WELBORNE GARDEN VILLAGE

VIABILITY REVIEW

October 2019

FAREHAM BOROUGH COUNCIL

CONTENTS

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Overview
CBRE has been instructed by Fareham Borough Council (FBC) to undertake a review of the Site Wide Viability Report (SWVR) produced for Welborne Garden Village by the Master Developer, Buckland Development Limited (BDL).

The key documents informing this assessment of viability are the Site Wide Viability Report February 2017, the Site Wide Viability Report Addendum dated March 2019 and the Supplemental Position Statement dated August 2019.

In addition CBRE has been instructed to review the costs contained with the Infrastructure Delivery Plan (IDP). The IDP has been produced by AECOM on behalf of BDL and contains the cost estimates for the site wide infrastructure which includes allowances for items such as site preparation, transport, utilities and social and green Infrastructure amongst other cost items. The IDP costs amount to £308m.

The SWVR and IDP is provided in support of BDL's outline planning application (P/17/0266/OA) submitted by BDL for a new community of 6,000 new homes, known as Welborne Garden Village. The SWVR concludes, on the grounds of viability, that:-

- The scheme should not be liable to pay the Community Infrastructure Levy (CIL)
- The developer contribution towards M27 Junction 10 costs is capped at £20m
- Affordable housing for the first 1,000 units should be 10%
- The affordable mix for the first 1,000 units is split 50/50 between affordable/social rent and intermediate tenures
- The scheme is unable to provide Lifetime Homes or Passivhaus for the first 1,000 homes

BDL does clearly state that its target is to provide 30% affordable housing and policy compliant levels of Passivhaus and Lifetime Homes however viability does not enable these items to be provided during the initial phase of 1,000 homes. This is principally due to the need to provide circa £105m of site wide infrastructure alongside the delivery of the first 1,000 homes.

Key Welborne Plan Policies – Viability Review Provisions
Policy WEL18 of the Welborne Plan does state that the affordable housing quantum (and tenure split) can be varied on viability grounds however it contains caps and collars whereby each phase must deliver between 10% and 40% affordable housing to achieve the overall target of 30%. The Welborne Plan also envisages lower levels of affordable housing in the earlier phases of the scheme due to the need for significant early provision of site wide infrastructure. Policy WEL17 Lifetime Homes and WEL36 Passivhaus also enable these requirements to be relaxed on viability grounds. CBRE understands that the proposal by BDL is compliant with the requirements of WEL17, WEL18 and WEL36 however this must be confirmed by the Local Planning Authority.

Viability Review Mechanism
A review mechanism has been put forward by BDL to enable viability to be assessed on an iterative basis throughout the life of the scheme with the aim of achieving the full requirements of WEL17, WEL18 and WEL36. Key points to note from the viability review mechanism are:-

- First review to be completed following completion of the 1,000th residential unit and occur at a frequency of 750 unit completions thereafter.
- The review will be in accordance with the agreed financial model and a number of agreed financial parameters. Over time, the actual known costs and revenues will replace the original forecasts.

EXECUTIVE SUMMARY

- In addition to 750 unit phase reviews BDL will provide an annual financial return statement as part of the monitoring arrangement with FBC.
- Any additional grant funding received may trigger a standalone viability review.
- Affordable quantum and tenure, Lifetime Homes and Passivhaus will form part of future viability reviews. FBC will have the ability to adjust and prioritise its requirements in relation to these items should the scheme not be able to afford them all.

M27 Junction 10 Contribution
With regard to the contribution towards the M27 Junction 10 being capped at £20m it should be noted that the total estimated costs of this junction ranges from £80m to £90m. £29m of grant funding towards junction costs has been secured leaving a gap of £31m to £41m.

In addition £10m of Housing Infrastructure Funding (HIF) is being made available by Homes England towards the cost of the junction. However, as this is being provided on a recoverable basis and must be repaid the receipt of HIF does not reduce the potential funding gap.

CBRE Viability Conclusions
CBRE has reviewed the SWVR and benchmarked the assumptions made against market data to ascertain the reasonableness of BDL's assertions. CBRE has also reviewed the inputs and outputs of the BDL financial model which is the key tool for assessing the viability of the scheme. We have also analysed their approach against guidance contained in the National Planning Policy Framework (NPPF) and the National Planning Policy Guidance (NPPG) regarding assessing viability for planning purposes. In addition we have held extensive discussions with the applicant on viability matters having reviewed a number of previous iterations of viability statements and financial models prepared by BDL. In consideration of the information provided by the applicant and CBRE's review of it we concur with the applicant's conclusions that:-

Whole Scheme
- The scheme cannot afford to pay both CIL and £308m of site wide infrastructure costs
- If the BDL contribution towards M27 Junction 10 costs is increased beyond £20m it will adversely affect the viability of the scheme and the ability to meet the various policy requirements including providing 30% affordable housing overall

First 1,000 Units
- The scheme can only afford to provide 10% affordable housing during the delivery of the first 1,000 units
- The affordable mix for the first 1,000 units is split 50/50 between affordable/social rent and intermediate tenures on viability grounds
- Lifetime Homes and Passivhaus House requirements for the first 1,000 homes cannot be provided on viability grounds, although some Lifetime Homes may be provided depending on final design and/or potential to deliver it within the affordable housing working in partnership with a Registered Provider.

EXECUTIVE SUMMARY

General

- A review mechanism is utilised going forward enabling the viability of achieving policy targets to be assessed throughout the life of the scheme.

- Sensitivity analysis shows a reasonable prospect of the scheme meeting all policy targets subject to growth projections being achieved, nil CIL and junction contributions being capped at £20m

INTRODUCTION

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CBRE has been instructed by Fareham Borough Council (FBC) to undertake a review of the Site Wide Viability Report (SWVR) produced for Welborne Garden Village by the Master Developer, Buckland Development Limited (BDL). The key documents informing the assessment of viability are the Site Wide Viability Report dated February 2017,the Site Wide Viability Report Addendum dated March 2019 and the Supplemental Position Statement dated August 2019.

In addition CBRE has been instructed to review the costs contained with the Infrastructure Delivery Plan (IDP). The IDP has been produced by AECOM on behalf of BDL and contains the cost estimates for the site wide infrastructure which includes allowances for items such as site preparation, transport, utilities, social and green Infrastructure amongst others. The IDP costs amount to £308m.

The SWVR and IDP is provided in support of BDL's outline planning application (P/17/0266/OA) submitted by BDL for a new community of 6,000 new homes, known as Welborne Garden Village.

Land Ownership
At the time of writing the original SWVR in February 2017 the majority of land required to implement the Welborne Plan was held by two land owners. In September 2017 an associated company of BDL, Welborne Land Ltd, acquired the Dean Farm Estate. This acquisition gave BDL majority control of land required to implement the Welborne Plan.

It is noted that BDL and Welborne Land Limited are owned by the same majority shareholder however for the purposes of the planning viability assessment CBRE considers it appropriate to disregard this and carry out the assessment based on the overriding principles of planning viability guidance. As such an appropriate risk adjusted return/profit must be allowed for BDL acting as master developer and the land owner is entitled to receive an appropriate value for its land.

Background
BDL originally produced a viability report in support of the outline planning application which was confidentially submitted to the council in March 2017. The viability report was dated February 2017 and concluded that the site was viable and able to provide a policy complaint level of affordable housing, 30%, subject to: -

- The scheme paying £0 CIL or if CIL was paid it was reinvested back into the scheme
- That any New Homes Bonus (NHB) generated by the development was reinvested back into the scheme – NHB was estimated to generate £30.4m of receipts
- BDL's contribution towards the cost of the new M27 Junction 10 being capped at £20m – which based on cost estimates at that time was considered sufficient to enable the junction to come forward in combination with the £29m of public funding allocated to the junction costs.

Key Changes since 2017
Since the February 2017 viability report was submitted several material changes have occurred which have the potential to impact on viability and these are summarised by BDL as follows: -

- NHB cannot be included within the viability analysis. This has resulted in £30.4m of income being removed from the appraisal

INTRODUCTION

- The Council has confirmed that Welborne is liable to pay CIL which could amount to c.£74m although it is noted that the Welborne Plan envisaged that an update to the CIL policy may be required to enable WGV to be nil rated.

- The costs of junction 10 has increased and current cost estimates range from £80m to £90m. BDL proposes to cap its contribution to the junction works at £20m. Available public funding is £29m resulting in a junction funding deficit of £31m to £41m.

- Housing Infrastructure Funding (HIF) of £10m is being made available by Homes England. However, HIF is being given on a recoverable basis rather than as grant as such it must be repaid and therefore does not contribute towards reducing the junction 10 funding gap.

- In addition to the above the National Planning Policy Framework (NPPF) was introduced in July 2018 which provides the most current guidance on planning viability matters. The information within this has been considered by CBRE to assist in forming our conclusions.

As a result of the changes this has, according to BDL, necessitated an adjustment to the approach of delivering affordable housing requiring a reduction to the initial levels of affordable housing and for this to be made up in subsequent phases. This position was anticipated in the Welborne Plan (paragraph 1.44) which stated that.

"Given the lack of certainty about the future relationship between scheme costs and revenues, the Welborne Plan incorporates a flexible approach which will apply overall to how Welborne will be delivered and in particular to the masterplanning of the site and the infrastructure required. This process has largely been undertaken since publishing the Draft Welborne Plan in early 2013 and has involved extensive engagement with a wide range of interested parties. It includes:

- ***Providing greater masterplanning flexibility to site promoters through adopting the 'Strategic Framework' approach, rather than requiring adherence to the Council's Concept Masterplan;***
- ***Re-considering the timing of infrastructure provision and the scope to utilise existing infrastructure capacity, where available;***
- ***Examining more cost-effective ways to deliver infrastructure;***
- ***A flexible approach to development phasing that would allow for revenue generating development to be commenced earlier; and***
- ***Reducing policy requirements, targets and standards, where they were not essential."***

Within its SWVR BDL state that importantly, whilst the initial phase of Welborne will provide a lower level of affordable housing, the overall target of 30% affordable housing will remain. The initial levels will be lower to off-set high initial infrastructure costs, removal of New Homes Bonus investment and other rising costs.
The financial viability of the project will be regularly monitored by the Council and their advisors with the aim of making up the initial shortfall in subsequent phases.

BDL also states that Welborne Garden Village is a complex development requiring significant infrastructure to support the creation of the new 6,000 homes mixed use community. The detail and scale of the infrastructure is set out in the Infrastructure Delivery Plan (IDP) and is costed at over £308m.

INTRODUCTION

Over 34% (£105m) of the total £308m IDP will be required to deliver the first 1,000 units (16.6%) which is a significant sum. The Welborne Plan (para 1.41) anticipated this and states the following regarding infrastructure costs and viability:

"Extensive high-level viability evidence has been undertaken during the preparation of the Welborne Plan and this has involved engagement with the site promoters and other key interested parties at various stages. Nevertheless, the balance between the costs of development (including infrastructure provision) and the value that can be created, at a large complex development with a long build-out period, is not possible to accurately determine in advance. As the viability evidence demonstrates, schemes such as Welborne have very significant "up-front" costs relating to key strategic infrastructure provision (such as fully upgrading Junction 10 of the M27 Motorway). Such front-loaded costs can weigh heavily on scheme viability in the early phases. However, as the development progresses and becomes more profitable, it is generally the case that the initial costs can be recouped and the viability of the scheme as a whole maintained."

Based on its findings BDL concludes that :-

Whole Scheme

- The scheme cannot afford to pay both CIL and £308m of site wide infrastructure costs
- If the BDL contribution towards M27 Junction 10 costs is increased beyond £20m it will adversely affect the viability of the scheme and the ability to meet the various policy requirements including providing 30% affordable housing overall

First 1,000 Units

- The scheme can only afford to provide 10% affordable housing during the delivery of the first 1,000 units
- The affordable mix for the first 1,000 units is split 50/50 between affordable/social rent and intermediate tenures on viability grounds
- Lifetime Homes and Passivhaus House requirements for the first 1,000 homes cannot be provided on viability grounds, although some Lifetime Homes may be provided depending on final design and/or potential to deliver it within the affordable housing working in partnership with a Registered Provider

General

- A review mechanism is utilised going forward enabling the viability of achieving policy targets to be assessed throughout the life of the scheme.
- Sensitivity analysis shows a reasonable prospect of the scheme meeting all policy targets subject to growth projections being achieved, nil CIL and junction contributions being capped at £20m
- This report therefore seeks to verify if the assertions put forward by the applicant are valid. In the next section we provide an overview of the scheme and in the following section we outline the methodology adopted by CBRE to review the proposals put forward by the applicant.

APPLICATION OVERVIEW

APPLICATION OVERVIEW

The Outline Planning Application that has been submitted is for a residential led mixed use new community to the north of Fareham known as Welborne. The main elements of the application are 6,000 residential dwellings, employment uses, local and community services, supporting infrastructure and improvements to the M27 junction 10. The commercial uses include a number of retail use classes; A1-A5, B1, B8, B2, C1, D1 and D2 together with secondary and primary schools and numerous items of green infrastructure.

Welborne Land Ltd will be the majority land owners of the site and BDL have been actively involved in promoting the site since 2008. BDL also worked in conjunction with FBC to achieve the allocation of the site and the formation of the Welborne Plan which underpins the application and delivery strategy for the site.

In January 2017, DCLG (now MHCLG) announced that Welborne would be one of the first garden villages across England and whilst this has not materially impacted the Welborne Plan, it is an important consideration in the preparation of the application and the determination of the application.

The site covers approximately 377 hectares of largely open countryside and is located to the north of Fareham in Hampshire at the intersection of Junction 10 of the M27 and the A32. The historic village of Wickham lies to the north of the site and a village, Funtley, to the south west of the site and the village, Knowle, to the west of the site. In addition, there is an area of woodland known as Dashwood which is located immediately north west of the site and forms part of the proposed Suitable Alternative Natural Green Space (SANGS).

The site is located within the context of a number of locally important green infrastructure assets including Dashwood, as noted above, and there are also three key routes crossing the site which are the A32, M27 and Knowle Road. The site has some access in the form of public transport via Route 20 on the local bus service, bus rapid transit and Fareham Railway Station. There are also a number of existing public rights of way which cross the site or run parallel to the site boundaries.

The concept of Welborne is to provide a popular place to live, work and visit and the objectives defined by BDL as part of their planning application are:

- Attractive and well planned.
- Distinctive and characterful.
- Vibrant community for all.
- Support healthy living.
- Resilient and sustainable.
- Long term stewardship.

The Welborne Plan forms Part 3 of the Fareham Borough Council Local Plan and follows on from the adopted Fareham Borough Council Local Plan Part 1 (Core Strategy). The Welborne Plan was adopted in June 2015 following an examination by an independently appointed Government Planning Inspector between July 2014 and May 2015. The Welborne Plan captures the essence and principles of the IDP and therefore forms the planning framework for the planning application.

CBRE VIABILITY REVIEW METHODOLOGY

CBRE

CBRE VIABILITY REVIEW METHODOLOGY

The viability review is being undertaken in the context of national Government policy with regard to the NPPF, as well as industry standard benchmarking and the guidance issued by the Royal Institution of Chartered Surveyors and the Local Housing Delivery Group. The key steps we have undertaken are as follows:-

Infrastructure Delivery Plan
BDL has identified circa £308m of site wide infrastructure costs, the cost estimate has been prepared by AECOM on behalf of BDL, and the key cost headings are summarised as follows:-

Item	Description	Cost
Site Preparation	Demolition and site clearance, remediation, archaeology, bulk earthworks	**£19.2M**
Transport Infrastructure	On site and off site Highways, adoption fees/ commuted sums, bus subsidies and travel plan costs etc	**£64.5M**
Utility Infrastructure	Electricity and gas, foul and surface water waste and recycling projects	**£43.7M**
Social Infrastructure	Education, community, health & leisure & recreation facilities	**£82.2M**
Green	Natural green space, parks and amenity open sports areas/ playing fields and ecological	**£31.5M**
Professional Fees	Professional fees incurred in the delivery of the	**£22.8M**
Contingency	Risk allowance included to cover cost overruns	**£20.2M**
Strategic Costs and fees	Project management, estate management, PR communication, maintenance of unadopted	**£24.0M**

CBRE's Building Consultancy Department has undertaken a review of the cost plan submitted AECOM. It has benchmarked the cost allowances against published data including SPONS Build Cost Information Service (BCIS) to determine the reasonableness of the cost estimate. concluded that the cost allowances were generally within acceptable market tolerances therefore deemed to be reasonable.

Viability Review
To advise on the reasonableness of the applicant's viability conclusions CBRE has:-

- Reviewed the key Welborne Plan policies affected by BDL's proposal
- Reviewed the overall approach to the assessment of viability applied by BDL

CBRE VIABILITY REVIEW METHODOLOGY

- Benchmarked the cost and values assumptions utilised within the BDL appraisals against market data and industry standards to determine the reasonableness of the approach
- Conducted viability analysis and sensitivity testing
- Reviewed the viability review mechanism proposed by BDL

Our findings are detailed over the next sections of this report.

KEY WELBORNE PLAN POLICIES

KEY WELBORNE PLAN POLICIES

Below is an overview of the key Welborne Plan policies that are the subject of BDL's viability proposal.

AFFORDABLE HOUSING WEL18

The Council's policy for affordable housing for Welborne is set out in Policy WEL18 of the Welborne Plan. Affordable housing delivery is 'one of the key priorities of the Council and is an important objective for Welborne. Welborne provides a rare opportunity for the Borough to deliver a significant number of affordable homes and to make a real contribution towards addressing the current backlog of housing need'.

Policy WEL18 states that 'Development at Welborne shall provide a total of 30% affordable housing'. It further states that where a residential phase will not meet the 30% target of affordable housing, 'the subsequent phase or phases will be required to meet that shortfall in addition to the 30% target if possible in viability terms'.

The Plan states that new development under the NPPF needs to be deliverable and this means that the overall financial burden on new development, including obligations to deliver affordable housing, should not threaten its economic viability. The Plan notes that 'extensive viability testing has been undertaken on the proposals within this Plan. The outcome of this evidence is that there is potential to deliver a significant proportion of affordable homes, but that an overall target of 30% is likely to be the highest that the development as a whole could reasonably be expected to achieve'.

The Plan notes that delivering the target level of 30% affordable homes annually 'will be a significant challenge given the overall infrastructure burden on the development and the length of time it will take to build the new community. Therefore, it is necessary for the Welborne Plan to consider how a flexible approach to the delivery of affordable homes could be required'.

The flexible approach covers phasing and delivery of affordable homes and allows for a reduced percentage of provision on a phase but with a subsequent rectification preferably later within that same phase or within a subsequent residential phase. The minimum and maximum levels that will be acceptable within any given phase are to be agreed with the Council following viability testing. The Plan states that overall a lower limit of 10% and an upper limit of 40% affordable housing provision per phase would provide 'a reasonable balance between the need for flexibility and achieving the vision and objectives of the Local Plan'.

The initial tenure split for the affordable housing provision is to be 70% affordable or social rent and 30% intermediate tenures. The tenure split is to be kept under review 'phase by phase based on evidence of need and viability'.

POLICY WEL17 - LIFETIME HOMES

Policy WEL17 of the Plan sets out the following requirement in terms of provision for Lifetime Homes.

"Approximately 15% of all market homes within each phase of the development shall be designed to meet higher accessibility standards equivalent to the Lifetime Homes standards. The precise proportions shall reflect evidence of demand at the time the phase comes forward and will be subject to the need to ensure that the phase remains economically viable."

– KEY WELBORNE PLAN POLICIES

POLICY WEL36 – PASSIVHAUS

Policy WEL36 of the Plan sets out the following requirement in terms of providing housing to Passivhaus Standard.

"Planning applications for Welborne shall be supported by an Energy Strategy which demonstrates how the development will:

i. Optimise energy efficiency by minimising the use of energy through design, layout, orientation, landscaping and materials;

ii. Achieve high energy efficiency standards for all buildings, including meeting the Passivhaus Standard if appropriate; and

iii. Secure energy supply, maximising the use of low or zero carbon technologies including district energy networks.

Proposals for residential development shall incorporate 10% of dwellings built to Passivhaus Standard, unless it can be demonstrated to be unviable by means of a financial assessment which clearly demonstrates the maximum proportion of dwellings built to Passivhaus Standard which can be achieved."

Emerging Conclusions
Based on our review of the key Welborne Plan policies we believe that it is reasonable to vary the proposals on the basis of viability. It will ultimately be the decision of Fareham Borough Council in its statutory function of Local Planning Authority to determine if the proposals put forward by BDL are planning policy compliant.

REVIEW OF BDL VIABILITY APPROACH

REVIEW OF VIABILITY APPROACH

BUCKLAND APPROACH TO VIABILITY – MASTER DEVELOPER

BDL has assessed viability on the basis of the master developer approach. The key matters carried out by the master developer are:-

- Acquires land from the landowners
- Provides the site wide strategic infrastructure
- Sells serviced plots to housebuilders to enable the residential and commercial uses to be delivered

Residual Appraisal

With regard to third point above, selling serviced plots to housebuilders, BDL has carried out residual appraisals to estimate how much a developer might pay for a serviced plot. This assumes that the strategic infrastructure is provided by the master developer and the plot developer only has to deliver the residential or commercial uses (which may also include some plot level infrastructure such as non strategic roads and green spaces). The residual appraisal works on the basis of the following:-

Gross Development Value

(Value of the units within the completed scheme)

LESS

Purchaser costs

Equals Net Development Value

LESS

Costs of Delivery

(Including construction, professional fees, finance and developers profit amongst others)

EQUALS

Residual Land Value

(How much a developer pays for a serviced plot)

As such in the course of its viability assessment BDL has made assumptions regarding the costs, revenue and profit incurred by both the master developer and plot level housebuilders. CBRE has reviewed these assumptions and given our opinion as to their reasonableness.

REVIEW OF VIABILITY APPROACH

FIRST 1,000 HOMES VIABILITY VS WHOLE SCHEME

It is noted that BDL has not assessed the viability of the first 1,000 units in isolation. Its approach has been to model scenarios for the whole scheme and make assertions regarding the viability of the first 1,000 homes based on this. CBRE concurs that this is a reasonable approach to take. Viability of strategic sites is particularly challenging during the early years of the scheme given the need to provide significant early infrastructure. To advise on the reasonableness of the BDL assertions for the first 1,000 homes we have analysed the revenue and costs incurred alongside the delivery of the 1,000 homes to assess profitability and potential to achieve policy targets.

BDL's base case i.e. 10% affordable housing, £0 CIL and junction contribution capped at £20m is undertaken on the basis of today's costs and values. As such no allowance has been included for value or cost growth that might occur over the life of the scheme. It subsequently carries out various sensitivity analysis to show how growth could impact on the viability.

CBRE concurs with the approach adopted by BDL and agree that it is prudent to analyse the base case assuming today's costs and values. The growth assumptions have been analysed and benchmarked against available market data to determine their reasonableness too.

MASTER DEVELOPER
APPRAISAL ASSUMPTIONS

REVIEW OF VIABILITY ASSUMPTIONS

MASTER DEVELOPER ASSUMPTIONS

In this section we seek to review the assumptions applied by BDL in relation to the master developer.

Land Value

At the time of writing the original SWVR the majority of land required to implement the Welborne Plan was held by two land owners. In September 2017 an associated company of BDL, Welborne Land Ltd, acquired the Dean Farm Estate. This acquisition gave Welborne Land Ltd majority control of land required to implement the Welborne Plan.

BDL and Welborne Land Limited are owned by the same majority shareholder however for the purposes of the planning viability assessment CBRE considers it appropriate to disregard the relationship and carry out the assessment based on the overriding principles of planning viability guidance. As such an appropriate risk adjusted return/profit must be allowed for BDL and the land owner is entitled to receive an appropriate value for its land.

BDL has assumed that the agricultural land will be included in the viability assessment at a fixed price of **£100,000 per gross acre**. The only exception to this are existing properties which BDL assumes will be acquired at their market value. The total cost of land acquisition (including fees and stamp duty) is estimated to be circa **£112m**.

Land Payment Profile

Within the BDL appraisal a day one land acquisition allowance of £78m has been included. A significant proportion of this is for the Dean Farm Estate but it also includes a number of interests that BDL believe are required to enable the site wide infrastructure to be delivered. This relatively high day one cost has an adverse impact on scheme viability as finance costs are accrued on this sum from the outset. From a viability perspective it would be preferable if these costs could be cash flowed over the life of the scheme. However the approach taken by BDL reflects their actual assumed expenditure and it would therefore be appropriate to have regard to this when assessing viability. CBRE anticipates that any alterations to the assumed land payment profile will be picked up in the viability review where assumptions are replaced with actual costs and receipts.

With regard to the land value allowance of £100k per acre, in July 2018 the new National Planning Policy Framework (NPPF) was published along with detailed supporting National Planning Policy Guidance (NPPG). In respect of benchmark land value NPPG Paragraph 012 Ref ID 10-013-20180724 advises that:

"To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus.

REVIEW OF VIABILITY ASSUMPTIONS

In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process". The benchmark land value therefore needs to reflect a price at which the landowner would sell its land and which would need to reflect a premium over existing use value to encourage the landowner to release the land for development as a one-off opportunity.

The factors which should be considered when establishing the benchmark land value are further detailed in new NPPG Paragraph014 Ref ID 10-014-20180724 and must:

- be based upon existing use value
- allow for a premium to landowners (including equity resulting from those building their own homes)
- reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and
- be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

To confirm the rate of £100k per acre we have compared the BDL land cost figure with reference to greenfield site values in the Local Plan Viability Assessment, May 2017 carried out by Dixon Searle Partnership for Fareham Borough Council. Para 2.11.12 reviews greenfield site values and states

'in our experience of dealing with site specific viability, greenfield land values tend to be assumed at minimum option agreement levels. This is typically between £100,000 to £150,000 per gross acre (i.e. approx. £250,000 – £370,000 per gross hectare) in our experience. Generally, this works back to not less than around £100,000/acre (approx. £250,000/ha) based on net residential (developable) area'.

CBRE also has significant experience of advising strategic sites. For example we have advised Homes England on investments from its HIF fund on circa 15 large strategic sites over the last 12 months. In addition we advise a number of master developers and investors on bringing forward strategic sites and are also retained to dispose of serviced plots to house builders. Examples of this include advising Land Securities on Easton Park (10,000 homes), Crest Nicholson at RAF Wyton (4,750 homes) and Grainger at Wellesley (3,850 homes).

In our experience we are of the opinion that £100k per acre is the minimum price that strategic land is acquired for. We have recent experience of other strategic sites where the option agreements have values of up to £300k per acre. We therefore conclude that the land acquisition price assumed by BDL is reasonable.

REVIEW OF VIABILITY ASSUMPTIONS

Site Wide Infrastructure Costs

The site wide infrastructure costs have been reviewed by CBRE's Building Consultancy Department. It concludes that the cost allowances are reasonable.

Master Developer Profit

The BDL model is showing a master developer's profit on cost of 14.44% and a master developer's Internal Rate of Return (IRR) of 7.3% which equates to a nominal profit of c£78m.

Internal Rate of Return

On strategic sites a key measure of viability is the IRR which should, ideally be, circa 12%+. The IRR reflects the profitability of a scheme over the investment period. For example a project may be viable but it may take several years for the profit to be realised. The IRR enables the impact of time to be explicitly taken into account.

As such it is not unusual for IRR to be the primary benchmark of profitability used by developers of strategic sites and the need to generate a market level IRR can have an adverse impact on the profit on cost calculation. For example a recent scheme CBRE has been involved in the IRR of 13.50% equated to a profit on cost of 30%.

BDL has agreed not to use IRR as a profitability benchmark for assessing the viability of WGV. It proposes using profit on cost metrics instead.

Profit on Cost

BDL's assessment of viability for the whole scheme, with affordable housing at 10%, zero CIL and the junction contribution capped at £20m, produces a profit on cost of 14.4%. BDL has stated that it is willing to proceed with the delivery of the first 1,000 homes on the basis of the scheme showing a 14.4% profit level. However it has stated that it wishes to achieve a 20% profit over the life of the scheme and for this to be taken in account in future viability reviews. A profit of 20% on costs is supported by independent viability guidance and therefore considered to be reasonable.

Finance Costs

BDL has assumed that the master developer finance rate will be 6%. The rate of finance is impacted by a range of factors including amount borrowed, security offered, loan to cost and loan to value ratios, the financial strength of the borrower and the relationship with the lender amongst other matters. The rate applied by BDL is in line with market tolerances. It is noted that there is no explicit allowance for arrangement, non-utilisation or other fees that may be charged by a lender. However the all in rate of 6% is deemed to be reasonable.

Emerging Conclusions – Master Developer Appraisal Assumptions

CBRE is of the opinion that the master developer assumptions applied by BDL with regard to land acquisition, profit, IDP cost and finance rates are reasonable. Indeed the land value and profit assumptions are towards the lower end of the rates prevalent in the market.

PLOT DEVELOPER
APPRAISAL ASSUMPTIONS

CBRE

PLOT DEVELOPER APPRAISAL ASSUMPTIONS

RESIDENTIAL SALES VALUES

We have undertaken market research to estimate residential private sales values which have been applied by BDL at an average £350psf. We have considered web-based data related to new build schemes and also sense checked second-hand values within the local area. The sales values to be applied reflect prevailing market conditions and are to be viewed as high level at this stage due to the early stage of delivery of the scheme.

The affordable sales values assume an average value of £148 per sq. ft in respect of the Affordable Rent tenures, and £249.98 per sqft in respect of the Shared Ownership tenures. Against the market units, this equates to c.43% and 71% of values respectively. The rates applied are in line with expected market tolerances as advised by CBRE's affordable housing team.

In conclusion, we do not disagree with the base sales values used by BDL and consider that the assumptions are broadly reasonable.

Sales Rates

In terms of sales rates, BDL has assumed a rate averaging 250 sales per year in the peak delivery period. CBRE consider this projection to be reasonable.

RESIDENTIAL DEVELOPMENT COSTS

Build Cost

BDL has used costs provided by AECOM current at the time of their Site Wide Viability Report. cost allowance was for an 'all-in on plot' basis i.e. a base build cost including prelims and an for costs for 'on-plot' externals (i.e. within the curtilage) to include paths, driveways, plot landscaping. This assumes that residential land parcels are fully serviced to the boundary.

In summary, the costs used by BDL comprise:

Build Cost (£psf)			
Density:	**Market Housing**	**Affordable Rent**	**Shared Ownership**
Low	£132.14	£137.61	£134.38
Medium	£133.12	£137.61	£134.38
High	£137.10	£137.61	£134.38

As the scheme is at such an early stage, there is insufficient detail to prepare a bespoke cost plan. This view has also been taken by BDL, and therefore BCIS data is used to model the cost assumptions in the appraisals. The approach of using BCIS is also supported by the NPPG. Within its SWVR BDL included the extract from BCIS showing where it derived its cost data from. We consider this approach to be reasonable.

No build cost inflation is accounted for within the BDL appraisal, however that is consistent with the lack of house price growth assumed and therefore CBRE support this approach.

PLOT DEVELOPER APPRAISAL ASSUMPTIONS

Other Costs

A summary of other costs used in the residential appraisals (by both CBRE and BDL) are:

- Contingency at 3% of costs
- Professional fees applied at 5% of costs
- Marketing/sales agents – 1.5% of GDV for all tenures
- Sales legal - £750 per unit
- Finance – 5% per annum

Plot Developer's Profit

BDL have assumed a return to a housebuilder 20% of GDV of market housing and 6% to housing. The NPPG advises the following in respect of developers profit that:

"…an assumption of 15-20% of gross development value (GDV) may be considered a suitable developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and of planned development. A lower figure may be more appropriate in consideration of affordable housing in circumstances where this guarantees an end sale at a known value risk. Alternative figures may also be appropriate for different development types." - Reference ID: 10-018-20180724).

The rates applied by BDL are therefore considered to be reasonable in consideration of the

RESIDUAL LAND VALUE OUTPUTS – RESIDENTIAL SITES

BDL's Residential Land Sales input to the Master Developer Appraisal derives from their analysis of the residual land values for the serviced plots. In total this comprises the sum of £603,299,000 (including the village centres) which equates to an average of £1,362,156 per acre (£3.366m per ha). CBRE considers this to be reasonable based on our analysis of the assumptions utilised and our independent residual analysis.

BDL GROWTH ANALYSIS

BDL GROWTH ANALYSIS

BDL asserts that the development is viable and can deliver policy levels of affordable housing if growth is applied to the financial modelling. CBRE has therefore sought to review the growth assumptions applied by BDL. It is noted that the BDL modelling does not explicitly analyse the ability to deliver the other policy variables i.e. Passivhaus, Lifetime Homes or a 70/30 tenure split as part of the sensitivity analysis however commentary with regard to this is provided by CBRE.

To assess the viability prospects BDL assumes that construction costs could grow at a rate of 2% pa and values at a rate of 3% pa throughout the life of the scheme. BDL concludes that if these growth rates are achieved the 30% affordable housing will be provided. It is noted that this analysis is not undertaken for first 1,000 homes in isolation on the basis that this phase will always struggle to be viable in isolation due to the £105m of infrastructure delivered alongside the first 1,000 homes.

In addition BDL assumes that the affordable housing percentage will grow over the life of the scheme starting at 10% for the first 1,000 homes, 20% for the next 1,000, 30% for the subsequent 1,000 and 40% for the remainder of the scheme. This equates to 30% affordable housing overall and the BDL approach reflects the cap and collar provisions in Policy WEL18 whereby affordable housing should be between 10% and 40% per phase. The results of the BDL growth analysis is below.

BDL Results – 3% Value & 2% Cost Growth	
Gross Development Value	781,373
Costs inc. Finance	-610,312
Profit/Deficit	171,061
Profit/Deficit as % of costs	**28%**

Whilst BDL does not explicitly model Passivhaus, Lifetime Homes or 70/30 tenure split the outputs of its growth sensitivity analysis show that the scheme will be viable if growth occurs at the rates assumed with this scenario producing a profit on cost of 28%. As BDL requires a 20% profit the 8% above this , which equates to circa £48m, could be used to fund the additional policy requirements enabling the scheme to achieve all policy targets.

Further on in this report CBRE has modelled the scheme utilising BDL's growth assumptions but have included Passivhaus, a 70/30 tenure split and increased affordable housing provision in line with the steps contained within the viability review mechanism i.e. first review at 1,000 units and subsequent reviews at 750 unit intervals thereafter. The BDL model assumes affordable housing is increased at 1,000 unit intervals.

CBRE Review Of BDL Growth Assumptions

CBRE analysis of the viability, detailed in the next section, concurs with the approach applied whereby affordable housing quantum is grown over time. Our analysis that applied 30% from the outset showed the scheme to be unviable given the significant early investment in infrastructure and insufficient revenue being generated to enable finance costs to be repaid expediently. We found that delivering lower levels of affordable in the earlier phases has a impact on the cashflow. Our review of the BDL growth scenarios has therefore sought to the 2%pa cost growth and 3%pa value growth assumptions are reasonable.

BDL GROWTH ANALYSIS

2%pa Cost Growth

CBRE has reviewed cost forecasts published by cost consultants Mace, Gardiner Theobald and Arcadis. These companies are amongst the leading construction firms across the industry and they regularly publish forecast data. Each firm has produced a detailed report outlining the rationale behind their forecasts and the assumptions utilised to reach their conclusions. Below we produce a summary table showing the results of the forecasts – the detailed reports are available to download online.

Company	2019	2020	2021	2022	2023
Mace	1.50%	1.50%	2.50%	3.00%	3.00%
Gardiner Theobald Theobald	1.00%	1.25%	1.50%	1.50%	1.50%
Arcadis	3.00%	3.00%	3.00%	4.00%	4.00%
Average	1.83%	1.92%	2.33%	2.83%	2.83%

It should be noted that the forecasts are only provided for a 5 year period and when compiling their analysis all commentators caveat their outputs due to the currently unknown potential impact of Brexit and the uncertainty this creates when forecasting.

Historical Cost Trends

In addition to reviewing the forecasts CBRE has extrapolated historical data from the BCIS All In Tender In Tender Price Index and the Office for National Statistics (ONS) Construction Output Price Indices. Indices. The BCIS data covers the period from Q4 2005 to Q4 2017 and the ONS data covers the period the period between 2014 and 2018 .

BCIS All In Tender Price Index

The BCIS Cost Index shows cost increasing by 31% over the 12 years from Q4 2005 to Q4 2017 equating to average of 2.57% per annum. The ONS data is contained in the table below.

ONS Construction Output Price Indices

Year	% Change
2014	-3.1%
2015	1.1%
2016	2.4%
2017	2.6%
2018	3.6%
Average	1.3%

CBRE notes that the 2%pa assumption utilised by BDL sits broadly within the range identified by the the industry forecasts and the historic construction cost data collated by BCIS and ONS. BDL's 2%pa 2%pa growth assumption is deemed to be a reasonable assumption for sensitivity analysis purposes. purposes.

BDL GROWTH ANALYSIS

3%pa Value Growth

A similar exercise has been undertaken with regard to value growth forecasts. Information has been extrapolated from market reports published by property advisers CBRE, Savills and Jones Lang LaSelle. These firms are amongst the leading real estate advisory firms by market share within the UK and all have produced detailed reports that outline the rationale for their forecasts. The forecast data is summarised in the table below.

	2019	2020	2021	2022	2023
CBRE	1.50%	2.50%	3.50%	4.00%	1.50%
Savills	0.25%	2.75%	2.50%	2.25%	2.75%
Jones Lang	0.50%	1.00%	3.00%	3.50%	3.00%
Average	**0.75%**	**2.08%**	**3.00%**	**3.25%**	**2.42%**

As per the construction cost estimate forecasts are only provided for 5 years and all commentators cite the impact of Brexit as having an adverse impact on the ability to forecast. It is generally envisaged that growth will be muted over the next couple of years and will pick up from 2021 onwards.

Historic Value Growth – Land Registry Data

CBRE has reviewed historic average price data collated by the Land Registry for Fareham. In September 2009 the average price of a property in Fareham was **£191,276.** As of July 2019 the average price has increased to **£291,853**. Over this circa 10 year period the average property price has increased by 34% equating to an average of **3.4%** per annum.

The value growth rate of 3% pa applied by BDL is in line with the medium term range identified by the forecasters and is broadly in line with historic Land Registry data. On this basis CBRE considers the BDL value growth assumption to be reasonable.

Emerging Conclusions

The research undertaken by CBRE suggest that the growth rates applied by BDL are reasonable. If the BDL levels of growth can be achieved the scheme will be able to achieve full policy compliance to include 30% affordable housing, 70/30 tenure split, Passivhaus and Lifetime Homes.

CBRE VIABILITY ANALYSIS

WHOLE SCHEME

CBRE VIABILITY ANALYSIS – WHOLE SCHEME

In this section we summarise the results of the viability analysis that has been undertaken by CBRE. The scenarios modelled by CBRE are outlined below and are for the whole scheme.

It should be noted that all scenarios assume a phased delivery of affordable housing as per the BDL approach i.e. starting at 10% and increasing over time to give an average of 30% overall.

No Growth Scenarios

The scenarios modelled are outlined below and **exclude** cost and value growth.

1. Welborne Plan including CIL payments
2. Welborne Plan excluding CIL payments
3. Welborne Plan including CIL payments; Junction 10 costs capped at £20M
4. Welborne Plan excluding CIL payments, Junction 10 costs capped at £20M

Viability Results

SCENARIO	1	2	3	4
Gross Development Value	475,507	475,507	475,507	475,507
Cost Ex. Finance	(527,171)	(466,585)	(492,171)	(431,585)
Finance	(425,708)	(349,681)	(318,634)	(242,607)
Profit/Deficit	(477,372)	(340,759)	(335,298)	(198,685)
Profit/Deficit as % of costs	(50.1%)	(41.7%)	(41.4%)	(29.5%)

Scenario 1 - Welborne Plan including CIL payments

Key assumptions in this scenario include:-

- 30% affordable housing
- Affordable tenures 70% rented and 30% intermediate
- Passivhaus is included applied to 10% of dwellings
- 15% Lifetime Homes (no explicit allowance for this
- Scheme pays for junction costs assumed to be £80m for the purpose of this
- CIL is payable

From the viability analysis undertaken, the scheme is not able to support the payment of CIL, affordable housing, Passivhaus requirements and full contributions to the new junction as the generates a loss of circa £480m. The extent of this loss is distorted to an extent by the way in finance costs accrue in loss making schemes – circa £425m of the deficit can be attributed to costs. It should be noted that finance costs in all scenarios that produce a negative return will impacted in a similar way.

CBRE VIABILITY ANALYSIS – WHOLE SCHEME

Scenario 2 –Welborne Plan excluding CIL payments

The loss in this scenario is reduced to £340m but shows that the scheme still is unable to achieve the policy targets even with nil CIL applied.

Scenario 3 – Welborne Plan including CIL payments; Junction 10 costs capped at £20M

The loss in this scenario is reduced to £335m but shows that the scheme still is unable to achieve the policy targets even with the junction contribution capped at £20m.

Scenario 4 – Welborne Plan excluding CIL payments, Junction 10 costs capped at £20M

This scenario produces a loss of £198m which is significantly lower than the deficits in scenarios 1 to 3 however it still shows that the scheme is unable to deliver all policy targets.

Sensitivity Testing On Key Policy Variables

CBRE has also assessed the viability impact of varying the Welborne Plan policy requirements. The scenarios modelled are below and all are benchmarked against CBRE's Welborne Plan compliant scheme, but with no CIL and Junction 10 contributions capped at £20m, and no growth assumed i.e. scenario 4 above:

- Tenure mix 50:50
- Nil Passivhaus
- Affordable Housing at 10% with tenure mix 70/30
- Affordable Housing at 20% with tenure mix 70/30

Lifetime Homes – Assumption Applied For Viability Purposes

According to the Lifetime Homes website to achieve Lifetime Homes there are 16 design criteria that need to be met. This includes design features that increase ease of access such as level thresholds and wider doorways, lit and covered entranceways and good accessibility throughout the home.

The financial impact of Lifetime Homes is difficult to assess from a viability perspective at this stage of the scheme given that detailed design has not been undertaken and assumptions are made regarding the average size of units that will be delivered. It will therefore require the input of architects/design consultants in order for this to be analysed.

The Lifetime Homes website provides a range of indicative costs estimates for achieving compliance ranging from £550 per unit to £1,500 per unit. CBRE notes that these estimates are historic ranging in date from 1997 to 2007. Given the age of the cost information and lack of detailed design CBRE considers it difficult to accurately assess what the impact of Lifetime Homes maybe. We therefore are unable to carry out the analysis including an explicit allowance for Lifetime Homes. Instead we provide commentary on the ability of the scheme to afford additional costs or not.

CBRE VIABILITY ANALYSIS – WHOLE SCHEME

Passivhaus House - Assumption Applied For Viability Purposes

Passivhaus House units provide a high level of sustainability whereby the units use lower levels energy for heating and cooling the properties achieving a circa 75% reduction in space requirements. BDL state that the cost of achieving Passivhaus could add 10% to 30% to the and CBRE's Building Consultancy Department concur that this is a reasonable assumption to high level viability analysis. For the purposes of assessing viability with Passivhaus included assumed a 15% uplift in costs.

Sensitivity Testing Results – Key Policy Variables

	Base Case	Tenure mix 50:50	Nil Passivhaus	10% Affordable Housing	20% Affordable Housing
Gross Development Value	475,507	521,499	489,938	584,114	530,639
Cost Ex. Finance	(431,585)	(431,585)	(431,585)	(431,585)	(431,585)
Finance	(242,607)	(186,356)	(216,947)	(155,668)	(183,426)
Profit/Deficit	(198,685)	(96,443)	(158,595)	(3,140)	(84,372)
Profit/Deficit as % of costs	(29.5%)	(15.6%)	(24.5%)	(0.5%)	(13.7%)
Change v Base Case	**n/a**	**+102,242**	**+40,090**	**+195,545**	**+114,313**

The table shows the net impact on profitability as a result of varying the key policy requirements. It should be noted, as per previous comments, that it is the way in which finance costs accrue in loss making scenarios that has the largest impact on viability a shown in the finance row in the table above.

To assess the net impact of varying the policy requirements, pre finance, one may wish to examine/review the Gross Development Value line. This effectively shows the impact on the amount that will be paid for the land by house builders to BDL as a result of the policy change. For example altering the tenure mix from 70/30 to 50/50 for the whole scheme could generate circa £46m of additional revenue. Alternatively removing Passivhaus could generate circa £14m of additional revenue across the whole scheme

Cost/Value Growth & Placemaking

CBRE has conducted further analysis to show the impact on the scheme of cost and value growth. In addition we also seek to assess the impact that placemaking could have on viability. All scenarios in this section are based on the Welborne Plan requirements excluding CIL payments and Junction 10 costs capped at £20M as per scenario 4 on the previous page. The analysis is also undertaken on the basis of affordable housing quantum increasing over the life of the scheme.

Cost and Value Growth

In a previous section we reviewed the BDL 2% pa cost and 3% pa growth assumptions. Based on the information available we concluded that the growth assumptions applied are reasonable but must also state that there is no guarantee that growth will be achieved. Also BDL did not explicitly model Passivhaus, 70/30 tenure split nor increase affordable housing provision as per the intervals within the review mechanism. This scenario showed the scheme generated a profit of 28% on costs and good prospects for all Welborne Plan policy requirements to be delivered if growth occurred in the manner assumed by BDL.

CBRE VIABILITY ANALYSIS – WHOLE SCHEME

CBRE has modelled the scheme utilising BDL's growth assumptions but have included Passivhaus, a 70/30 tenure split and increased affordable housing provision in line with the steps contained within the viability review mechanism i.e. first review at 1,000 units and subsequent reviews at 750 unit intervals thereafter. The BDL model assumes affordable housing is increased at 1,000 unit intervals. The results of this are included in the summary table below.

Placemaking Premium

Through the viability discussions the developer's desire to deliver a high quality scheme was communicated with placemaking a key part of its delivery strategy. CBRE and the RICS in 2016 published a research document entitled "Placemaking and Value". The research found that placemaking does add commercial value, with greater premiums achievable in areas that already have a higher embedded new build value and where schemes contain more than 1,000 units.

Good placemaking techniques in high value areas can secure additional premiums of over 50%. This can be sustained over the long term as the reputation gathers pace. This was evident in large schemes that continued to sell new-build accommodation at a significant premium over a ten-year build period.

Placemaking is effective in lower-value areas too with schemes achieving a c. 20% uplift on local new build competition. Ambitious design committed to innovative architecture, high grade materials and high quality finish all help to drive the premium. Such schemes became aspirational places to live within both the local and broader market. The placemaking premium is one that is likely to be witnessed incrementally, as the development and location evolves rather than at one point in time during the construction programme.

Placemaking and Growth Viability Analysis

CBRE has modelled three scenarios to assess the impact of growth and/or placemaking. The first simply assumes that a 20% premium is achieved by the time the 1,000th home is delivered; the second assumes a 30% premium is achieved by the time the 1000th home is delivered; and the third assumes both a place making premium of 20% and BDL's growth assumptions.

20% and 30% is towards the lower end of the placemaking premium range and considered to be prudent sensitivity assumptions. The results are summarised in the table below and are benchmarked against CBRE's policy compliant scheme (scenario 4).

	Base Case No Growth	3% Value & 2% Cost Growth	20% Placemaking Premium	30% Placemaking Premium	20% Placemaking + 3% & 2%
Gross Development Value	475,507	726,780	567,758	610,435	851,700
Cost (ex. Finance)	(527,171)	(513,679)	(431,585)	(431,585)	(513,679)
Finance Costs	(425,708)	(120,280)	(111,164)	(75,047)	(70,903)
Profit/Deficit	(477,372)	92,822	25,008	103,803	267,119
Profit/Deficit as % of costs	**(50.1%)**	**14.6%**	**4.6%**	**20.5%**	**45.7%**

CBRE VIABILITY ANALYSIS – WHOLE SCHEME

The sensitivity analysis shows that the scheme is able to deliver all policy targets subject to achieving either a circa 30% placemaking premium or a combination of a placemaking premium and growth in line with BDL's assumption.

Viability Analysis Emerging Conclusions

The viability analysis undertaken in this section demonstrates that the scheme will not be able to afford all policy requirements on the basis of today's cost and values. It is therefore reasonable to concur with BDL's assumption that the scheme should not be liable to pay CIL and the junction contribution costs should be capped at £20m from a viability perspective.

The growth and placemaking scenarios show much better prospects for achieving the full policy targets and the outputs from this sensitivity testing demonstrate just how sensitive the project financial model is to changes in key assumptions. CBRE therefore considers it prudent to monitor the financial performance of the project as it progresses and for the assumptions to be replaced with actual costs and revenues for future viability reviews.

CBRE VIABILITY ANALYSIS
FIRST 1,000 UNITS

CBRE VIABILITY ANALYSIS – FIRST 1,000 UNITS

First 1,000 Units Viability

We have sought to assess the viability of the first 1,000 units via analysis of the cashflow. We have estimated the costs and revenues that maybe incurred by BDL during the delivery of the first 1,000 homes.

This scenario is based on BDL's proposal of 10% affordable housing, the junction costs capped at £20m and zero CIL, Passivhaus and Lifetime Homes. The results of this are summarised below

	First 1,000 Homes (£/m)
Gross Development Value	129
Cost	(252)
Profit/Deficit	(123)
Profit/Deficit as % of costs costs	(49%)

Emerging Conclusions – Viability of First 1,000 Units

Phase 1 is loss making due to the **£105m** of infrastructure and **£83m** of land acquisition and other costs, such as finance, incurred whilst the first 1,000 homes are being delivered.

The analysis shows that an alternative approach to delivery is required if the scheme is to achieve all policy targets. As such the approach suggested by BDL whereby 10% affordable housing, 50/50 tenure split, 0% Passivhaus, 0% Lifetime Homes are considered to be reasonable on viability grounds. Even with these metrics applied in the first 1,000 units the viability will be challenging. BDL must therefore deliver future phases in order to realise a profit and this is a relatively normal delivery profile for strategic sites with significant upfront infrastructure costs.

Based on the analysis undertaken CBRE concludes, from a viability perspective, that it is appropriate to vary the proposals from full policy on the grounds of viability for the first 1,000 units.

VIABILITY REVIEW MECHANISM

VIABILITY REVIEW MECHANISM

VIABILITY REVIEW MECHANISM

Given that the viability analysis shows that the scheme is unable to afford the policy targets from the outset a review mechanism has been proposed by BDL to enable viability to be assessed on an iterative basis. This enables viability to be assessed throughout the life of the scheme with the aim of achieving the full requirements of WEL17, WEL18 and WEL36. Key points to note from the viability review mechanism are:-

- First review to be completed following completion of the 1,000th residential unit and to occur at a frequency of 750 unit completions thereafter.
- The review will be in accordance with the agreed financial model and a number of agreed financial parameters. Over time, the actual costs and revenues will replace the original forecasts.
- In addition to 750 unit phase reviews BDL will provide an annual financial return statement as part of the monitoring arrangement with FBC providing information on expenditure and revenue.
- Any additional grant funding received may trigger a standalone viability review.
- Affordable quantum and tenure, Lifetime Homes and Passivhaus will form part of future viability reviews. FBC will have the ability to adjust and prioritise its requirements in relation to these items should the scheme not be able to afford them all.

- **Key Variable Inputs:**
    - **Revenue**: Revenue from all sales would be recorded, with the viability cashflow updated to track the ongoing viability of the project, ensuring that there would be regular capturing of any value growth within the appraisal.
    - **Infrastructure Costs:** Within the IDP provided there are a number of items that are subject to optimism bias. Tracking these costs throughout the development will allow greater clarity in relation to the actual costs associated with this development.
    - **Interest Rates:** Buckland allow for the review mechanism to incorporate Bank of England Base Rate + 5.25% subject to the rate used in future reviews be in line with prevailing market rates at the time of review. Given the reference to market rates at the time of review, CBRE believe that there is appropriate protection in place to ensure that at each review, the interest rate can be adjusted accordingly.
- **Key Fixed Inputs:**
    - Land Cost: Fixed at £100,000 per gross acre for each viability review (other than properties which are valued on an existing use value basis). CBRE has confirmed that this is reasonable.
- **Performance / Viability Measure:**
    - Profit on Cost is a widely used measure when assessing real estate development projects. Buckland have provided two targets, one for the first 1,000 units (14.4%), and another to be used as a benchmark at a scheme level assessment (20.0%).

The viability review mechanism has been subject to negotiation with BDL and CBRE considers that the final proposal put forward by BDL is reasonable from a viability perspective.

CONCLUSIONS

CONCLUSIONS

CBRE VIABILITY CONCLUSIONS

CBRE has reviewed the SWVR and benchmarked the assumptions made against market data to ascertain the reasonableness of BDL's approach. CBRE has also reviewed the inputs and outputs of the BDL financial model which underpins their approach to assessing the viability of the scheme. We have also analysed their approach against guidance contained in the NPPF and the NPPG regarding assessing viability for planning purposes. In addition we have held extensive discussions with the applicant on viability matters having reviewed previous iteration viability statements and financial models prepared by BDL. In consideration of the information provided by the applicant and CBRE's review of it we concur with the applicant's conclusions that:-

Whole Scheme

- The scheme cannot afford to pay both CIL and £308m of site wide infrastructure costs.

- If the BDL contribution towards M27 Junction 10 costs is increased beyond £20m it will adversely affect the viability of the scheme and the ability to meet the various policy requirements including providing 30% affordable housing overall.

First 1,000 Units

- The scheme can only afford to provide 10% affordable housing during the delivery of the first 1,000 units.

- The affordable mix for the first 1,000 units is split 50/50 between affordable rent and intermediate tenures on viability grounds

- Lifetime Homes and Passivhaus House requirements for the first 1,000 homes cannot be provided on viability grounds, although some Lifetime Homes may be provided depending on final design and/or potential to deliver it within the affordable housing working in partnership with a Registered Provider.

General

- A review mechanism is utilised going forward enabling the viability of achieving policy targets to be assessed throughout the life of the scheme.

- Sensitivity analysis shows a reasonable prospect of the scheme meeting all policy targets subject to growth projections being achieved, nil CIL and junction contributions being capped at £20m. The prospect of achieving the growth targets cannot be guaranteed and any value or cost growth that may occur will be reflected in the future viability reviews.