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[redacted]

Your Reference: 16/00054/OUT

[redacted]

Date : 8 August 2017

Dear Helen

REVIEW OF DEVELOPMENT VIABILITY ASSESSMENT
ADDRESS: Land at Chesterton Farm, Granhams Lane, Cirencester, Gloucestershire

I refer to your formal instructions to carry out a viability assessment in respect of the above proposed development. We have been provided with the assessment undertaken by G L Hearn Limited and having now completed our own research and assessment would report as follows:

This report is not a formal valuation.

The date of assessment is 8 August 2017.

We have reviewed the Financial Viability Report undertaken by GL Hearn Limited dated July 2017

My assessment has been made by comparing the residual value of the proposed scheme with an appropriate benchmark figure having regarding to the National Planning Policy Framework and the published RICS Guidance Note into Financial Viability in Planning.

The principal objective of our Brief and the subject of this report is to review the viability assessment provided by GL Hearn Ltd to establish the viable level of affordable housing on site.

General Information

It is confirmed that the viability assessment has been carried out by Tony Williams, a RICS Registered Valuer, acting in the capacity of an external valuer, who has the appropriate knowledge and skills and understanding necessary to undertake the valuation competently, and is in a position to provide an objective and unbiased valuation assisted in respect of sales values by Katrina Collett.

Checks have been undertaken in accordance with the requirements of the RICS standards and have revealed no conflict of interest. DVS has had no other previous material involvement with the property.

The client will neither make available to any third party or reproduce the whole or any part of the report, nor make reference to it, in any publication without our prior written approval of the form and context in which such disclosure may be made.

You may wish to consider whether this report contains Exempt Information within the terms of paragraph 9 of Schedule 12A to the Local Government Act 1972 (section 1 and Part 1 of Schedule 1 to the Local Government (Access to Information Act 1985) as amended by the Local Government (access to Information) (Variation) Order 2006.

The report should only be used for the stated purpose and for the sole use of your organisation and your professional advisers. No responsibility whatsoever is accepted to any Third Party who may seek to rely on the content of the report unless previously agreed.

This report remains valid for 3 (three) months from its date unless market circumstances change or further or better information comes to light, which would cause me to revise my opinion.

Following the referendum held on 23 June 2016 concerning the UK's membership of the EU, the impact to date on the many factors that historically have acted as drivers of the property investment and letting markets has generally been muted in most sectors and localities. The outlook nevertheless remains cautious for market activity over the coming months as work proceeds on negotiating detailed arrangements for EU exit and sudden fluctuations in value remaining possible. We would therefore recommend that any valuation is kept under regular review.

Background:

I understand that this viability assessment is required following the outline application ref 16/00054/OUT:

Outline application (with all matters except Access reserved for subsequent consideration) for a mixed use development comprising demolition of existing buildings (as detailed on the submitted demolition plan) and the erection of up to 2,350 residential dwellings (including up to 100 units of student accommodation and 60 homes for the elderly), 9.1 hectares of employment land (B1, B2 and B8 uses), a primary school, a neighbourhood centre including A1, A2, A3, A4 and A5 uses as well as community facilities (including a health care facility D1), public open space, allotments, playing fields, pedestrian and cycle links (access points onto Tetbury Road, Somerford Road and Cranhams Lane) landscaping and associated supporting infrastructure to include vehicle access points from Tetbury Road, Spratsgate Lane, Wilkinson Road and Somerford Road

Various meetings have been held together with the exchange of information with GL Hearn Ltd (GLH) acting on behalf of the applicants Bathurst Development Ltd since December 2016 with a final Financial Viability Report being issued by GLH in July 2017 which proposes 30% Affordable Housing on the basis of a 65:35 tenure split between rented and shared ownership..

We understand that this site is being brought forward by Bathurst Development Ltd and totals approx 120.40 hectares gross (297.50 acres gross) and is currently in agricultural use and the primary access to the site is proposed from Tetbury Road to the west with secondary access proposed from Tetbury Road to the south west and Spratsgate Lane to the east.

We understand that the emerging Local Plan proposes some 2,350 new homes and 9.1 hectares of employment on this single Strategic Site Allocation (SSA) south of Chesterton, Cirencester.

In addition we are advised that although current policy provides for 50% affordable housing we understand that the emerging Local Plan requires 40% affordable housing on this site with a 70:30 tenure split between rented and shared ownership.

The Scheme:

We have been provided with the assessment undertaken by GLH which models both 40% affordable and 30% affordable. This report models 40% affordable of which 70% is rented and 30% is shared ownership and 30% affordable with a 65:35 tenure split.

The unit sizes have been provided by GLH but agreed with all parties and are compliant with the Nationally Described Space Standards. For the purpose of this assessment we assume the areas provided are correct as follows:

Scheme with 40% affordable Housing 70:30 Mix

Market Housing Mix:

Type	Number of Units	Unit Size Sq m	Unit Size Sq ft	Total Size Sq m	Total Size Sq ft
1 Bed Flat	38	51	550	1,942	21,139
2 Bed Flat	82	70	750	5,713	61,364
3 Bed Flat	20	88	950	1,765	19,067
2 Bed Terrace	164	74	800	12,189	130,909
2 Bed Semi	164	79	850	12,951	139,091
3 Bed Terrace	308	88	950	27,183	292,357
3 Bed Semi	308	95	1025	29,329	315,438
3 Bed Detached	33	102	1100	3,372	36,795
4/5 Bed Terrace	70	118	1275	8,292	89,800
4/5 Bed Semi	88	128	1375	11,241	121,054
4/5 Bed Detached	135	139	1500	18,813	202,491
Total	**1410**			**132,790**	**1,429,506**

Affordable Mix:

1) Affordable Rented

Type	Number of Units	Unit Size Sq m	Unit Size Sq ft	Total Size Sq m	Total Size Sq ft
1 Bed Flats	235	50	538	11,750	126,477
2 Bed House	235	79	850	18,565	199,834
3 Bed House	94	93	1001	8,742	94,099
4 Bed House (Social Rented)	94	115	1238	10,810	116,359
Total	**658**			**49,867**	**536,769**

2) Shared Ownership

Type	Number of Units	Unit Size Sq m	Unit Size Sq ft	Total Size Sq m	Total Size Sq ft
2 Bed House	188	79	850	14,852	159,867
3 Bed House	94	93	1001	8,742	94,099
Total	**282**			**23,594**	**253,966**

Scheme with 30% affordable Housing 65:35 Mix

Market Housing Mix:

Type	Number of Units	Unit Size Sq m	Unit Size Sq ft	Total Size Sq m	Total Size Sq ft
1 Bed Flat	45	51	550	2,295	24,662
2 Bed Flat	95	70	750	6,650	71,591
3 Bed Flat	23	88	950	2,024	22,245
2 Bed Terrace	191	74	800	14,134	152,728
2 Bed Semi	191	79	850	15,089	162,273
3 Bed Terrace	359	88	950	31,592	341,083
3 Bed Semi	359	95	1025	34,105	368,011
3 Bed Detached	39	102	1100	3,978	42,928
4/5 Bed Terrace	82	118	1275	9,676	104,767
4/5 Bed Semi	103	128	1375	13,184	141,230
4/5 Bed Detached	158	139	1500	21,962	236,150
Total	**1645**			**154,689**	**1,667,757**

Affordable Mix:

3) Affordable Rented

Type	Number of Units	Unit Size Sq m	Unit Size Sq ft	Total Size Sq m	Total Size Sq ft
1 Bed Flats	159	50	538	7,950	85,574
2 Bed House	159	79	850	12,561	135,207
3 Bed House	69	93	1001	6,417	69,073
4 Bed House (Social Rented)	71	115	1238	8,165	87,888
Total	**458**			**35,093**	**377,742**

4) Shared Ownership

Type	Number of Units	Unit Size Sq m	Unit Size Sq ft	Total Size Sq m	Total Size Sq ft
2 Bed House	176	79	850	13,904	149,663
3 Bed House	71	93	1001	8,742	94,099
Total	**247**			**22,646**	**243,762**

In addition there are the following commercial uses on site which are included on each appraisal:

Use	Total Size Sq m	Total Size Sq ft
B2/B8	13,006	139,995
B1	30,658	330,000
Convenience Retail	2,000	21,528
Total	**45,664**	**491,523**

Viability Assessment:

This report deals with each major input into the viability assessment of the scheme. This assessment has been undertaken following our own research into both current sales values and current costs. We have used figures put forward by GLH if we believe them to be reasonable.

GLH have used an Argus Developer toolkit, which is an industry recognised appraisal toolkit, to access the Scheme. I have reviewed all of the inputs and the toolkit itself and I'm prepared to use the same appraisals as agreed.

We would summarise our assessment of the Scheme as follows:

1) **Development Value –**

a) Private Residential:

GLH have undertaken research into sales values in the region and suggest that an average of £305 per sq ft (£3,283 per sq m) is appropriate for the scheme.

We have carried out our own research into the current market value of the proposed units using our own internal data base of units sold and market details on various web sites together with our experience of large multi phased schemes and are prepared to adopt £305 per sq ft (£3,283 per sq m) as reasonable in the current market with the following sales values:

Type	Size	Proposed Value	Rate
1 Bed Flat	550 sq ft 51 sq m	£155,000	£282 per sq ft £3,033 per sq m
2 Bed Flat	750 sq ft 70 sq m	£195,000	£260 per sq ft £2,799 per sq m
2 Bed Terrace	800 sq ft 74 sq m	£225,000	£281 per sq ft £3,027 per sq m
2 Bed Semi	850 sq ft 79 sq m	£235,000	£276 per sq ft £2,976per sq m
3 Bed Terrace	950 sq ft 88 sq m	£300,000	£316 per sq ft £3,399 per sq m
3 Bed Semi	1025 sq ft 95 sq m	£320,000	£312 per sq ft £3,360 per sq m
3 Bed Detached	1100 sq ft 102 sq m	£335,000	£305 per sq ft £3,278 per sq m
4/5 Bed Terrace	1275 sq ft 118 sq m	£400,000	£314 per sq ft £3,377 per sq m
4/5 Bed Semi	1375 sq ft 128 sq m	£435,000	£316 per sq ft £3,405 per sq m
4/5 Bed Detached	1500 sq ft 139 sq m	£475,000	£316 per sq ft £3,409 per sq m

For the Scheme with 60% market units the total sales value of the 1,410 market units is agreed at £436,070,700.

For the Scheme with 70% market units the total sales value of the 1,645 market units is agreed at £508,749,150.

b) Affordable Housing:

We understand that the Policy level of affordable housing is 50% however due to the emerging local plan we have adopted 40% as policy compliant with a tenure split of 70% rented and 30% shared ownership in accordance with the schedule of accommodation on page 3. The mix of unit types and sizes has been agreed whilst in respect of tenure the 4 bed rented units will be social rent rather than affordable rent following discussions with Anwen Hughes, the Strategic Housing Manager at CDC.

Originally GLH sought offers from a number of registered providers and 2 offers where received. The highest was from Bromford Housing and following on from the agreed mix a revised offer was received based on £132 per sq ft (£1,421 per sq m) for rented units and £205 per sq ft (£2,207 per sq m) for shared ownership units.

From our knowledge of the area and our dealings with the RP's we would normally consider the affordable values in the range of 40% to 50% for rented units and 60% to 70% for shared ownership units. Since the offer represents 43% for the rented units and 67% for the shared ownership units we are prepared to accept these as reasonable in the current market.

The total value for the 40% affordable scheme is agreed at £122,995,992 which is a blended average of £156 per sq ft (£1,679 per sq m) or 51% of market average whilst for the 30% affordable scheme the total is agreed at £94,578,492.

c) Ground Rents:

We have included for ground rents on all private flats on the basis of £250 per annum per flat capitalised at 5% less purchaser's costs which is agreed with GLH.

A total of £815,000 less purchaser's costs has been included.

d) Commercial:

Both parties have undertaken research as to commercial values in the region and have adopted the following values:

B2/B8 Industrial/Storage/Distribution – Rental of £8.00 per sq ft (£86 per sq m) capitalised at 7.5% (less purchaser's costs) with a rent free period of 12 months.

B1 Business – Rental of £14 per sq ft (£150 per sq m) capitalised at 6.75% (less purchaser's costs) with a rent free period of 12 months.

Convenience Retail – Rental of £17.50 per sq ft (£188 per sq m) capitalised at 6.5% (less purchaser's costs) with a rent free period of 12 months.

A total of £83,803,553 has been included as reasonable less purchaser's costs.

e) **Gross Development Value (GDV)**

For the proposed scheme with 40% affordable houses the agreed total GDV is £638,824,638 as follows:

Type	No of Units	Total Value £
Private Units	1410	£436,070,700
Affordable Units	940	£122,995,992
Ground Rents		£815,000
Commercial		£83,803,552
Less Purchasers Costs		-£4,860,606
Total	**2,350**	**£638,824,638**

The total for the scheme with 30% affordable housing is agreed at £683,205,588.

2) Development Costs -

a) **Build Cost:**

1) **Base build Cost**

GLH have been provided with budget construction costings prepared by Aecom for the base build costs plus separate costings for the infrastructure.

In addition there has been considerable discussion in respect of the Cotswold Design Code since this adds to the base build costs. Following on from this discussion the following material mix has been agreed:

Stone – 33.33%
Reconstituted Stone – 33.33%
Brick and Render – 33.33%

Taking this into account GLH have used the following base build rates:

Residential - £1218 per sq m (£113.20 per sq ft)
B2/B8 - £670 per sq m (£62.24 per sq ft)
B1 - £928 per sq m (£86.21 per sq ft)
Convenience Retail - £1292 per sq m (£120 per sq ft)

We have taken advice from our internal QS on the base build costs and also considered in relation to current BCIS rates.

The current BCIS rates adjusted to the Cotswold area taking account of both the 5 year spread and defaults shows the following rates:

Residential (Housing Mixed Developments) – Average between median and upper quartile - £1210 per sq m (£112.4 per sq ft)
B2/B8 - £700 per sq m (£65 per sq ft)
B1 - £914 per sq m (£85 per sq ft)
Convenience Retail - £1247 per sq ft (£116 per sq ft)

Taking into account the advice from our QS, the current BCIS rates and the agreed mix of materials I'm prepared to accept the costs as adopted by GLH with a total base build cost of £296,623,037.

The base build costs do not include an allowance for external works and we have included 10% of the base build cost as reasonable and our QS has advised that it does not include any double counting with the Infrastructure Works

The total external works at approx 10% equate to 29,175,500

2) **Infrastructure Costs/ Section 106 costs:**

An infrastructure cost plan has been provided which has been reviewed by our internal QS. In addition there has been detailed discussion as to the costs to be included and the actual cost allowances. The following costs have now been included as agreed:

Item	Cost - £
Education Projects	15,673,646
Community and Leisure Projects	7,449,805
Green Infrastructure and Open Space	6,554,265
Transport, movement and access	25,548,762
Utilities and Waste	23,189,914
Enabling Works	7,166,000
Professional fees and Surveys	7,079,470
Phasing and Temporary Works	1,389,928
Design development and contingency (5%)	4,186,056
Total	**£98,237,845** **Say £98,250,000**

This total equates to approx £41,803 per unit. The trigger dates for the contributions have been agreed with CDC and GCC whilst we have accepted the cash flow for the build elements as proposed by the applicants.

A detailed list of all items and the cash flow is included as Appendix 1.

b) Contingency:

We have included a contingency of 5% of build costs which is agreed as reasonable for an outline scheme.

c) Professional Fees:

We have included 8% of build costs for professional fees and compared to similar schemes is reasonable and is agreed although the GLH report refers to 10%.

d) Section 106 Costs:

Section 106 costs are included under Infrastructure costs and contained within the detailed list at Appendix 1 including the trigger dates and cash flow.

However GLH have also included for a retail CIL of £119,911.

e) Sale and Marketing Fees:

GLH originally adopted 2% for marketing fees, 1.5% for agency fees and 0.5% for legal fees. However we are of the view that the marketing fees should be 1.5% and the sale legal fees 0.25% when compared to similar schemes.

The following fees have now been adopted at this stage by both parties:

- Marketing Fees – 1.5%
- Residential Agency Sale Fees – 1.5%
- Commercial Agency Sale Fees – 1%
- Residential Legal fees – 0.25%
- Commercial Legal Fees – 0.5%
- Letting fees – 15%

We are of the view that these are all reasonable and representation of levels in the current market however GLH reserve their position on some of these.

f) Development Programme:

The development programme is based of the number of units that can be built and sold per year. The following programme is based on a start on site in 2018 with the number of units sold rising to a total of approx 220 units per year from 2 to 3 sales points on the site:

Infrastructure start – 2018
Construction – 2019 to 2031 or approx 13 years

Private Sales – 2019 to 2031 ie approx 13 years
Affordable Handovers – In line with private delivery

Overall this equates to an average of approx 125 private units per year or 10.5 units per month assuming two to three sale points.

g) Finance costs:

We have adopted an all-inclusive finance rate of 7% which is agreed with GLH and is representative of the current market.

h) Developers Profit:

For private residential schemes we would normally adopt a profit level of between 15% and 20%, and we believe that a profit level of 17.5% for this scheme is reasonable and reflects the risk involved taking into account the current market conditions and requirements for infrastructure with 6% for the affordable element due to the reduced risk on the basis of a forward sale to an RP and has been agreed with other house developers on similar schemes.

GLH are of the view that an acceptable return for a development of this nature is 20% on the market units with a reduced rate of 6% on the affordable units. However they are prepared to model on the basis of our inputs.

i) **Land Value:**

Following various appeal cases it is well established that viability assessments are carried out in order to calculate the residual land value that the scheme can afford which is then compared to the market value of the site taking account of The RICS Guidance note, Financial Viability in Planning, 1st edition and NPPF.

GLH have had regard to the Councils own viability work in respect of the emerging local plan with £475,000 per gross hectare for green field sites or approx £200,000 per gross acre.

However we are of the view that for a site of this size with extensive infrastructure works and contributions which amount to approx £42,000 per unit this should reduce the land value to between £150,000 to £175,000 per gross acre (£375,000 to £450,000 per gross hectare) and still provide a competitive return to the landowner.

However after detailed discussions with the Council and the Applicants a land value based on £150,000 per acre gross has been adopted for modelling purposes.

The Benchmark Land Value adopted is therefore £44,625,000

In addition both stamp duty and agent/legal fees have been allowed at up to 5% and 1.5% respectively.

Overall Assessment and Recommendations:

This review of viability has been undertaken following detailed research as to both values and costs and discussion with both GL Hearn and the Council. The report that has been prepared by GL Hearn represents agreement on most of the inputs however some inputs including the level of profit and the benchmark land value are not agreed but used by GL Hearn for modelling purposes.

Over the course of a period of approx 9 months we have imputed into the appraisal process and GL Hearn have now adopted most of our inputs. This report represents a review of the Financial Viability of the scheme and concludes the following:

Policy Compliant Scheme with 40% affordable Housing with a 70:30 mix – The appraisal of this scheme shows a residual land value of £26,266,102 or approx £88,300 per acre (£218,000 per hectare). This is not viable against the benchmark of £44,625,000 and shows a shortfall of approx £18,360,000 before finance.

Policy Compliant Scheme with 30% affordable Housing with a 65:35 mix – The appraisal of this scheme shows a residual land value of £41,537,261 or approx £140,000 per acre (£345,940 per hectare). This is only marginally viable against the benchmark of £44,625,000 and still shows a shortfall of approx £3,087,000 before finance.

When undertaking viability reviews of large schemes if viability is an issue we normally suggest that review mechanisms are incorporated into the section 106 to capture any growth in the market. However in this case it is problematic since the landowner will likely sell parcels of land to house builders and any risk of review will affect the land price and potentially reduce the viability further.

We assess that in this case the viable percentage of affordable housing is in the region of 25% on the basis of a 70:30 tenure mix and the 30% affordable scheme represents a reasonable premium to justify the exclusion of the review mechanism. However this still shows a deficit which is a risk to the developer.

The benefit to the developer is that any land sale in the future is de-risked since there is no review mechanism but also benefits the Council since the level of affordable housing is guaranteed at a greater level than is currently viable.

I trust this report deals with the issues as required but please do not hesitate to contact me if you have any queries or require any further assistance and we would be able to attend a further meeting if required.

Yours sincerely

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Appendices

Appendix 1	Infrastructure Cost Plan No 18
Appendix 2	Scheme with 40% affordable Housing 70:30 Mix
Appendix 3	Scheme with 30% affordable Housing 65:35 Mix