

Welborne Garden Village – Viability Statement 17 December 2020

Original Offer

The Site Wide Viability Report (SWVR) that was submitted in support of Buckland Development Limited's outline planning application (P/178/0266/OA) concluded, on 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 rent and intermediate tenures
- The scheme is unable to provide Passivhaus or Lifetime Homes for the first 1,000 homes

Despite the above, the Developer Return on Cost was calculated at 14.4% (significantly below market norms of 20% on Gross Development Value [GDV]), reflecting BDL's aspirations to deliver affordable housing where possible and desire to get the scheme underway delivering much needed homes.

A Viability Review Mechanism was proposed with the first review to take place after completion of the 1,000th residential unit and occur at a frequency of 750 unit completions thereafter, with additional affordable housing and other policy aspirations being delivered once BDL returns had reached normal market levels.

CBRE were instructed by Fareham Borough Council (FBC) to undertake a review of the SWVR and to review the costs contained within the Infrastructure Delivery Plan (IDP).

CBRE Viability Conclusions:

CBRE reviewed the SWVR and benchmarked the assumptions against market data. CBRE, also reviewed the inputs and outputs of the BDL financial model (the key tool for accessing the viability of the scheme). They analysed BDL's approach against guidance contained in the National Planning Policy Framework (NPPF) and the National Planning Policy Guidance (NPPG) regarding assessing viability for planning purposes.

CBRE concurred with the SWVR conclusions.

Current Position

Even though it is over 12 months since the Resolution to Grant was approved (16 October 2019) additional M27 funding has not been allocated and some existing funding (c£24m) has been reallocated elsewhere due to time constraints.

BDL has fully engaged with FBC, Hampshire County Council (HCC) and other organisations on completing the work required to sign the S106 agreement and expect to be able to sign shortly.

However, under the proposed planning conditions, works on site (other than for the M27 works) are not able to commence until full funding for the M27 works is identified.

Without the ability to start on housing and the other infrastructure work, BDL are unable to engage consultants for detailed design work for the first housing Reserved Matters Applications.

The local SME housebuilders are also unable to commit their resources to design schemes for which they cannot see certainty of delivery over the near future.

HCC may withdraw from acting as project sponsor for the M27 works and there is no guarantee that they will reengage if, and when, the funding issue is resolved in the future.

We can no longer wait for a solution to be delivered by others and, as local partners, BDL, FBC and HCC must together deliver a workable solution that can be implemented now.

Solution and Revised Offer

The solution that BDL propose is that the developer makes an additional contribution of £20m towards the M27 J10 works, resulting in a total developer contribution of £40m.

If the current HIF proposal of £30m can be confirmed on acceptable terms to FBC, then the works will be fully funded at a current cost estimate of £70m (£75m less £5m spent to date).

If HCC commit to delivering the scheme then, with the funding in place, a local solution would be achieved, something that the Secretary of State for Housing, Communities and Local Government has suggested is a desirable outcome.

With BDL increasing their contribution by an additional £20m, the viability modelling shows that affordable housing delivery would drop to 3% (0% if a normal market return were required) rather than 10% as in the current position.

However, BDL would be prepared to commit to a minimum affordable delivery of 10% across the scheme with a revised viability review mechanism.

We have had discussions with a local RP who should be able to make an early commitment to deliver an extra 10% (100 units) affordable housing during the first 1,000 units with an expectation that this level of support could continue over the life of the development.

BDL proposes the following offer:

- The scheme should not be liable to pay the Community Infrastructure Levy (CIL)
- The developer contribution towards M27 Junction 10 costs is capped at £40m
- Affordable housing should be 10% minimum
- The affordable mix is split 50/50 between affordable rent and intermediate tenures
- The scheme is unable to provide Passivhaus or Lifetime Homes
- Viability reviews held at 3,000, 3,750, 4,500, 5,250 and 5,750 dwellings

This will result in a Developer return on cost of only 1.5% which again reflects BDL's aspiration to deliver affordable housing above the level that is justified in viability terms.

The viability mechanism will now be as follows:

Revised Viability Mechanism

- The developer commits to provide a minimum 10% Affordable Homes
- **HIF Element**
 - A minimum developer return of 20% on Cost
 - 80% of any surplus above 20% on Cost will be used to repay the HIF funding (which repayment will be reinvested in on site affordable housing by FBC)

Once the HIF funding is fully repaid:

- **Planning Gain Element**
 - A minimum developer return of 20% on GDV
 - 50% of any surplus above 20% on GDV will be used to further boost the delivery of affordable housing up to a total of 30% including all other affordable
- Finance Rate – will be based on benchmarked prevailing market rates for the Cost of Capital appropriate for the project and will be reviewed on a regular basis
- The maximum affordable housing delivered will be 40% in any single phase and 30% overall
- Where any phase is able to deliver in excess of 30%, financial contributions may be made in lieu of onsite delivery subject to agreement by both parties
- The detailed workings of the mechanism will be secured in the S106 agreement

Attachments:

Viability models showing:

- Current Position – delivers 10% affordable with an initial developer return of 14.4%
- Current Position with extra £20m contribution – delivers 3% affordable with a developer return of 14.4%
- Proposed Position – delivers 10% affordable with an initial developer return of 1.5%