

WELBORNE – ADDENDUM, OCTOBER 2019.

INTRODUCTION:

CBRE has been instructed by Fareham Borough Council (FBC) to undertake further sensitivity analysis modelling in relation to the growth rates that were included as part of the assessment of viability of the Welborne Garden Village scheme.

Background

A planning application has been submitted by the Master Developer, Buckland Development Limited (BDL), for a new community of 6,000 new homes. In support of the planning application BDL submitted a Site Wide Viability Report (SWVR) which concluded on viability grounds 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

CBRE reviewed the viability evidence put forward by BDL and concurred with the points raised above. This Addendum builds on the initial work set out within the Viability Review previously submitted by CBRE.

Growth Analysis

Within its SWVR BDL assumes no growth in its base case which CBRE considers to be reasonable. However, it provides sensitivity analysis that shows the viability of the scheme if growth was to occur. When assessing the growth scenario BDL applies 3% value and 2% cost growth. CBRE reviewed the growth rates applied, benchmarked them against industry data and found them to be reasonable.

The purpose of the Addendum is to financially model the impact of different growth rates for build cost and values and assess the extent to which full policy compliance could be achieved. This will then be used to advise FBC on the level of growth that needs to occur to achieve the delivery of 30% affordable housing, a 70:30 tenure split, and Passivhaus and Lifetime Homes compliance.

In addition to cost and value growth analysis the impact of Placemaking is also financially modelled to demonstrate its impact on how full policy compliance could be achieved.

METHODOLOGY:

The methodology undertaken for the purposes of this Addendum remains consistent with the process applied within the original Viability Review whereby a residual master developer appraisal is undertaken.

The scenarios modelled by CBRE are outlined within the Growth Analysis section and are for the whole scheme. It should be noted that all scenarios assumed a phased delivery of affordable housing i.e. starting at 10% and increasing over time to give an average of 30% overall. The review timing remains consistent with that set out within the Viability Review, and is outlined below:

Review	Affordable Housing Units	Total Units Delivered at Review	Units Subject to Review
1	100	0	1,000
2	150	1,000	750
3	150	1,750	750
4	300	2,500	750
5	300	3,250	750
6	300	4,000	750
7	300	4,750	750
8	200	5,500	500
Scheme Total	1,800	30%	6,000

First 1,000 Units

Within the first 1,000 units of the scenarios analysed the assumptions agreed with BDL during the viability review are applied. Whereby, due to the significant upfront infrastructure requirements:-

- Affordable housing for the first 1,000 units is 10%
- The affordable mix for the first 1,000 units is split 50/50 between affordable/social rent and intermediate tenures
- There are no Lifetime Homes or Passivhaus for the first 1,000 homes

Whole Scheme

After the first 1,000 units CBRE has assessed viability based on achieving an average of 30% affordable housing across the scheme. This also assumes a 70:30 tenure split and also Passivhaus requirement fulfilment. As per the Viability Review, the Lifetime Homes requirements have not been financially modelled due to the level of information needed to assess this not being available. Other key assumptions applied to the whole scheme analysis are:

- 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

These assumptions were found to be reasonable during the original viability review.

GROWTH ANALYSIS:

In this section CBRE summarise the results of the viability analysis that has been undertaken. FBC have requested sensitivity analysis to be undertaken in respect of growth rates assumed for both the costs and values, using rates of 1% to 4% in respect of each. These growth rates are explicit and do not include the potential impact of

placemaking, which is analysed separately whereby a 20% and 30% placemaking premium is applied. Further scenarios are tested that combine both growth and placemaking.

When reviewing the outputs of the sensitivity analysis the scheme is deemed to be viable where a Profit on Cost figure in excess of 20% is achieved; this is the minimum profit level BDL have proposed for the Review Mechanism and is a rate consistent within viability guidance. Where the metric does not exceed 20% it is assumed that full policy compliance may not be achieved. The tables below therefore show the % profit on cost achieved within each scenario.

No Placemaking Considered

Profit on Cost (%) Sensitivity		Revenue Growth (%per annum)			
		1.00	2.00	3.00	4.00
Cost Growth (%per annum)	1.00	(22.5%)	(0.5%)	25.0%	51.2%
	2.00	(31.8%)	(13.6%)	10.9%	36.8%
	3.00	(39.9%)	(24.9%)	(3.9%)	21.8%
	4.00	(47.1%)	(34.6%)	(17.4%)	6.4%

20% Placemaking Considered

Profit on Cost (%) Sensitivity		Revenue Growth (% per annum)			
		1.00	2.00	3.00	4.00
Cost Growth (% per annum)	1.00	5.7%	30.3%	54.9%	81.2%
	2.00	(8.4%)	16.5%	41.4%	66.4%
	3.00	(20.8%)	1.9%	27.0%	51.9%
	4.00	(31.3%)	(13.0%)	11.6%	36.8%

30% Placemaking Considered

Profit on Cost (%) Sensitivity		Revenue Growth (%per annum)			
		1.00	2.00	3.00	4.00
Cost Growth (%per annum)	1.00	19.4%	43.3%	67.4%	95.6%
	2.00	5.6%	30.0%	53.7%	79.6%
	3.00	(9.2%)	15.6%	40.0%	64.1%
	4.00	(22.0%)	0.2%	25.2%	49.2%

CONCLUSIONS:

The financial modelling undertaken shows just how sensitive residual appraisals are to changes in the underlying assumptions. Whilst the analysis in this note focuses on the impact of varying the growth rates and placemaking premium, residuals are also very sensitive to general changes in costs, values and programme or phasing assumptions.

The sensitivity analysis shows that a combination of value and cost growth is required to achieve full policy compliance. CBRE has undertaken further analysis to assess what level of placemaking premium is needed to achieve full policy compliance when cost and value growth is applied at 2% and 3% respectively (as per BDL's growth scenario).

This showed that a **6%** placemaking premium is needed in addition to 3%pa value growth and 2%pa cost growth to enable full policy compliance to be achieved. This is based on the assumption that contributions to Junction 10 are capped at £20m, and that CIL is not applied to the development as per the findings of the Viability Review.

It should be noted that large strategic scheme such as Welborne Garden Village, are long term projects, and the viability modelling is very sensitive to what can appear to be small changes in the assumptions. The impact of placemaking analysed within this Addendum demonstrates that it is able to compensate for lower underlying market growth, however as outlined within the Viability Review, certainty cannot be placed on this occurring, due to the vast range of factors that can influence the level of placemaking premium achievable.

The viability review mechanism agreed with BDL is therefore key to enabling the performance of the development to be tracked over time. The forecasts within the financial model will be replaced with the actual costs and revenues. Improvements in viability will be captured and any additional revenue generated, after a 20% profit has been achieved, will go towards the target of achieving full policy compliance.