

June 2019



Hyas

**North Essex Local Plans
(Section 1)
Viability Assessment Update**

Main Report

Executive Summary

Overall Summary & Key findings

1. Viability assessment is a process of assessing whether a specific site can be considered to be financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, landowner and developer returns.
2. This Viability Assessment Update Report considers the viability of the three proposed Garden Communities which are included in the shared Section 1 Local Plans prepared by the North Essex Authorities (Braintree District Council, Colchester Borough Council and Tendring District Council). It is an update of, and supplementary to, the previous Viability Assessment work published in 2017.
3. It has been prepared to address the matters raised through discussions at the Examination in Public in 2018 and incorporates updated and additional evidence that the North Essex Authorities have assembled in the intervening period. The study addresses the specific assumptions referenced by the Planning Inspector including the approach to contingencies, land costs, scheme financing and the pace of delivery.
4. There are many factors that will influence viability over time, and as such the analysis has considered a small number of high-level scenarios including a 'Reference Case' based upon current cost and value assumptions; 'Grant' related to securing funding from Government for early upfront strategic infrastructure, and 'Inflation' to recognise that over time all costs and values will be subject to inflation.
5. The overall key test of viability is to demonstrate sufficient competitive returns to landowners, developers and funders to incentivise them to bring land forward for development. Such returns must take into account the need for investment in strategic infrastructure and enable the delivery of policy compliant development, including appropriate levels of affordable housing. There are no fixed benchmarks as to what may be sufficient as sites such as the proposed Garden Communities have unique circumstances and infrastructure requirements incomparable to other schemes.
6. The analysis compares scheme costs against values to generate 'Residual Land Values' which can be considered as to whether they provide sufficient incentive beyond current, existing or acceptable alternative values for the land subject to potential redevelopment. The Garden Communities are proposed on predominantly greenfield land in agricultural use and are therefore of relatively low value.
7. The analysis demonstrates that all 3 proposed Garden Communities can be considered viable in that they are capable of producing Residual Land Values that will create significant uplift for landowners well in excess of existing/current values. This is

alongside generating sufficient profit for developers and investors to meet their requirements. With reference to each site assessed:

- The West of Braintree scheme produces the strongest position on viability under all modelled scenarios, due primarily to the area's strongest sales values;
 - Tendring Colchester Borders generates residual land values well in excess of existing use values, although the surpluses decrease when additional allowances for contingencies are at their highest. Should Grant be secured (such as via the current Housing Infrastructure Fund bid or any future equivalent funding opportunity) then viability is strong. Inflation would also have a major impact enhancing residual land values considerably;
 - The analysis shows that the Colchester Braintree Borders scheme is not capable of generating the required competitive returns to landowners under present day costs and values due primarily to the requirement for significant upfront investment in works to the A12. However, should the Housing Infrastructure Fund bid be successful (or wider Government funding secured) this would bring the site to a strong position. Inflation would have a major impact on this site and has the potential to drive significantly higher returns due to the longest delivery timescale.
8. The assessments reveal that for both Tendring Colchester Borders and Colchester Braintree Borders there is a degree of reliance on securing either Grant funding, and/or inflationary impacts. Such scenarios are both credible and realistic given the long history of Government support with infrastructure funding to enable housing growth, and trends in inflation over recent decades (including through periods of economic change and uncertainty).
9. It must also be recognised that the assessment work set out in this report presents a point in time consideration of viability that will need to be monitored and reviewed going forward. There will be a broad range of wider factors which will influence viability which may depress or enhance viability going forward. This study has taken a relatively prudent approach to many assumptions. Some aspects such as unforeseen costs or wider economic conditions may well depress viability. A wide range of other factors can improve viability over time such as enhanced value created through placemaking, construction cost efficiencies for example through the wider implementation of modular construction practices, inflation rates being higher than forecast, speedier delivery and ability to attract future Government investment.

Study Context

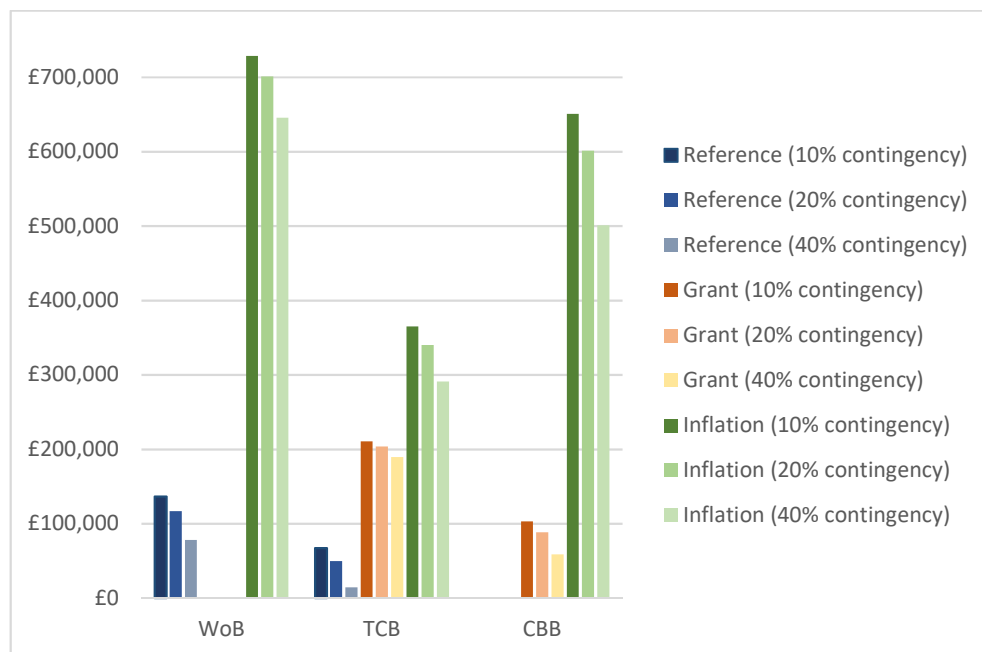
10. This North Essex Local Plans (Shared Section 1) Viability Assessment Update Report has been prepared by Hyas Associates Ltd to provide a comprehensive update of the previous assessment work prepared and published as part of the evidence base for the Shared Section 1 of the Local Plans for Braintree, Colchester and Tendring (collectively known as the 'North Essex Authorities').

11. As the core spatial component of the Shared Section 1, this Viability Assessment Update Report considers the viability of the three proposed Garden Communities namely the West of Braintree Garden Community, Colchester Braintree Borders Garden Community and Tendring Colchester Borders Garden Community.
12. The approach utilises the same viability model to enable consideration of 'residual land values' as a key measure of scheme viability. The models have been updated to provide additional functionality to reflect the full development timescales of the projects concerned and address issues and matters as considered via the Examination in Public hearing sessions, and subsequent correspondence received by the North Essex Authorities (NEA) from the Planning Inspector in June 2018.
13. In light of the time since the original assessment was undertaken (with the previous assessment considering information available from 2016/2017) a number of important assumptions have been reviewed, reconsidered and updated in light of more up to date information and additional evidence that has been assembled by the North Essex Authorities. This has included key aspects such as assumptions relating to residential sales values, build costs, strategic infrastructure costs, anticipated build out rates, treatment of contingencies, developer profit rates, and the consideration of inflation.
14. Since the previous assessment was prepared, the Government has issued updated national planning policy and practice guidance specific to the consideration of viability. The shared Section 1 Local Plans will continue to be considered against policy and practice guidance relevant at the time of Submission of the Local Plans (i.e. before the updated material became available), but it is appropriate for this Viability Assessment Update to be aware of key changes, as viability will need to remain a live process that will be subject to ongoing review and consideration as proposals evolve into the future. The updated policy and guidance provides further clarity and direction to the consideration of matters such as the treatment of benchmark land value. It also aims to standardise the approach to viability testing, which will be of direct relevance to the approach in North Essex through the production of future site specific Development Plan Documents and consideration of future planning applications.
15. Given the early stage of concept evolution of each of the proposed Garden Communities, the approach remains strategic in nature, which in line with policy & guidance is proportionate and pragmatic in its approach. The assessments draw upon the most up to date set of data sources and assumptions and continue to present a general consideration of viability based upon the best available evidence. They examine the viability of illustrative concepts together with a wider range of sensitivity and scenario testing to provide a broad overview of viability under alternative circumstances. The results are highly sensitive to the assumptions underpinning the analysis, which undoubtedly will be subject to change over time.

Viability of the Garden Communities

16. The core measure of viability entails a comparison of residual land values (after consideration of all scheme costs and values) to existing or realistic alternative values, to assess whether there is sufficient competitive uplift to incentivise landowners to bring sites forward for development. In addition, the models need to accommodate sufficient returns for developers to incentivise them to undertake direct construction activity.
17. As the Garden Community sites are greenfield in nature and in agricultural use, existing use values will be circa £10,000 per gross acre, with limited scope for alternative uses. Figure ES1 below sets out the summary findings of the Viability Assessment Update, illustrating the residual land values related to the various sites and scenario tests undertaken, which can be compared to such existing use values.

Figure ES1 Summary Residual Land Values by Scenario



18. The assessments reveal the following in relation to each of the proposed Garden Communities.
 - **West of Braintree Garden Community.** Under the Reference Case Scenarios residual land values range from £136,509/acre with 10% contingencies to £77,946/acre at 40% contingencies. The inflation scenarios all produce considerably higher residual land values beyond existing use values across all contingency rates, driven in part by the higher initial sales values and timescale of the development programme across over which inflation is compounded. No scenarios have been prepared to test the impact of securing Government grant funding for infrastructure as there are no live funding bids being considered.

- **Tendring Colchester Borders Garden Community.** Under the Reference Case Scenarios residual land values range from £67,394/acre at 10% contingencies to £14,529/acre at 40% contingencies. Should the current bids for Government funding via the Housing Infrastructure Fund be successful, residual land values would be lifted to between £210,504/acre at 10% contingencies to £189,411/acre at 40% contingencies. Inflation scenarios again produce considerably higher residual land values, albeit lower than the other sites due to the Garden Community having the lowest scale of development and shortest delivery timescale across which costs & value growth is compounded.
 - **Colchester Braintree Borders Garden Community.** The analysis indicates that under the Reference Case Scenarios the cashflow would be negative and therefore not achieve Existing Use Values. Should the current bids for Government funding via the Housing Infrastructure Fund be successful, residual land values would be lifted to between £102,913/acre at 10% contingencies to £58,702/acre at 40% contingencies. Inflation scenarios again produce considerably higher residual land values, which are strong due to the overall length of delivery timescale and application of cost and value growth over a considerably longer timeframe than the other 2 Garden Communities.
19. Additional analysis has been undertaken to consider returns in respect to the 'Internal Rate of Return' for any prospective master-developer and/or scheme funders taking account of the time/value of money through a discounted cash flow approach. This illustrates that rates of circa 7-10% are achievable based upon the scenarios as modelled which will exceed the anticipated average cost of finance.
 20. The test of viability is based upon the judgement of the achievability of such residual land values and consideration as to whether these provide suitable incentive to landowners to bring land to the market. There are no equivalent benchmarks against which such a judgement should be strictly applied, and it is not considered appropriate to define an arbitrary approach aligned with approaches from elsewhere which can not be considered as suitably comparable or relevant to the scale or context of the 3 Garden Communities under assessment.
 21. Consideration should therefore focus upon comparison to existing use or alternative uses for the sites that may be considered feasible. Agricultural land in the area is worth in the order of £10,000/acre and therefore sets a lowest possible benchmark for consideration. However judging viability against the equivalent existing use value does not recognise the need to incentivise landowners sufficiently for them to bring their land to market. It is difficult to accurately predict Alternative Use Values across the full site areas, although given the general location of the sites, they are generally unsuitable for redevelopment unless it was for large scale comprehensive redevelopment with associated infrastructure provision. The North Essex Authorities have the sites in the Shared Section 1 on the basis that such an approach is considered the most suitable. It therefore becomes a judgement as to the prospect of securing values in excess of any realistic alternatives.

22. The Viability Assessment Update has considered the various scenarios and shown under what conditions and circumstances certain scales of uplift can be achieved. The ultimate position cannot be fully predicated at this stage of the process, and an ongoing process of viability review will be needed to test proposals going forward.
23. The current analysis indicates that the West of Braintree scheme produces reasonably strong residual land values under the Reference Case scenarios even with the highest consideration of contingencies, with inflation driving far higher values over time.
24. Tendring Colchester Borders has lower residual land values, and the Reference Case indicates that higher contingencies would start to drive these down to a level akin to Existing Use Values. Should the current live Housing Infrastructure Fund bid be successful this would bring the site to a far stronger position. As per West of Braintree, inflation would also generate strong values.
25. Delivery of the 21,000 unit Colchester Braintree Borders is not capable of meeting Existing Use Values plus sufficient premium under present day costs and values and without investment to enable the implementation of upfront strategic infrastructure. However should the Housing Infrastructure Fund bid (or any future equivalent funding opportunity) be successful this would bring the site to a far stronger position. The impact of inflation would have a significant impact on this site and has the potential to drive significantly higher returns.

Wider considerations & influences

26. It is important to acknowledge that the judgement of viability ought also reflect on wider factors which will influence viability, and the position taken within this Viability Assessment Update which may change the analysis over time. Aspects which may depress or enhance viability going forward should also be born in mind when making an ultimate judgement over the potential residual land values that may be achievable and the associated consideration of long-term viability. Such further considerations will include:
 - The impact of any property market downturn and/or economic shocks which may depress sales values and/or reduce market demand and the associated build out rate. Historical trend analysis can provide some context to the likelihood and extent of such issues, with the property market over time showing a degree of resilience and growth to overcome time limited market corrections;
 - Currently unforeseen or underestimated costs. The schemes are at relatively early stages in terms of the technical design and therefore the range and scale of costs may not as yet be appropriately identified. This requires appropriate consideration for potential cost over-runs as well as ongoing adjustments to reflect future occupier/consumer behaviour and technological change (for example influencing movement and associated transport implications). There may

also be changes in construction practices which may reduce costs, such as through modular construction which could have a significant impact on future build costs;

- The impact of quality placemaking which may well deliver a value premium over and above values currently being considered. Any enhanced sales values would improve overall viability;
- Cost or value inflation not being consistent. A relatively prudent approach has been taken within this Viability Assessment Update within the inflation scenarios which assumes value growth matches but does not exceed cost inflation. This is inconsistent with historical data and trends, albeit there can be no assurance that such trends would continue indefinitely into the future. Should sales values outpace costs this will have a significant impact on viability, with the converse also being true;
- The assessments have incorporated the current view on scheme delivery rates, which is in part informed by historical evidence and projects not truly comparable in scale or kind to the sites subject to this study. Any improvements in delivery rates would have a considerable impact on viability through reducing the development programme and overall financing costs. Site promoters are likely to intend to deliver the sites at a faster rate than as assumed within this study;
- The delivery model itself which may enable more efficient scheme delivery. For example, development may come forward under build under licence / lease arrangements to streamline delivery processes and enable savings such as through tax efficient approaches;
- There have been numerous funding initiatives implemented by Government in recognition that large scale strategic growth has additional challenges, in particular in relation to the need for early funding and delivery of strategic infrastructure. This includes initiatives such as the Local Infrastructure Fund, Large Sites Infrastructure Fund, Home Building Fund and the more recent Housing Infrastructure Fund. Given the importance of improving housing supply, and an ongoing recognition of the significance of delivery from large sites, it is reasonable to anticipate that such funding opportunities would continue to emerge over time to address any particular challenges as they may occur.

27. In conclusion, this Viability Assessment update report provides a comprehensive review of the current viability position across the sites, and addresses the issues and matters raised through the Examination in Public. It sets out the range of scenarios and resulting residual land values to enable consideration of viability.
28. It sets out that when considering the overall costs and values over the lifetime of the projects, residual land values are generated through the various scenario tests which are well in excess of Existing Use Values and can be considered to provide a sufficient return (premium) beyond reasonable alternatives to stimulate the market. The sites can be considered viable under a number of rational and reasonable defined scenarios.