



Brief Viability Report in respect of Final Master Plan for North Christchurch

For Christchurch Borough Council

Chris R Hill FRICS

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chris@whiteleafproperty.co.uk

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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 the final Master Plan solution for the proposed urban extension at North Christchurch.

This forms a part of Stage 3 of the master planning process and the objective is to carry out a high level financial viability assessment of the site, including its capacity to bear certain specified section 106 and other enabling costs, along with provision of affordable housing at a range of percentages. The final masterplan solution suggests a mid-range development capacity of c850 dwellings at about 33 dwellings per net hectare, with a maximum capacity of c935 dwellings (equivalent to c36.6dph). We have tested both with sensitivities at various levels of affordable housing provision.

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 the delivery of the site is likely to be achievable. We have, therefore, incorporated the level of s106 and servicing costs as advised and the provision of affordable housing at a range of percentages.

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

Main Assumptions

- i. Market and affordable mix is as per the Broadway Malyan masterplan.
- ii. All private revenue assumptions are based on broad averaged current house price data derived primarily from desk-top web research and applied to the broad generic mix ranges in the masterplan.

- iii. Affordable revenue assumptions are based upon advice from the council's Housing Development and Enabling Manager which we understand is taken from his experience of recent RP offers and averages 50% of equivalent dwelling Market Value across all tenures, assuming no grant subsidy.
- iv. 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.
- v. Estimated abnormal costs are necessarily 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. The most significant abnormal cost allowance here is the sum of over £8m in respect of diversion of the overhead power lines, based upon an estimate provided by the electricity supply company. Appraisal results can be extremely sensitive to changes in such larger cost items.
- vi. Allowance for developer's profit. In more buoyant market conditions, we would expect developer's profit 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% on private GDV and, in many cases, even higher, but normally requiring a minimum of 20% averaged across both private and affordable revenues. We have adopted what we consider to be a reasonable 'middle ground' longer-term figure of around 22.5% on private GDV. Margin on affordable revenue is included at around 6% - 8%, reflecting the far lower level of risk involved, but overall we have endeavoured to ensure a margin of c20% is available as an average across all tenures.
- vii. The Net Present Value calculation is based upon a cautious Internal Rate of Return (IRR) of 7.5% 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.
- viii. No allowances have been made for the costs or other potential obstacles of incorporating any possible third-party landholding/interests since we have no detailed information on the terms of any landowner agreements such as options, promotion agreements, easements etc., at this stage.
- ix. No allowances have been made for the cost of securing additional land that may be required for other purposes, such as SANG provision, but allowances for equivalent SANG contributions at the levels advised are included.

Although any viability assessment at this stage is necessarily likely to be based upon high-level assumptions, a significant amount of detail has been provided by the professional team in respect of potential allowances for abnormal costs and s106 obligations, including contingency allowances for the physical cost of certain potential site specific policy obligations, such as known highway improvements, 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 the site to deliver these indicated levels of infrastructure and other site-specific s106 obligations, along with various levels of affordable housing provision.

4. Net Land Value – Parameters for Delivery

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 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 (EUUV), where it is recognised that a land value of EUUV 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 DV service has also referred to (and accepted) this approach. A recently published DCLG report (by this author) also concludes that £100,000 to £150,000 is the 'minimum threshold range' (Ref: ISBN: 978 1 4098 2909). 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.

In order to try to ensure that developments stand a reasonable chance of remaining viable in the medium term, we would normally recommend, for early strategic assessment of green-field sites, that output land value per gross acre should be at the top of the £100k to £150k range. In this case, however, the assessments are site-specific and backed by a certain amount of targeted technical advice which, whilst high-level, is likely to provide more reliability than generic data averaged across a range of sites for Core Strategy/plan-making purposes.

Consequently, we would suggest that it would be appropriate to take a mid-point in the above range, i.e., say, £125,000 per gross acre as the threshold for potential viability in this case.

5. Conclusions Summary

Referring to the Base Headline Summary table in Appendix 1, at a dwelling capacity of 849, the results suggest that affordable provision may need to be limited to 25% to be reasonably confident that the project is likely to be viable in prevailing market conditions. Provision at 30% is close to the margins of the stated threshold and thus may be sensitive to relatively small adverse changes in value or cost and lacks an adequate viability 'buffer', as is recommended in latest guidance. All of this, however, is to a significant degree dependent upon many other factors that may change, especially, for example, the actual cost of diverting the overhead power lines referred to in section 3.v above. Should the estimate for this prove to be somewhat overstated for caution, which can sometimes be the case in very early assessments, a reduction in real cost could have a significant positive impact upon viability. Naturally, however, the converse may also apply.

We have also carried out a high-level sensitivity assessment based upon the maximum stated dwelling capacity of c935. The results of this are summarised in the Maximum Capacity Headline Summary table in Appendix 2. Results here suggest that affordable housing provision could perhaps increase to a maximum of c35% at this density level, albeit we understand that some increase in Open Space may be generated by the increase in housing numbers, thus reducing the available net developable land area slightly. It seems likely, however, that there could remain some headroom for increasing 'coverage' (i.e., built floor space per ft²/m²) above the currently indicated level of c14,200sf/per acre to provide some compensation for this. Conversely, the same comments as stated in the previous paragraph in respect of viability around the margins and the consequential lack of an adequate 'buffer' will also apply.

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

Chris R Hill FRICS

Whiteleaf Consulting
chris@whiteleafproperty.co.uk
01494 481858



Appendix 1

North Christchurch

Final Masterplan
Solution based upon
Option 3 of
Preliminary Study

17/01/2012

Headline Sensitivity Summary:

Base: 849 Dwellings

Sensitivities	Base	Base	Base	Base
AH Proportion	25%	30%	35%	40%
Flats and small terraced housing	100	100	100	100
Small semi-detached and terraced	410	410	410	410
Medium detached and semi-detached	234	234	234	234
Large detached and semi-detached	105	105	105	105
Total Units	849	849	849	849
Total Revenue	£172,246,363	£167,335,488	£162,424,613	£157,513,738
Total Costs excl Land	-£146,404,038	-£143,684,352	-£142,286,081	-£140,327,209
LAND VALUE	£25,842,325	£23,651,136	£20,138,532	£17,186,528
NPV)	£390,079	£356,111	£301,386	£255,467
LAND PER GROSS ACRE (Pre-NPV)	£266,395	£243,198	£205,825	£174,465
NPV Analysis				
Whole Site NPV (post land sale costs)	£13,383,976	£11,941,916	£9,618,597	£7,669,145
NPV per Net Acre	£207,271	£184,938	£148,958	£118,768
NPV per Gross Acre	£143,584	£128,113	£103,189	£82,275