



Guidance – finding the right site

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This guidance is about site finding for a community-led housing organisation, looking for a site on which to fulfill its development ambitions. It relates to **P3 Finding the Right Site** in the **Community Led Homes Programme**.

	Section	Page
1	Overview of site finding considerations	2
2	How to identify suitable sites	2-3
3	Site finding brief contents	3
4	Appointment of consultants	4
5	Key issues to consider when looking at sites	5
6	Site viability and sketch scheme layout	5-6
7	Valuation	6-7
8	Golden Brick – dealing with VAT	7
9	Negotiation and initial offer	7-8
10	Options to secure a site	8
11	Legal due diligence	8-9
12	Heads of Terms	9

1. Overview of site finding considerations

- Site finding based on group's criteria
- Valuation
- Development appraisal of site / building
- Pre planning advice
- Site investigations
- Sketch scheme layout
- Financial feasibility / viability
- Risk evaluation
- Competitive bidding / procurement
- Negotiating an interest in land / property
- Acquisition options
- Due diligence
- Sourcing finance for site purchase / option / lease
- Purchase / option / lease
- Insurance

2. How to identify suitable sites

There are a number of ways a group might identify suitable sites for their scheme, either themselves or with the help of others.

Once a potential site has been identified, a considerable amount of due diligence will need to be undertaken to ensure it is developable at an affordable cost and that, where necessary, loan funding can be secured against it.

There are also a variety of methods by which a Group might secure a site in the most suitable way to meet both their and the owner's needs and aspirations.

The main headline issues are:-

- Competitive bidding / procurement
- Negotiating an interest in land / property
- Acquisition options
- Due diligence
- Sourcing finance for site purchase / option / lease
- Purchase / option / lease
- Insurance
- Land agents are experts in identifying, optimising and acquiring land with development potential and can be aware of emerging opportunities even before they come to market.
- Some groups may also know of local sites and landowners directly, and may walk an area and use the Land Registry on-line facilities to identify the owner if not known.
- If a partnership route is being taken, other parties such as housing associations, developers, contractors and consultants may have contacts to source sites.

- To make the process of finding and securing a site be most effective, a site finding brief should be drawn up to clearly define the group's requirements.
- To be prepared to assess site's suitability the relevant key consultants should be appointed in advance of the site search. The group should be fully aware of the costs associated with both identifying and securing a site.

3. Site finding brief contents

No matter what methods or who is doing the work to identify a suitable site, a Group should prepare and agree a 'Site Finding Brief' document to inform what they're looking for. Ideally, this document will set out which requirements are absolutely essential to the Group, and where there is more flexibility. The main components of a site finding brief are:-

- Group details and contact
- Project purpose
- Preferred geographical areas
- Required access to facilities, utilities and transport
- Scheme size
- Scheme type (general housing or specific needs)
- Type of site (just land or land and buildings)
- Funding and finance availability to secure the site
- Consultants appointed

4. Appointment of Consultants

It will be necessary to appoint a number of consultants who have expertise in particular areas. Choosing the right consultants is very important as they play a key role in the success and outcomes of your project. Fees can vary, so you will want to check you are getting value for money. You may be working with partners who have access to framework agreements, which offer fixed fee percentages having been competitively tendered.

It is advisable to work with consultants who have some positive previous experience of working with community led housing groups as they will be better placed to understand your needs and requirements. Where possible, seek recommendations and you may well wish to interview several alternative consultants as a Group to help choose the right ones for you and your project.

Consultant appointments need to clearly and comprehensively describe the services required, the timescales and fee payable, and should be in place before substantial work is undertaken.

The professional bodies usually prepare standard schedules services and appointment documentation that groups should review carefully to ensure the responsibilities of both parties are fully understood. The consultant services required to secure a site are primarily:

- **Quantity Surveyor:** to facilitate price negotiation and settling Heads of Terms for land purchase.
- **Architect:** to produce a sketch scheme layout and can arrange specific reports from experts.
- **Planning consultant:** to advise on whether the project is likely to gain a planning consent and what conditions may affect viability
- **Solicitor:** for conveyance of the land/property, inputting on price negotiation and future contingency payments.
- **Accountant:** to ensure the transaction is structured in tax efficient way to cover VAT, stamp duty and capital gains taxes.

5. Key issues to consider when looking at sites

- **Local planning context:** is it in a development area? What are the constraints to development? Are there any specific requirements on density, open space, community facilities or parking?
- **Topology and ground condition:** is the site straightforward to build on? Are there any issues with the ground conditions or slope of the site? Are there any trees that may require removal? Are there any pipes or cables running under or over the site that would prohibit building or be costly to re-route? If the site is brownfield could there be contamination and what remediation works are likely?
- **Highway access:** roads and infrastructure are very expensive, both on site and to access the site. Clear visibility splays will need to be possible to ensure safe access.
- **Proximity of services:** water, sewerage, electricity and gas. If not nearby the cost of getting these to a site needs to be considered.
- **Flood risk:** is it in a flood risk area that will require additional costs to protect against?
- **Are the site boundaries clear?** Are there any retaining walls?

6. Site viability and sketch scheme layout

You should consider site viability at the early stages of considering a particular site. How much you can afford to pay for the land should be a direct function of how much it will cost you to develop it and what your short and long term capital and revenue income streams are expected to be. There are a number of bespoke software models available designed specifically for this purpose, and you may be working with a partner who can provide you with access to one of them. You may also have a partner who will carry out a detailed financial appraisal for you. A financial appraisal will usually be informed by a sketch scheme layout for the site you're considering, which will give you an idea of the size, type and number of homes that will fit.

Your architect should be able to prepare a sketch scheme layout for your Group, and should do so with their knowledge of local planning policy in mind. Once you know the numbers work in principle, it is advisable to seek pre-planning advice in order to further refine the layout and recalculate the financial appraisal as appropriate.

- In order to be confident in negotiating for land, a site needs to be assessed for its viability to deliver the intended project.
- A sketch scheme layout will determine the number and type of properties that can be built on the site, taking into account local planning requirements, ground conditions and site access and services.
- This information along with the income expectations from market information on sales prices and rental values are input into a financial viability appraisal to determine the land value that the project can viably support.
- All of the development costs must be considered in the financial viability appraisal, including all fees, hidden costs and taxes.
- The s106 affordable housing requirements of a site will need to be considered separately for cost purposes, as there is an expectation that this is provided as planning gain without grant subsidy. Any additional affordable housing to be provided over the s106 requirement, maybe able to attract grant funding. There can be considerable variations in pricing of different affordable housing products that reflect the local market situation.

7. Valuation

- When buying or selling buildings or land, valuations are obtained to assist in the negotiations by indicating what other purchasers are likely to be willing to pay.
- Valuations are usually required when purchasing land or property from a statutory body and are also needed when property is being offered as loan security.
- A valuation is a formal opinion provided by a qualified valuer about how much a property would sell for in the open market under the stated assumptions. A market appraisal is a less rigorous and reliable estimate of property value undertaken without the research and evidence-base provided in a formal valuation.
- There are a number of standard sets of assumptions about property, which form the basis for a valuation. One set of assumptions is used for the market value (MV) basis, and a different set of assumptions for the existing use (EU) basis. The planning requirements such as affordable housing also need to be considered.
- The main professional body for valuers in the UK is the Royal Institution of Chartered Surveyors (RICS), which have standards of professional practice that a valuer should follow, known as the 'Red Book'.

8. Golden Brick – dealing with VAT

Land transactions can incur full rate VAT, and your Group is unlikely to be in a position to recover that VAT in full or in part. If you are procuring your project through a developer as a combined land and build transaction, it is important to be aware of the VAT implications, and be familiar with ways of setting up your project so that you do not incur VAT. A method known as 'golden brick' is a common way of doing that.

- Trading in land is a VAT-able transaction.
- This has a considerable financial implication where fully VAT-able sellers trade with partially or non-VAT-able purchasers.

- The mechanism termed 'golden brick' is way of reconciling this issue as the purchase of land has a 20% VAT rate, whilst the purchase of 'a dwelling or dwellings that is/are clearly under construction' has a 0% VAT rate.
- HMRC has accepted the position where the entire substructure is in and work to the superstructure has commenced, as being under construction.

9. Negotiation and initial offer

- Some sites bought competitively onto the market will have a specific timescale for making an expression of interest and / or a full bid.
- Other land opportunities may have more flexibility in timescale and enable a more negotiated approach. This will require an understanding of the business drivers and motivations of the landowner.
- Where an initial offer is required this will need to be based on a valuation and be conditioned upon the results of investigated work on the site / property to determine viability as well as legal due diligence checks.
- Where the landowner is a public body, a group may want to use the benefit of additional 'economic, social or environmental well-being'* to try to reduce the purchase price or secure a different form of disposal.
- There are a variety of approaches to secure a site, which correspond to both price and risk.

* Local authorities are given powers under the 1972 Act to dispose of land in any manner they wish, but disposal must be for the best consideration reasonably obtainable unless the Secretary of State consents to the disposal.

10. Options to secure a site

- **Full 'unconditional' purchase:** usually where an outline planning consent is in place, if there is no planning in place then the land may be at a reduced value but the group takes the full risk as to whether it is developable. Loan funding is unlikely to be available on sites without a planning consent.
- **An option agreement:** allows you to delay purchasing the land until planning permission is secured. The option may cost up to £20,000 or sometimes more, but is less to lose than the full site price if the land turns out to be unsuitable for development.
- **Conditional contract:** where a deposit is paid in return for a 'conditional contract' that says you will only pay the full land price if planning permission is obtained. If the sale does not go through, then the group may lose that deposit.
- **A long lease agreement:** for a term of more than 100 years, this can be for a 'peppercorn rent' if the landowner is supportive of the project.
- **Build under License:** usually where the landowner is a statutory authority to enable the project to be built with the full completion on the land taking place at build completion.

11. Legal due diligence

The importance of carrying out thorough due diligence when buying a site or entering into a property transaction cannot be stressed enough. There are many risks to consider. There is a separate module available specifically dealing with risk management. Here are the main examples of what you will need to ascertain:-

- **Title:** checking with the Land Registry that the person with who you are negotiating with is actually the owner of the property.
- **Charges / liabilities:** checking with the Land Registry and the Local Land Charges Register whether there are any financial obligations attached to the property that the purchaser would become liable for (an obligation to contribute to the repair of the local church - chancel repair liability).
- **Planning status:** checking whether the land / property benefits from any planning permission (and the date of the permission, in case it has expired).
- **Easement / wayleaves:** the rights held by third parties over the land in question, typically a statutory utility having the right to access their pipe / cable.
- **Covenants:** obligations that the property owner has to meet. They may affect what the land can and can't be used for.
- **Restrictions:** there may be rules restricting the property owner's freedom to sell the property.
- **Commons or village green status.**
- **Availability of statutory services.**
- **Mines:** a search to the Coal Authority.

12. Heads of terms

The heads of terms is the document that sets out the agreed deal between the parties to finalise the negotiation and is the basis for a legal purchase contract.

- Price (amount / formula and timing of payment price)
- Type of legal estate (freehold or leasehold) and if leasehold, term of lease
- Restrictions / obligations that run with the land
- Pre-conditions to exchange
- Liability for fees and costs
- Exchange date
- Completion date