

## **Viability Appraisal for a Rural Exceptions Site**

### **'GRENESTRETE'**

School Road  
Copford  
Colchester  
Essex  
CO6 1BX

#### **Co-authors;**

**Peter O'Donnell** of 2008 Angora Bare Trusts, the applicant, landowner and developer. Peter is a resident of Copford, an active community member who is endeavouring through 'Grenestrete' to meet some identified local need for housing.

**Jeremy Harrall** PhD, is the Agent and designer of 'Grenestrete'.

'GRENESTRETE' is a proposed residential development of 623m<sup>2</sup> floor area, providing seven homes (5 affordable, 2 open market) on an acre of land for a proposed Rural Exceptions Site in the Essex village of Copford.

In partial fulfilment of the Rural Exceptions Site criteria, this Viability Appraisal has been prepared in support of 'Grenestrete', a proposed development on School Road, Copford. Provided within this document is the financial justification to include open-market housing in delivering the proposed Rural Exception Site (*subject to Planning Consent*). Also provided is a suite of accompanying Excel Worksheets to determine the number of open-market houses required to facilitate the delivery of five affordable homes in meeting some of the identified need in the 2020 Housing Need Survey.

'GRENESTRETE' is a development of 623m<sup>2</sup> total floor area across 7 homes providing a total of 15 bedrooms.

The greater quantity of floor area is provided by the Affordable homes, 321m<sup>2</sup> gross floor area with a total of 7 bedrooms.

The two open market homes gross floor area is 292m<sup>2</sup> providing 8 bedrooms (*see Table 1: Accommodation, below*) two 4-bed (detached) homes, two 2-bed (semi) homes and three 1bed (terraced) homes.

#### **LOCAL NEED DEMONSTRATED**

A local need for Affordable Housing in the settlement of Copford has been demonstrated by way of a recent local Housing Needs Survey<sup>1</sup> (HNS) undertaken by Rural Community Council of Essex<sup>2</sup> (RCCE) on behalf Copford Parish Council in January 2020. In delivering part of that HNS it is proposed to develop a Rural Exceptions Site adjacent Copford Village Hall.

Of the 679 forms distributed by post, 167 survey forms were returned, representing a 25% response rate in line with the county average.

<sup>1</sup> Rural Community Council of Essex (RCCE) *Housing Needs Survey Copford and Easthorpe*. July 2020.

<sup>2</sup> <https://www.essexrcc.org.uk>

<b>Table 1:- SCHEDULE OF ACCOMMODATION; GRENESTRETE', Seven Houses on 1.18 acre (0.42Ha)</b>	
<b>Affordable Homes;</b>	
○	Three x 1bed terraced 55 sq metres
○	Two x 2bed (semi-detached) 78 sq metres
321m2 Gross floor area and 7 bedrooms	
<b>Open Market Homes</b>	
○	Two x 4bed (semi-detached) 146 sq metres
292m2 Gross floor area and 8 bedrooms	
<b>24 Parking Spaces</b> including 4 visitor spaces	

Table 1

RCCE concluded the HNS identified 8 affordable rented housing units of which there is a requirement for six 1 bed units and two 2 bed units. An additional one shared-ownership dwelling was identified from the survey. Another five households were considered capable of accessing open market housing.

As at July 2020, the Colchester Borough Council Housing Register<sup>3</sup> data indicates there are 7 applicants currently on the housing register who have stated a local connection to Copford.

#### PRE-PLANNING & PLANNING POLICY

Rural Exceptions Sites are supported by Policy H4<sup>4</sup> in Colchester Borough Council's Adopted Local Plan and Policy DM8 in the Emerging Local Plan. The proposal for a RES in Copford has previously been through the Pre-Planning process Ref: 200822, 27<sup>th</sup> April 2020.

#### METHODOLOGY FOR CALCULATING VIABILITY

Using the methodology outlined in Colchester Borough Councils (CBC) Policy H4 in its Adopted Local Plan and Policy DM8 in the Emerging Local Plan, it has been possible to determine the number of open-market homes that are required to support the Rural Exceptions Site proposal known as 'Grenestrete'.

CBC's recommended methodology is articulated in the accompanying suite of three Excel Worksheets<sup>5</sup>. Sheet 1 starts with 100% affordable (5 homes) housing, the subsequent two sequential sheets introduce one open-market home at a time, until a point is reached where the delivery of the rural exception site becomes financially viable.

#### SENSITIVITY ANALYSIS: Excel Worksheets 1 to 3

A sensitivity analysis has been included at the end of each worksheet. It is thought prudent to test the financial appraisal due to the current unprecedented economic climate as the country emerges from the COVID19 global pandemic.

Each worksheet extends its development analysis to include for potential UK economic improvement and decline. It has been considered necessary to consider both national and international economic and political potential influences on the financial outcome of this project;

- Britain's central bank's attempts at avoiding 'last resort' negative interest rates and maintaining its benchmark borrowing rate at a record low of 0.1% (Thursday 6<sup>th</sup> August 2020)<sup>6</sup> It is not fully understood how the housing market may fair in 2022 if this unusual fiscal tension persists.

<sup>3</sup> <https://cbccrmda.blob.core.windows.net/attachment/CBC-Housing-Housing-and-Homelessness-Summary-Year-end-2019-20-Housing%20and%20Homelessness%20Summary%20Year-end%202019-20.pdf>

<sup>4</sup> Policy H4 Affordable Housing; 5.3 Housing Policies: Colchester Borough Council Adopted Plan

<sup>5</sup> Excel Workbook, 'GRENESTRETE'; Worksheets 1 – 5, 2020

<sup>6</sup> Business Insider. <https://markets.businessinsider.com/news/stocks/bank-of-england-holds-rates-warns-recovery-delayed-to-2021-2020-8-1029477011>

- UK Governments' predictions that UK economic growth is unlikely to recover to pre-pandemic levels until late 2022, while unemployment could take even longer to decline.
- OBR 2022 house price predictions range from 3.8% drop to 4.1% increase<sup>7</sup>
- UK budget deficit rose to £303 billion in April 2021 (14.5% of GDP) pushing public sector debt to over 2 trillion for the first time<sup>8</sup> compared with 1.8 trillion pounds in March 2020.
- In 2020 saw the UK return to a recession, "The U.K. is Officially In Recession After Suffering The Deepest Slump In Europe"<sup>9</sup> and still remains so.

*"The outlook for the UK and global economies remains unusually uncertain. It will depend critically on the evolution of the pandemic, measures taken to protect public health, and how governments, households and businesses respond to these factors."*<sup>10</sup>

Due to the pervading uncertainties within the economy, it is considered prudent to review a wider range of 'What if's', more than is normal for such exercises.

Those wider range of sensitivities included in the viability appraisal are;

1. House Price Drops;
  - Development Profit (3.8% drop in 2022)
  - Development Profit (8% drop in 2022)
2. House Price Increase;
  - Development Profit (3.8% increase in 2022)
  - Development Profit (4.1% increase in 2022)
3. Construction Cost Increase;
  - Development Profit (3.5% increase by Q1 2022)
  - Development Profit (5% increase by Q1 2022)
  - Development Profit (8% increase by Q1 2022)
4. Construction Cost Increase & House Price Drop;
  - Development Profit (5% increase & 4.1% drop by Q4 2022)

#### REGISTERED PROVIDERS

Discussions via email and virtual platforms continue with four registered providers Cotman Housing association and Chorus Homes (part of Places for People) Hastoe Housing and Haig Housing. Those meetings to date include;

1. **Places for People** site visit 13<sup>th</sup> November 2019
  - Chris Phillips (Chairman PFP)
  - Lynette Lackey (Chair Regulated PFP)
2. **Chorus Homes** at HQ, Huntingdon 26<sup>th</sup> September 2020 and Teams Meeting 10<sup>th</sup> August 2020
  - Nigel Finney (Managing Director Chorus Homes) and acting MD for Cotman Housing Association
3. **Haig Housing**, Teams Meeting Thursday 11<sup>th</sup> June 2020

<sup>7</sup> Office of Budget Responsibility, 2020. <https://obr.uk/forecasts-in-depth/the-economy-forecast/housing-market/>

<sup>8</sup> Office of Budget Responsibility, UK Government, <https://obr.uk> July 2020

<sup>9</sup> Forbes August 12<sup>th</sup> 2020, <https://www.forbes.com/sites/isabeltogoh/2020/08/12/the-uk-is-officially-in-recession-after-suffering-the-deepest-slump-in-europe/#39c57480550c>

<sup>10</sup> Monetary Policy Report, August 2020. Bank of England



- John Lau (Director, Housing and Development)
  - Scott Bashford (Development Manager)
4. **Hastoe Housing, Teams Meeting 3<sup>rd</sup> June 2020**
- Sophie Robinson (Development Manager)

These registered providers have experience in delivering affordable housing in rural areas and work within an agreed framework. They know how to prioritise and allocate dwellings in rural areas. The dwellings will be allocated to persons with a local connection to the Parish who are in need of an affordable dwelling and are unable to obtain a property on the open market.

## JUSTIFICATION

Providing Colchester Borough Council with this viability appraisal involved reviewing the financial scenarios of the Rural Exceptions Site development with 100% Affordable Housing and then sequentially adding an open market dwelling until the project becomes viable.

The provision of affordable housing is proposed to be supported by the delivery of two open market homes on this RES. Financial justification for introducing those open market houses into the Rural Exception Site is explored in the suite of Excel Worksheets. Below is a synopsis of those financial reviews starting with 100% Affordable Housing and finishing with two open market houses.

Each subsequent worksheet then introduces one open market unit at a time until a point is reached where the delivery of the rural exception site becomes viable.

### 'GRENESTRETE' SHEET 1 (Appendix Item 1)

#### 100% Affordable Housing (5 homes)

With no open market houses included in 'Grenestrete', the project sustains a financial loss.

<b>'GRENESTRETE' Financial Viability Appraisal: 100% Affordable</b>		
	<b>PROFIT</b>	<b>%ROI</b>
5 Affordable Homes	-(£231,942)	-(26%)
OBR 4.1% house increase 2022	-(£205,373)	-(23%)
OBR 3.8% house decrease 2022	-(£256,565)	-(29%)
5% construction increase & 4.1% house drop	-(£302,506)	-(34%)

-(£231,941) is the development deficit from constructing five Affordable Houses with no open market houses. In this scenario the project generates a loss of – (26%)

A 4.1% house price increase by Q4 2022 is near the upper range of OBR's economic scenario, producing a reduction in the project deficit to – (£205,373)

£648,000 is the anticipated total sales receipt for 'Grenestrete's five Affordable Houses sold with a 40% discount.

### 'GRENESTRETE' SHEET 2 (Appendix Item 2)

#### 1 Open Market House & 5 Affordable Houses: Excel Worksheet 02

Introducing one 4bed open market house to 'Grenestrete' reduces the deficit of the project while still sustaining a financial loss.



<b>'GRENESTRETE' Financial Viability Appraisal: 1 OM House/5 Affordable</b>		
	<b>PROFIT</b>	<b>%ROI</b>
1 Open Market House & 5 Aff.	-(£14,130)	-(1%)
OBR 4.1% house increase 2022	£10,265	0.8%
OBR 3.8% house decrease 2022	-(£61,363)	-(£4.9%)
5% construction increase & 4.1% house drop	-(£127,949)	-(£10%)

-(£14,130) is the development loss from constructing five Affordable Houses with one open market 4bed house introduced to the project. In this scenario the project generates a loss of - (1%)

A 4.1% house price increase by Q4 2022 is near the upper range of OBR's economic scenario, producing a project profit of £10,265.

### **'GRENESTRETE' SHEET 3 (Appendix Item 3)**

#### **2 Open Market Houses & 5 Affordable Houses: Excel Worksheet 03**

Introducing two 4bed open market houses to 'Grenestrete' provides a small financial profit

<b>'GRENESTRETE' Financial Viability Appraisal: 2 OM Houses/5 Affordable</b>		
	<b>PROFIT</b>	<b>%ROI</b>
2 Open Market Houses & 5Aff	£168,000	10%
OBR 4.1% house increase 2022	£216,775	13%
OBR 3.8% house decrease 2022	-(£98,141)	-(5.9%)
5% construction increase & 4.1% house drop	-(£9,126)	-(0.6%)

£168,000 is the development profit from constructing five Affordable Houses with two 4bed open market houses. In this scenario the project generates a profit of 10%.

A 4.1% house price increase by Q4 2022 is near the upper range of OBR's economic scenario, producing an increase in the project profit to £216,775.

£1,838,000 is the anticipated total sales receipt for 'Grenestrete with two 4bed houses (£1,190,000) and five Affordable Houses (£648,000)

### **VIABILITY APPRAISAL SUMMARY**

This Viability Appraisal demonstrates that the inclusion of two open-market houses as part of 'Grenestrete', can provide a modest profit of £168,000 giving a 10% ROI excluding any residual land value.

When the Office for Budget Responsibility (OBR) 2022 predicted economic scenarios are included, the project ROI ranges from 0.5% to 13% ROI.

In the event of an economic downturn (*the present recession continues*) the development project breaks even with a 0.55% ROI.

Only when introducing two open-market houses to 'Grenestrete' does the proposed Rural Exceptions Site of seven dwellings, generate a development profit.

With one less open-market property a development of six houses sustains a financial loss.



