

DOCUMENT 5

PLYMSTOCK QUARRY

Note detailing the Viability assessment concerns

The initial conclusion of the Knight Frank viability exercise is that the market position at the time of the exercise results in a deficit of £217.8 million. The key assumptions upon which the results were reached comprised:

- Total market housing value of £207 million, reflecting a 17% decline in house prices
- 8 Housing unit completions per month:
- 25% affordable housing provision
- £11.1 million land value
- Residential build costs of approximately £108 per square foot.
- Interest costs of £113.8 million
- Infrastructure costs of £48.6 million
- 25% developer profit
- Section 106 costs of £26.4 million

While the result shows an overwhelming project deficit, the manner in which the exercise was conducted and several of the inputs do not give the lpa the required confidence to employ the viability exercise as the basis for a review mechanism. There is little doubt that the decline in development values and the associated recession has rendered Plymstock Quarry unviable. However, the result cannot, at present, be relied on as a wholly accurate reflection of viability.

Throughout the viability exercise officers of the lpa expressed concern about the information provided by the applicants as the Council's aspiration, as stated in the Planning Obligations and Affordable Housing SPD, is that viability exercises should be "open book". It was the opinion of officers of the lpa that (1) the applicants were not as transparent or forthcoming as they should have been in regard to the information that they provided Knight Frank and (2) the appraisal was structured to provide a "snapshot" view of viability some time ago which tends to exaggerated the extent to which the development was viable.

- Information provided

With regard to the first point, it is considered that the applicants were highly selective in the evidence provided to Knight Frank on their development costs. For example, while insisting that the true cost of the land for Plymstock Quarry should be assessed at over £11 million, Knight Frank had to report that the applicants provided "no supporting information as to how this level was derived". Similar issues revolved around the information provided on the applicant's costs for house-building. Because of this perceived lack of transparency, officers of the lpa were concerned that the applicants could be making the development appear less viable in order to reduce the financial onus of meeting planning obligations particularly the Council's affordable housing policy requirements.

- A "snapshot" view of viability

With regard to the second point, the concern was that the exercise was based on bottom-of-the market conditions. This is reflected in the extremely long build-out period (18.5 years) in which only 90 homes would be built and sold per annum. When the slow build out is combined with its associated interest costs and an unusually high developer profit, the result was a nearly insurmountable viability gap. It is considered that while these assumptions might have been briefly justifiable at the housing market's trough in the middle of 2009, once the housing markets stabilised and then began to recover, the viability's dire outlook became less relevant.

It was considered that a robust review mechanism that properly captures the property market recovery and effectively converts part of those gains into additional affordable housing could address the difficult viability position to the satisfaction of the Ipa and be consistent with the Councils policy approach provided that the baseline affordable housing provision was high enough. However, a robust mechanism cannot be achieved without confidence in the inputs to the modelling exercise and this has only recently been achieved.

The applicants worked towards increasing the baseline affordable housing position in the review mechanism model to 12.35% with a possibility of reaching 25% by showing some flexibility with regard to the assumptions used in the viability exercise and by working with officers of the Ipa to construct a realistic model to continually track development viability and "excess profits", as market conditions return to normal. The "excess profits" would be used to purchase additional affordable housing (Details of the possible principles and processes for the review mechanism are in document 2 schedule 3 appendix 3).