	£1,000	£988	£988	£1,052	£988
Externals (% of Build)	19.40%	19.00%	18.03%	15.86%	15.00%	19.76%
and as £ per dwelling	£16,200	£16,200	£16,200	£16,200	£11,000	£16,200
Abnormals (£/net ha)	£456,300	£202,430	£409,250	£555,090	£543,900	£356,430
s.106 Obligations (£/dwg)	£11,229	£9,028	£14,900	£13,566	£5,768	£8,861
Finance Costs (% p.a.)	5%	5%	5%	5%	5%	5%
Land Value (£/net ha)	£694,285	£690,790	£685,650	£474,140	£824,470	£527,485
SoCG Benchmark + 10%	£682,000	£682,000	£682,000	£550,000	£825,000	£682,000

* the average dwelling size arising from the assumed mix of dwelling types in each IFVA

** indicates the average monthly sales rate of open market homes that has been assumed for each SHA; typically from more than one outlet

s.106 Obligations (in £/dwelling) have increased in several cases as a result of the Council's Strategic Transport Assessment