29th November 2023

Stirling Council
Planning, Building & the Environment
Kerse Road
Stirling
FK7 7QA

Our Ref.: PH

Dear Sirs,

<u>Application for the Modification or Discharge of a Planning Obligation</u>
<u>103 Henderson Street, Bridge of Allan, FK9 4HH</u>

Houghton Planning Ltd is instructed by Mansion House Property Holdings (1) Limited (hereafter the applicant) to submit an Application for the Discharge of a Planning Obligation. In this case, the Minute of Agreement signed under the powers conferred by the Town and Country Planning (Scotland) Act 1997 (as amended), and relating to the grant of planning for *"Demolition of existing extensions, conversion and extension of remaining hotel building and erection of new build within the grounds to form a total of 14 residential apartments"* at 103 Henderson Street, Bridge of Allan (ref: 222/00470/FUL).

In essence, the applicant considers that the proposed development is unviable financially whilst paying the contributions sought by the Planning Obligation. The request is that all such contributions are, therefore, waived.

The developer contributions being sought amount to £214,382, and comprise Affordable Housing at £199,542, Waste at £840, and Open Space at £14,000.

Guidance on considering the viability of development, and developer contributions, is set out in non-statutory Planning Guidance: Developer Contributions Community Infrastructure and Affordable Housing (February 2023).

This starts by explaining Scottish Government policy, in paragraph 2.4, as follows.

"Scottish Government policy on planning obligations is contained in Circular 3/2012 Planning Obligations and Good Neighbour Agreements (Revised 2020) and Policy 18 (Infrastructure First) of the NPF4. Planning obligations can be used to secure financial contributions to, or in-kind provision of (i.e. infrastructure provided by the developer either on site or off site), infrastructure and affordable housing. The Circular provides that Section 75 planning obligations should only be sought where they:

- *Are necessary to make the proposed development acceptable in planning terms;*
- *Serve a planning purpose, and where it is possible to identify infrastructure provision requirements in advance, should relate to development plans;*

- *Relate to the proposed development either as a direct consequence of the development or arising from the cumulative impact of development in the area.*
- *Fairly and reasonably relate in scale and kind to the proposed development; and*
- *Are reasonable in all other respects."*

The guidance goes on to explain, at paragraph 3.8, that:

"In circumstances where an applicant considers that the economics of the development and requirements for planning obligations will threaten the financial viability of developing the site then they must bring this to the attention of the Council at an early stage setting out any issues they consider to materially affect the viability of the proposal. This will require a development viability appraisal and 'open book accounting' submitted by the applicant which the Council, via the District Valuer, will verify. The developer will be required to cover the costs of this service, which will be determined by the District Valuer on a case by case basis."

As required by the guidance, the applicant has prepared a development viability appraisal, which has been prepared by Brownriggs Cost Consultants and Quantity Surveyors. This has been provided to the Council, in confidence, and explains why the applicant considers that the development is unviable, with the level of developer contributions requested, and why they should, therefore, be waived in their entirety.

Brownriggs are available to discuss their appraisal with the District Valuer at the proper time, and can provide documentary evidence that backs up their assumptions on construction costs.

Brownriggs conclude that the developer's profit margin is currently sitting at 4.43% whereas it is generally accepted that 20-25% is where the market would normally lie, with regard to this type of small higher risk development.

In support of that contention of 20%-25% developer's profit as the market norm, the following three reports are being provided:

- A report from the RICS entitled "Performance metrics, required returns and achieved returns for UK real estate development", September 2019 - Within this research report, at Chapter 3.0, is detailed academic literature surrounding the required returns. The Executive summary includes the following:
  "The review of published development appraisals and associated literature suggests that residential developers favour the use of cash-based target returns. From the survey, a figure of 20% profit on costs was mentioned regularly for sites without significant risks (for example, risks relating to planning permission), and 25% for those sites with higher levels of perceived risk. These levels of profit on cost imply a profit on gross development value (GDV) of around 15 to 20%".

- A report from Savills entitled "Residential Development Margin Competitive Return to a Willing Developer" (2017). The Executive Summary of this report states that:
  "Our analysis indicates that Operating Margin targets for housebuilders across the economic cycle are 15-20% on Gross Development Value (GDV). Overheads vary significantly (5% - 12%) depending on the scale and type of developer. For the purpose of our analysis we have used an average of 8% on GDV and, after adjusting for site specific finance the resultant suggests a Site Level Net Margin target of 20 – 25% of GDV".

- A report prepared for Stirling Council by Savills relating to the Hayford Mill appeal (ref: PPA-390-2044 SC ref: 14/00035/FUL). This includes the following commentary at paragraph 18.09:
  "On smaller developments, such as the subject property [42 units], profit is usually measured by reference to a percentage of costs incurred. In very strong locations in central Edinburgh and Glasgow I have seen profit levels falling over the past 18 months to 15%. In most locations, however, the minimum threshold is 20% and I would expect such a level to be the required minimum at Cambusbarron. I am also aware that many lenders will not support projects offering returns below 20%".

Information on the purchase price, and associated fees, is being provided with the application, in confidence, as well as the report prepared by Halliday Homes on the sales prices that have been used in the appraisal, in confidence.

I look forward to receiving confirmation in due course that this application has been validated. If you require any further information in the meantime, please do not hesitate to contact me on 07780 117708.

Yours faithfully

Paul Houghton MRTPI
Director on behalf of Houghton Planning Ltd