

Episode 224

What due diligence should you carry out before buying land? - With Rob Wiggans

The show notes: www.houseplanninghelp.com/224

Ben: How do you know what sort of property a plot will support?

Rob: It's a very good question.

First of all, you've got to look at your surrounding area and what will be in keeping with that area and what will the planning authority, local authority accept. The easiest way to do that would be to, as soon as possible, engage with the local authority and do a pre-application. That's simply a sit down with the local authority to ask them questions, present to them what your initial idea is, engage their comment – because they might initially go, 'no way Jose,' or they might go, 'okay, but if you do this, if you do that, we'll give you pointers.'

It's something you'll have to pay for, a pre-application, but it's worth every penny because you get to know where you stand with the local authority right away. That applies obviously for self-build or if you're doing a large-scale development. The pre-application is vital because it saves you time in the long run, because you can get off to a running start rather than a standing start by going off the planning authority's initial comments.

Ben: Will that in some ways help you avoid both under-developing or over-developing a site?

Rob: It will, indeed. They'll tell you what their maximum is or what they would prefer, how much you put on that site in terms of scale.

An easy example of that would be an area that is already built, a built-up area that's all two-storey properties, if you're saying, 'I'd like a four storey property please,' clearly the local authority will be asking questions.

So, as well as speaking to the local authority, it's also about using a bit of common sense as well.

- Ben: Looking at ceiling values then, is this all tied in? Maybe you can explain what that means because I've heard in the past about how you're looking for that ceiling value because that will help you work the land equation backwards, which is maybe what we'll come on to in a second.
- Rob: The easiest way to get a grasp of ceiling value is to look at what properties are going for in the local area. In my role, my research, I never go beyond a quarter-of-a-mile. Clearly in some situations in an area where there's not a lot of properties, if you're building in the countryside for example, and there's not even a single property in that quarter-of-a-mile locality, the easiest way to get those ceiling values would be to engage with a local agent or several local agents preferably, just to get their comments. At the end of the day, they're the experts.
- Ben: Is that someone you hire or have you got people who can just do a quick analysis and it will just be thinking that business might come their way later?
- Rob: A bit of both. It's recommendation. You would go to a recommended agent, speak to someone who's used them before. You don't have to have that relationship with the agent. It can just be a case of a quick phone call. And also using the internet, using online to gauge the values.
- Ben: The land equation then, if we want to know how much a piece of land is worth so we can put in a bid, how would you go about that?
- Rob: People think land value is really, really complicated. It really isn't. All it is, is the gross development value which is all the properties on that site, be it two, three or a hundred added together, the total cost or sale value for those houses, less all your development costs, all your build costs. That is everything from fees that you'll pay to the local authority, build costs, putting in the infrastructure – it is every single item. That all deducted will leave you with your land value.
- Ben: And in your case as well, you're expecting a profit. That's the other thing that a self-builder can dig into, but that's also part of that equation.
- Rob: Yes. It is exactly that. So, the developer profit is factored in. There is the old saying in land, which is very much not the case, 'a third, a third, a third.' Which is of your gross development value, a third of it is build cost, a third of it is profit, a third of it is land value. It's definitely not the case for many reasons, but that's the three prongs, the three slices of the cake of how it's made up.

Ben: Would you say there are any trends in how that's changing or just all of those factors can just completely change?

Rob: Yes. The main thing that's changing, given the nature of the market, especially in the Midlands and the North, is build costs are going up. The reason for that is demand. So, far more demand for materials, far more demand for labour, and on that basis, costs are going up. I'll give you a fine example of that.

Taylor Wimpey announced their half-year results last week and they announced to shareholders that their build costs – off memory; don't quote me on this – are going up either four or five percent this year, which is quite a sizeable sum. To make that worse, that's obviously a major player, someone with huge buying power and huge power in the labour market, yet they're factoring in a four percent build cost increase.

If you then put that to local builders, self-builders, your build cost is probably going to be higher. And on that basis, there's going to be less of the cake left for the land value. So, your land values will be lower.

Ben: Definitely my experience. I concur with that, that it's probably a little bit more than five percent, although it does depend from product to product or whatever you might have – in fact, the design I think sometimes has adapted in order to take into account, certain things might have a shortage on the market. It's incredible to see all of that as we went through.

Rob: It is indeed. And the other thing to say, just to touch on labour, is in the last recession we had ten years ago now, the candle was burnt at both ends. You had a whole generation taking early retirement or getting out of the industry because there was no work, and at the same time, you had a whole youth generation not going to college, not going down the construction route to do the apprenticeships because there were no jobs in construction. On that basis, when we came out of it, there was far less labour to meet demand. So, it's been a bit of a double whammy coming out of this recession in terms of labour costs.

Ben: And dare I mention the word Brexit, which I'm sure was in your mind but perhaps you're thinking, 'I don't want to go there'? We haven't even started that yet.

Rob: Very true, exactly. That's only going to compound it even more. It's a bit of an unknown what Brexit will impact on the market. My view

is, there is a little bit too much worrying going on, but who knows? None of us have a crystal ball.

Ben: Today we want to talk a little bit about due diligence, but I think it might be helpful for context – we talked last time about finding the land. Can you just recap the main methods of finding land that you use when you're looking for commercial areas to develop?

Rob: Sure. There are two main methods that I use. One, an agent network: land agents who are appointed by land owners to sell their land. My inbox is a constant flurry of sites landing, advertising that a certain site is for sale.

Secondly, I monitor planning applications using a piece of software called Glenigan, which is every planning permission in whichever area you're monitoring. You get alerted to and you can then accordingly approach the land owner if they're willing to sell their site.

The first scheme that I purchased for RMP was off that method. I was alerted to a planning permission, I got in touch with the architect who then put me in touch with the vendor, and miraculously, he was willing to do a deal and sell the site.

There is a third prong, and that's online, looking at Rightmove, Zoopla – the traditional methods for property. You'll see plenty of pieces of land on there. Usually those sites have done the rounds; not always. So, a lot of people who may be interested have already seen it, it's been sent to them in the agent network.

Then there are a couple of other avenues you can explore such as auctions. You'll see in the auction catalogue sites that will be available. Obviously with it being at auction, there may be something wrong with the site. But more value can be gained that way as well, using that method.

Ben: What is due diligence then, as we refer to it?

Rob: Due diligence is the vital, critical research that any person buying land has to conduct in order to provide security to their purchase and ensure that whatever they're buying is right for their objective for that particular site. Mostly, they will make money on it or that they can put a house there that they would like to live in.

There are several key pieces of due diligence that you have to explore in order to buy a site.

Ben: When you go through with buying something, what percentage are you confident that you've done your due diligence?

Rob: As confident as I can be. Percentage wise, that's a good question. I would probably go as high as ninety-eight percent confident.

Ben: Good! Good!

Rob: Because of how much detail I feel I want to go into before committing the purchase, or putting it more specifically, that my MD would sign it off. It's not my money. That's probably another reason why I do so much due diligence. If I did not do my due diligence, I don't know how long I would be here for!

There's one thing to say though. You can do all the due diligence in the world and something still can go wrong. But the more due diligence you do, the less risk there is.

Ben: You're managing risk, aren't you? We're going to talk through some of those points that you might set out. The big one, let's talk about the physical piece of land first of all.

Rob: In terms of the site itself, there's one key piece of due diligence that you have to explore and that is below the ground. You need to understand the ground below the site. What I mean by that is you need to do a ground investigation which will dictate what foundations can go on that site or is required to build whatever property you're willing or wanting to build. That will tell you whether the site is in an area of coal mining, is there a mineshaft below it? Are you building on a bog? Are you building on lovely clay soil where you just need to do strip foundations? Without that piece of due diligence, you could buy a site and realise you have to spend an extortionate amount of money i.e., huge piled foundations to put your house on that particular site and the costs could be astronomical.

I will say that you could probably build on virtually all pieces of land. It's just that for some pieces of land, you'll need unbelievably deep pockets to build on it. That's why ground investigation is fundamental to your research.

Ben: Thinking back to my own build – it's a while ago and the details are very sketchy – there was quite a lot of information that I seemed to be able to get from searches. Is that reliable? Is it just something that you automatically do and then you have to take it further?

Rob: Yes. There are two phases to a ground investigation. There's a phase one and a phase two.

Phase one is simply a desktop study, and you would appoint a ground consultant to do that desktop study using historical mapping and historical records to assess that exact site, of what has been there historically. i.e., is there any record of mineshafts below that site? Has there been a petrol station on site? Has there been a particular trade on that site which could've contaminated it?

There are many strands to a ground investigation such as gas, looking at poisonous materials that could be there such as arsenic, and again, coalmining is a big one. What a lot of people don't know is, an unbelievable amount of coalmining has gone on historically below the ground, which no-one is ever aware of or been aware of, unless you have access to these coalmining records.

Once you've done the phase one, the ground consultant will tell you to what extent you need to do a phase two, which is a physical investigation of the site, where boreholes are dug, trenches are dug, where they physically investigate the ground.

If the desktop study reveals that nothing has ever gone on, on that site, and it's just been a beautiful green patch of land for all of time, you don't really need to do much of a phase two because you know it's a pretty safe bet. But if there's that unknown element or that doubt that there could've been coalmining or contamination on the site, you may need to do a more rigorous phase two investigation which can be costly.

For a small site, you could be looking in the region of five- to ten-thousand to do a phase two investigation, whereas a desktop study is about five-hundred to a thousand pounds.

Again, the one thing to make you aware of is ground consultants do vary in how good they are. A very reputable ground investigation consultant you'll pay a slight premium for, but it's always worth it to spend that little bit more.

Ben: I've got a couple more things that I would still say connect to the ground, and that's archaeology and also ecology. Maybe you can talk through those two and how you might deal with them?

Rob: Ecology, there are certain things that you need to do depending on the site you're buying, key surveys that you may need to do. The extent of these surveys will be dictated by the local authority. In the pre-application, they'll say you need to conduct X, Y, Z survey for ecology. These such as a nesting birds survey is one. You might

need to do a great crested newt survey. You might need to do a barn owl survey – there's a lot of different surveys you can do under the ecology umbrella, and the local authority will make you aware of what will need to be done. That will vary on the extent of the site.

I'll give you another example. If you're buying a site with an old, disused building on it, you'll need to conduct a bat survey because there may be bats on that particular site.

So, it is very site dependent, but they form an essential part of the application. If you don't do them, it will be a condition on planning that you do that before commencing any work.

Ben: It's hard to see with something like archaeology, for example, that you're not going to be sitting on top of a Viking long ship or anything like that. So, is it when you start digging and you uncover something, or if you pull out a golden ten pence ...?

Rob: That's similar to a ground investigation where a desktop study would be done for archaeology to begin with. If nothing of note is flagged on the desktop, you won't need to do anything intrusive. However, if historical records – very much like ground investigations – do reveal something that needs to be checked out, then a dig will be done.

It is liaising with the local authority of what the findings are, and they'll dictate what needs to be done. I've never come across anything in my time that needs to be investigated intrusively, but I have known of it. But it is very dependent on what is found, whether you've come across Shakespeare's quill, for example.

Ben: I bet someone has. Not me, luckily, on ours. Ground conditions then. I've suddenly thought of drainage and whether that comes in to what you said right at the beginning, or what we need to think about with drainage?

Rob: A ground investigation will provide you with some information as to how good the drainage would be, but that would be another survey that you can conduct by doing a drainage survey, flood survey, which will dictate what is required for you to do to effectively drain both surface water and foul from your house.

From a foul perspective, it would be how far away are the nearest sewers. Secondly, surface water would be, how close is the nearest surface water drain. And again, the survey will dictate what you need to do in order to put adequate drainage in there, and if you don't have the drainage design in place at the time of planning, it will be a condition on the planning application, if you get planning,

that you have to submit drainage design for surface water and foul before you can commence work.

Ben: Drainage is obviously one of the services too, so how do we think about electricity, gas, all of those sorts of things when assessing a piece of land?

Rob: You can get a services consultant to do that for you, to look at and assess what services are in that immediate locality. The local authority and contacting the local service providers such as United Utilities you would contact to provide records of water in that locality and they will also give you a quote for how much it would be to connect water to your house from the local network.

The easiest route is either the local authority and contacting the local service providers.

Ben: I will add as well that it does take a long time. It's one of the issues that's cropped up on our project, even in this very late stage. It does seem funny how that can happen when we actually started all this research on day one, that we can still be having issues late in to the project. I'll just throw that in there for what it's worth.

Rob: Yes. I've experienced exactly that. It can hold developments up until you have a solution that's actually cost effective as well.

Ben: There is even a possibility in my own house that we might be camping in it if we don't have any water for the first few weeks. We need to get out of the rental property.

I think the other main thing that I've got this side and then I'll see if there's anything else that I've missed, is just access and what that means.

Rob: Yes. Access is fundamentally can you adequately get vehicles in and out of the development and adequately get emergency services, waste trucks in and out of that site. Obviously, that will be dependent on what you're building. If you're just building a single house adjacent to a road, the access requirements will be very different from building a large-scale development.

There are two things that you need to bear in mind. One is vis-splay, or visibility splay. Can you reverse out of your drive and adequately see traffic? Can traffic see you coming the other way? And also, if you're building a number of properties, is there a wide enough access for the number of vehicles that will be coming in and out of that site?

The way your answer lies is to consult a traffic consultant who will be able to do all of that for you and provide the answers that you need, because they do form a fundamental part of any planning application is adequate access and access that the local authority are happy with and that their traffic man that's appointed by the local authority is happy with the plans that you provide, and that it's fundamentally safe for that development to go ahead.

Ben: There is a legal side as well to access, isn't there?

Rob: There is. In terms of the access that you're using, are you crossing anyone else's piece of land, which could be going down the road of ransom strips. Are you legally able to get in and out of that site from a title perspective and covenant perspective? The answer lies in consulting a solicitor to review your title and adjacent titles and they'll be able to give you the answer.

If you're crossing a piece of land that is unregistered, and someone comes out of the woodwork to say that they own it, they are able to prove ownership of that land, an insurance policy would cover you for that and pay out the cost of the development to adequately pay the owner of that piece of land.

Ben: And this does happen, even on a number of the sites that I've seen, little issues crop up. The one I'm thinking of was a lane that nobody knew who owned it. However, the piece of land was being sold by the council. So, I think as part of the sale of the land, they'd got this insurance in place. It does make you still a little bit nervous about this lane, but the thing is, there were still other houses that were up there. So, they hadn't found it a problem. But you've got to deal with it somehow, haven't you?

Rob: Absolutely. And this insurance, it's not an astronomical amount. Sometimes it's just hundreds of pounds, or I've experienced it before where there wasn't adequate access legally so, we took out insurance and I think it was fifteen-hundred pounds to take it out. So, it's a decent amount of money but not an unbelievable amount of money considering even small-scale development in the grand scheme of things.

But insurance is a very common practice because it's pretty rare to come across a site that's absolutely clean legally, from a due diligence perspective. There's always some element of risk where you need to take out insurance.

Ben: And the law can be a grey area, can't it? I think that's what you've just alluded to then.

- Rob: It is.
- Ben: What are your tips then for making sure that you've done the most that you can?
- Rob: The easiest and quickest way to do this kind of due diligence is to get a solicitor to take a quick look at the site. All that is, is getting the red line plan and the title, the register of that particular piece of land, emailing it and sending it to a solicitor and saying, 'please can you do a quick check on this?' They'll be able to very quickly give any indications of red flags that may crop up from a legal perspective, such as accessing an unregistered piece of land adjacent that you may need to cross, or secondly a covenant that's on the land.
- You can do it very, very quickly by just asking a recommended solicitor to do that work for you.
- Ben: You've mentioned a number of times various consultants that you will employ or go to just for some quick advice. How many have you got?
- Rob: If I find a golden nugget piece of land, I'll do several key checks. One, I'll send it to a lawyer and say, 'hey Steve, please can you do a red flag check on this?' I'll send it to my ground consultant, 'can you do a quick check on this?' Which is him just doing a quick glance of local maps in the area. I'll send it to my architect to assess, because usually I look at sites with planning permission, to assess the quality of the planning permission and any conditions that are on the site.
- They're the three main ones. But then if you want to dig deeper, if there's anything else such as ecologist or a services consultant, if you're concerned about local connection.
- Ben: Are there any other elements of our due diligence that we haven't touched on that we should do? I'm hoping that I've got them nailed down.
- Rob: No. I think they're all your key ones.
- Ben: Obviously, they go down in levels, don't they? You can do your rough check and then you can dig down into all of the detail. So long as you've got your strong team. Any tips, as we get towards the end, of building that strong team of people who actually know what they're talking about?

Rob: Yes. Before you go flying in, I would make contact with a recommended architect and go, 'I've got a self-build project that I'm considering and I'm looking at sites. Would you be interested in helping me with my due diligence? And off the back of that, I will appoint you for my project.'

Then that architect will have certain people around him who will be able to introduce you to a planning consultant, a lawyer potentially, an ecologist. By having a good architect in your network, they will have all the necessary consultants that you'll need to use to conduct your due diligence.

It's just about having a network around you before you start ploughing into your self-build project. You need a team around you established.

Ben: Earlier on, you gave yourself a ninety-eight percent confidence rating. What happens if you've looked at something and you've got a ninety percent or eighty percent? Where is the cut-off point to think, 'right, ditching this. We're moving on'?

Rob: The number one biggest piece of advice I would give is gut feeling. If you've always had an element of doubt about a particular site or 'there's something not right here,' there probably is. Trust your gut is a big piece of advice I can give. And if you don't have confidence in the site, don't go ahead. Don't develop a bias in terms of eagerness to pursue a site, just because you want to or you're desperate to get on to a self-build project.

Take your time. There's plenty more fish in the sea when it comes to land and development. Make sure you're patient and the right one will come along if you have the approach of doing the right due diligence.

Ben: And the other thing to remember is it's all practice, isn't it? As you go along the way, until you've actually parted with your money, you're getting good experience.

Rob: And that's a very valid point you make. Another piece of advice that we give alongside trusting your gut is practice. So, actually do a dry run. You might come across a site that is out of your price range or is not in an area that you want to buy but take a look at it and do that due diligence. Have a look at it from an access perspective, from a legal perspective, and speak to a local architect about it. Just find out why that site hasn't sold or find out what's good and bad about that site.

Do a dry run, because by doing that, when you come across the site that you want, you're already practiced, and you've already got a little bit more of a sharper eye than you would've done if you'd just steamed in with the first site that you come across.

Ben: There's always a story, isn't there? You feel like a detective sometimes, when you're going on these ...

Rob: You absolutely do.

Ben: I'm very pleased that we did a round two. Rob, thank you so much. We've had some great information about finding land and then doing our due diligence, and hopefully we can now buy with confidence.

Rob: Thanks very much Ben.