East Dorset New Neighbourhoods – Viability Overview Report

For East Dorset District Council

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PRIVATE AND CONFIDENTIAL

Contents

Appendices

1. Background to study

Whiteleaf Consulting has been appointed, in conjunction with work being carried out by Broadway Malyan, to undertake a viability assessment of seven of the proposed Core Strategy new neighbourhood areas as follows:

1. West Parley – Land east of New Road
2. West Parley – Land west of Ridgeway
3. Corfe Mullen – Violet Farm Close and Lockyers School
4. Wimborne – North
5. Wimborne – Stone Lane Industrial Estate
6. Wimborne – Cuthbury
7. Wimborne – Leigh Road

The objective is to carry out a high level financial viability assessment of each site, including its capacity to bear certain specified section 106 and other enabling costs, a CIL allowance and the application of affordable housing at a nominal provision level of 40%.

2. Methodology

The method we have adopted is a residual form of valuation that identifies the net estimated land value available after all estimated development costs, including an allowance for a typical required level of developer's profit, have been deducted from forecast Gross Development Value (GDV).

The purpose of this is to assess whether, assuming the legitimate requirements to contribute to local infrastructure, education and community improvements necessitated specifically by the development itself are satisfied, the indicated net present land value, taking account of cash flow considerations, is sufficient to be reasonably certain that delivery of each site is likely to be achievable. We have, therefore, incorporated a level of Community Infrastructure Levy (CIL) which, for testing purposes, we understand is currently based upon typical CIL levels applied in other authorities. We have also applied an advised range of other s106/servicing costs (albeit these may not be all that is eventually required), along with the provision of affordable housing at 40%

This form of residual valuation is the generally accepted approach to assessing site viability for measuring its capacity to deliver desired levels of community benefits, infrastructure and affordable housing.

3. Assumptions and Appraisal Commentary

The valuation exercise has been undertaken in the context of market conditions at the end of 2011. This study follows best practice guidance to provide 'high level' advice and it is appropriate to avoid second guessing the future. Nevertheless, the Core Strategy covers the period 2013 to 2028 and it is very likely that the assumptions made for this study will not reflect the market conditions at the time that planning applications are submitted and schemes implemented. Changes in viability factors could prove to be either positive or negative. The detailed assumptions and figures applied within this study should not be used to assess the detailed viability of planning applications. If developers wish to implement schemes that vary from Council policy it is expected that this should be negotiated using an 'open book' approach, using the latest valuation evidence.

Main Assumptions – Common to all sites

i. Market mix for all sites is based upon the indicative master plan density ranges for each site and assumes 'generic' averaged dwelling types/sizes.

ii. Affordable mix is generally broadly based upon the following overall indicative proportions which have been provided by the council's Housing Development and Enabling Manager.

- 1 bed flats 45m2 30%
- 2 bed houses 72m2 50%
- 3 bed houses 85m2 15%
- 4 bed house 90m2 5%

This has, however, been varied in the case of Site 2 in order to comply with the lower master plan density ranges of 25 to 37.5 dph.

Assumed tenure split is 70:30 Affordable Rent/Social Rent and Intermediate Tenancies

iii. Where specified and only where of significant size, notional land value for employment uses is included as partially value-adding and partially community uses and therefore provides only a broad indicative figure.

iv. All private revenue assumptions are derived from current advice from a number of local agents in November/December 2011 in respect of each broad location and crossed-checked by desk-top web research.

v. Affordable revenue assumptions are based upon advice from the council.

vi. Base (non-abnormal) building costs are based upon our recent experience of similar projects carried out by a broad range of developers, but also cross-referenced against latest BCIS data.

vii. Estimated abnormal costs are necessarily very high level at this stage, as detailed information is not yet generally available. Estimates are therefore based upon guidance provided by the professional team, often on an 'intuitive' or provisional sum basis.

viii. We have made an allowance for developer's profit. In more buoyant market conditions, we would expect developer's profit (margin) to be at least 20% to 22.5% expressed as margin on private Gross Development Value (GDV). It is evident, however, that ever since the early part of the economic downturn it has become routinely necessary for developers to reflect the higher than normal risk involved in buying land and proceeding with developments in current uncertain market conditions by setting higher hurdle rates of at least 25% and, in many cases, even higher. In line with this now established position, we have adopted what we consider to be a cautious 'middle ground' longer-term figure of 25%. Assuming margins any lower than this may be seen as unduly optimistic in assessing longer term viability. Margin on affordable revenue is included at only 8%, reflecting the far lower level of risk involved.

ix. The Net Present Value calculation is based upon 7.5% Internal Rate of Return (IRR) and is essential in assessing viability of major projects as it indicates what a potential buyer should be prepared to pay for such a site taking account of the need to 'lock up' large amounts of capital for what may be a lengthy period, especially in current market circumstances. This cash flow return approach has been utilised on all sites, but for those with a dwelling capacity below 200 we have also noted in preference the 'flat' (i.e. non-discounted) land value as this is likely to be more appropriate for smaller sites requiring far lower capital lock-up.

x. No allowances have been made for the costs or other potential obstacles of incorporating any possible third-party landholding/interests, including land that may be required for SANGs provision, since we have no detailed information on ownerships at this stage. We understand, however, that the proposed CIL will include an allowance for SANGs contributions or that, where land provision is proposed, it is likely to be possible to secure this at 'non-development' values.

Taking account of these assumptions, we have then allowed for an advised 'test' level of Community Infrastructure Levy (CIL) of £100 per m2 of built development. As also advised by the council, no other individual s106 contributions have been included, although some very indicative allowances have been made for the physical cost of certain potential site specific policy obligations, such as known highway improvements and social/community infrastructure (including, for example, broad allowances for facility relocation etc), where specified.

We have then carried out sensitivity testing in order to establish the capacity of each of the sites to deliver these indicated levels of infrastructure and CIL and any other advised site-specific s106 obligations, along with the target level of 40% affordable housing provision.

4. <u>Net Land Value – Parameters for Delivery</u>

Before dealing with the detail of each site it is perhaps worth re-stating the following:

PPS3 (Housing) states in para. 29:

> *"Local Planning Authorities should;*
>
> *Set an overall (i.e. plan wide) target for the amount of affordable housing to be provided.......... It should also reflect an assessment of the likely economic viability of land for housing within the area, taking account of risks to delivery and drawing on informed assessments of the likely levels of finance available for affordable housing, including public subsidy and the level of developer contributions that can reasonably be secured".*

This is reinforced by Mr Justice Pritchard in the now well-publicised 'Barratt v City of Wakefield case' dated 10th December 2009, where the thrust of the argument is that an affordable housing target should be demonstrably achievable "across the district during the lifetime of the plan".

Further, the proposed National Planning Policy Framework (NPPF) states that:

> 'To enable a plan to be deliverable, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, local standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and on-site mitigation, provide acceptable returns to a willing land owner and willing developer to enable the development to be deliverable.'

The guidance for setting charges for a Community Infrastructure Levy (CIL) places a similar emphasis on viability:

> 'Charging authorities wishing to introduce the levy should propose a rate which does not put at serious risk the overall development of their area. They will need to draw on the infrastructure planning that underpins the development strategy for their area. Charging authorities will use that evidence to strike an appropriate balance between the desirability of funding infrastructure from the levy and the potential effects of the levy upon the economic viability of development across their area. (Community Infrastructure Levy. An Overview, section 23. May 2011)'

There has been much debate (and at last some recent emerging consensus) with regard to establishing what level of land value should be available from a viability assessment in order that there is reasonable likelihood that a landowner will be enticed to make his land available for development. Much of this relates to sites with higher Existing Use Values (EUV), where it is recognised that a land value of EUV plus a premium sufficient to entice an owner to bring his land forward must be achieved. The suggested premium tends to range between 25% and 50% in current discussion. Specifically in respect of 'green field' or agricultural land, however, there is increasing acceptance that a range of c£100,000 to £150,000 per gross acre is an absolute minimum 'benchmark', above which there may be at least reasonably likelihood that an agricultural site will be released for development. This is no doubt partly predicated on the tendency for option agreements commonly to contain minimum land price provisions which are typically set at around these levels, but this kind of value range is also being accepted elsewhere. For example, recent HCA draft guidance (HCA Transparency Assumptions) refers to up to 20 times agricultural value, DCLG has referred to the need for the figure to be a 'life changing sum' and the District Valuer service has also referred to (and accepted) this approach. A recently published DCLG report (by this author – ref: ISBN: 978 1 4098 2909) also concludes that £100,000 to £150,000 is the 'minimum threshold range' and we understand the DV service has recently been using c£100,000-£150,000 per gross acre as a minimum threshold in a number of areas.

We would suggest that, in order to help ensure an element of 'viability buffer' exists in this early stage assessment, a threshold of at least £150,000 per gross acre is necessary for 'greenfield' sites and a premium over EUV of, say, 35% is assumed for 'brownfield' land.

It should be noted that the threshold is higher than identified in the viability report for the Roeshot Hill site in Christchurch. This is because the assessment for this site is based on more certain implementation figures. The threshold applied in East Dorset provides a larger viability buffer to take into account uncertainties.

5. <u>Conclusions and Recommendations</u>

5.1 Overall Issues

In general terms, it is important to re-state that, in this current very early assessment, there are no allowances in the assumptions made to cover the typical levels of additional abnormal costs we often encounter, especially in respect of larger developments of over, say, 200 dwellings.

There is no additional allowance for any other s106 obligation costs that may arise over and above the base nominal CIL allowance of £100/m2, other than the site-specific items listed below.

In our view, it is therefore essential to ensure an adequate 'buffer' is incorporated, as per the note in the final para of section 4. above, in order that we can be reasonably confident that the range of sites selected for viability testing here will, assuming market conditions continue broadly unchanged, be likely to be deliverable, while bearing a relatively high assumed level of affordable housing provision of 40%.

On some sites, it appears there may be issues in respect of the ratio of net to gross areas (net development as a proportion of gross site area) that would be worthy of attention. Where unnecessarily large amounts of land are included in gross (potential red-line) areas, this will obviously have a direct adverse impact on out-turn value per gross acre/ha and may, therefore, distort any assessment of potential viability. In this context, it is imperative that only such land as is required to implement a proposed scheme (including any social/community, technical infrastructure, such as open space, balancing ponds, etc) is included within the gross (red-line) area. The principle here is that of equalisation, i.e., that all land absolutely required for implementation of a scheme (whether or not it will actually contain 'economic/value-producing development') has to be (in effect) bought in at an equalised rate to enable the project to be delivered. In East Dorset, one complicating factor in this respect can be the provision of SANGs land, the wholesale inclusion of which may render many schemes non-viable, unless it can be demonstrated that it can be secured at a much lower cost per acre than the rest of the subject land. As stated, provision of additional land for SANGs has been excluded here, but we understand the costs of potential SANGs contributions have been included within the CIL allowance or it is felt likely that land will be available at relatively low cost.

5.2 Site Specific Summary of Abnormal Cost Allowances

The following summarises the site-specific additional costs (if any) that have been advised/assumed:

Site 1 - West Parley Land East of New Road

No abnormal infrastructure or site works costs allowance other than the advised estimated cost of the new distributor road through the site.

No s106 allowances other than CIL.

Site 2 - West Parley, Land West of Ridgeway

No abnormal infrastructure or site works costs allowance other than a proportion of the advised estimated cost of the new distributor road that we understand will serve wider traffic requirements for the area.

No s106 allowances other than CIL.

Site 3 - Corfe Mullen, Voilet Farm Close and Lockyers School

Demolition of Lockyers School buildings and £200k allowance towards allotment relocation only.

Site 4 - Wimborne North

No abnormal infrastructure or site works costs allowance.
Provisional allowances for off-site highways works to Long Lane/Smugglers Lane junction (£150k), contribution to footbridge(£500k) and traffic calming/streetlighting to Long Lane/Burts Hill (£500k). A new 1.5fe First School (£6.5m) is required and, although a broad outline figure for the potential full cost of the school has been included, we understand that there is a good prospect that a significant contribution towards this will be available from CIL.

Site 5 - Wimborne, Stone Lane Industrial Estate

Demolition of industrial estate (£350k).
Provisional allowances for S278 works off Stone Lane (£350k) and footbridge contribution (£100k).

Site 6 - Wimborne, Cuthbury

No abnormal infrastructure or site works costs allowance.
Provisional allowances for allotment relocation (£200k) and Football Club relocation (£700k).

Site 7 - Wimborne, Leigh Road

No abnormal infrastructure or site works costs allowance.
Provisional allowance for outdoor pitches provision (£480k).

5.3 Potential Viability of Individual Sites – Key Points

Site 1 - West Parley Land East of New Road

Indicated land value equates to c£204k per gross acre, which should provide adequate buffer to help ensure the likelihood of ongoing viability remains reasonable. No abnormal costs are assumed other than in connection with a new distributor road through the site, Code 4 allowances and the nominal CIL allowance of £100/gross internal m2 of built residential development. To help counter any such risks here it may be advisable to explore potential improvements in the net to gross land area ratio, currently on the low side for this size of scheme at c54% (see more detailed comments on this issue in section 5.1 above).

Site 2 - West Parley, Land West of Ridgeway

Net land value per gross acre is indicated at c£271k, suggesting a reasonable likelihood of viability. Provision has been allowed for about 25% of the high-level estimate of anticipated cost of providing the new link road around and beyond the site. In this case net to gross land ratio appears reasonable with a positive effect on land value per gross acre. Further, and as noted in Section 3.ix above, because this medium to low density site comprises less than 200 dwellings, we would normally assess such smaller sites on a 'flat' (i.e., non-discounted) land value basis, which in this case results in an indicated value per gross acre of c£317k suggesting a reasonably healthy viability 'buffer'.

Site 3 - Corfe Mullen, Voilet Farm Close and Lockyers School

Our appraisal of Violet Farm Close indicates a Net Present land Value of c£270k per gross acre, which should lie reasonably comfortably within the range of potential viability with a 40% affordable housing provision, provided no significant additional abnormal or s106 obligation costs emerge. These currently do include advised (albeit very 'high-level') allowances for the relocation of Lockyers School and relocation of the existing allotments. This site has a more typical net to gross land area ratio of 67% which also assists out-turn viability.

Site 4 - Wimborne North

With an indicated land value of c£193k per gross acre, this site has a reasonable likelihood of viability, albeit this may quickly become marginal or even potentially non-viable if any significant additional abnormal or s106 obligation costs emerge beyond CIL and the primarily highways-based initial allowances currently incorporated. The same may apply if the very high-level allowances advised in respect of the current assumed highway measures prove to be inadequate. Having said that, we had been advised (and therefore assumed) that this site should bear the entire cost burden of providing for a new 1.5 form entry primary school (assumed at c£6.5m) which, unless fully justified by this site alone, we would normally expect to be at least partially supported from other sources. As stated in section 5.2 above, however, we now understand that there is a good prospect that a significant contribution towards this will be available from CIL. For illustration purposes, removal of the entire school cost would result on an indicated increase in land value to c£256k per gross acre, thus moving the site into a reasonably comfortable viability position, based upon current assumptions.

Site 5 - Wimborne, Stone Lane Industrial Estate

This is the only site of those assessed that has a relatively high Existing Use Value (EUV), based upon its current status as an industrial estate. As explained in the commentary in section 4 above, this is in consequence likely to require a higher out-turn land value per acre to be reasonably confident that the site will be released by the landowner for redevelopment. The indicated land vale per gross acre of c£297k initially suggests that delivery of this site may be not be assured, but given that this is a relatively small site, as with Site 2 we would suggest that this is assessed on a 'flat' land value (i.e. not on a Net Present Value) basis , in which case indicated land value per gross acre is c£360k. Our advice as to EUV at c£250k, plus suggested premium of 35% results in a target value of at least £337k in this case, suggesting that this site is likely to be viable, albeit potentially close to the margins.

Site 6 - Wimborne, Cuthbury – reassess & reword excluding hospital build costs

This site currently indicates a land value of c£296k per gross acre, despite carrying significant abnormal cost allowances, specifically for allotment relocation and football club relocation, along with the provision of land for hospital expansion. This site is therefore likely to be viable, subject to previous qualifications in respect of additional burdens or increases in the cost of the above elements.

Site 7 - Wimborne, Leigh Road

With a headline indicated land value of c£145k per gross acre, we would conclude that this site may be at risk of being 'marginally unviable'. This, however, appears to result from its unusual status primarily as an enabling development intended to secure the provision of a large amount of sports and recreational open space. This has two cumulative impacts upon viability; i) the cost of provision of such facilities is relatively high (and an early high-level advised estimate of likely cost is incorporated here) and, ii) the assumption that we need to include a very large land area in our gross area calculations which results in an extremely disadvantageous net to gross land area ratio of only 29% (again, see earlier references to this issue). Clearly, if it can be shown that the land required for the recreational facilities can be secured at much lower than equalised development value (for example, at or close to agricultural value), then this is likely to transform the viability picture. We understand that discussions held with landowners have suggested that there is a good prospect that most of the land required for sports pitches and open space may be secured at a cost that is likely to be well below equalised development value. If this proves possible then the positive impact upon land value per gross acre is likely to be significant. By way of illustration, removal of such additional land (other than that required to meet policy open space provisions) is likely to increase Land Value to c£295k per gross acre and thus into a reasonably comfortably viability position, based upon current assumptions.

In overall summary conclusion, four of the seven sites tested here (1,2,3, and 6) appear on current assumptions to have a reasonably healthy viability ‘buffer’ at the council’s suggested nominal affordable housing provision level of 40%. A further two sites (4 and 5) appear potentially viable, but are more marginal and thus sensitive to lower levels of possible adverse changes such as falling revenues or increasing/additional costs. As stated earlier, however, if the cost of providing the school is not to be borne by site 4, then we would expect this site to move into a reasonably healthy viability position. One site (Site 7) is currently indicated as potentially at risk of being non-viable, but that is primarily due to its status as an enabling development where, as stated, we understand there is a strong likelihood that it may be possible to improve the position significantly by ensuring the land required for sports facilities can be secured at very low cost.

For the purposes of this exercise, we have only assessed what we are advised are the seven more complex proposed sites. We understand that the remaining sites proposed for release are less complex and likely to require little or no abnormal infrastructure provision. Although we have not assessed these additional sites, it seems very likely that their viability, and hence deliverability, position can be expected to be generally stronger than most of the sites tested and covered by this report.

Naturally, in all cases, if the cost/s106 burden increases significantly, then in order for some subject sites to remain deliverable, it is likely that the proportion of affordable housing may need to be reduced. If necessary, this should be capable of being determined by a site-specific viability assessment at application stage when information on both costs and revenue is likely to be far more detailed and hence robust.

Should any of the above require any further clarification we will be happy to provide it.

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