LODGE FARM, RUGBY

Viability Report

January 2018

BACKGROUND

1.1 This report is an update from our November 2017 assessment due to further information now being available in relation to Section 106 and costs.

1.2 CBRE has been instructed to undertake a viability study on behalf of St Modwen Developments Limited (SMD), in support of the planning promotion for the development of the site known as Lodge Farm, Rugby. The site is proposed for allocation in the emerging Rugby Local Plan under Policy DS10 for up to 1,500 new homes (including affordable), a two-form entry primary school (with flexibility to expand to three form entry), local centre and GP surgery. SMD have prepared a Vision and Delivery Document (November 2017) which presents a Masterplan Framework for this development which includes land for employment uses, a care home and a new local centre including retail facilities, GP surgery and community facilities.

1.3 This document has been prepared to be submitted to the Examination process. Key viability assumptions and findings are detailed below.

1.4 Whilst it is recognised that the proposed development will evolve, the table below provides a land-use budget for the Lodge Farm Village Masterplan Framework (which forms the basis for the viability appraisal development assumptions):

Use	Hectares	Acres	Dwellings
Residential	43	106.25	1,500
Employment	2.04	5.04	-
Local Centre	1.46	3.61	-
School/Community	3.04	7.51	-
Primary Road	1.9	4.69	-
Green Infrastructure/POS/SUDS	52.79	130.44	-
Total Gross Area	**104.23**	**257.54**	**1,500**

Source- DEFINE

Viability Assessment

1.5 CBRE has undertaken a viability assessment to understand the financial viability and likely deliverability of the scheme as proposed using the residual method of appraisal. As part of this process we have considered the Rugby Borough Council Local Plan & Community Infrastructure Levy (CIL) Viability Assessment report prepared by Dixon Searle Partnership (dated July 2017), and have had regards to planning obligations, housing mix and tenure split.

1.6 For the purposes of the initial viability assessment, we have assumed a scheme of 1,500No. dwellings with 30% affordable housing (450No. dwellings). The affordable units will comprise 84% of Social or Affordable Rented tenure and 16% of Intermediate tenures.

1.7 The residual method of appraisal involves calculating the Gross Development Value (GDV) of the subject site once the proposed development has been completed. From that all costs incurred in reaching that stage are deducted. These include the build costs, site purchase cost, professional fees, legal and agent fees on acquisition and disposal, and the cost of finance. A developer would also wish to see an element of profit in taking the risk of acquiring a site and developing. This must also be deducted from the GDV.

1.8 To explain our methodology and calculations we shall split the residual appraisal into three parts:

- The calculation of GDV.
- The cost incurred in developing the site.
- The profit element anticipated by a developer.

Calculation of the GDV

1.9 In calculating our opinion of the GDV we have had regard to comparable evidence of recent sales of new homes in the Rugby area. We believe the total GDV of the completed market and affordable units within the scheme is in the order of £356 million on the basis they are completed to a suitable specification. This equates to an average value of £279 per sq ft for the open market housing and £134.48 psf for the affordable housing (blended).

1.10 The CIL Viability Assessment report undertaken by Dixon Searle Partnership utilises a sales value of £3,000 per sq m (£279 per sq ft). Our appraisal is therefore in line with this.

1.11 In addition to the residential GDV, we have assumed that the employment land will be sold fully serviced at £200,000 per acre (total GDV £1 million) and that the retail element of the local centre land will be sold to a specialist developer/retail operator in a fully serviced condition at £500,000 per acre (£1.8million total GDV). A value of £1m has been applied to the 100-bed care home element.

1.12 Overall this equates to a total gross development value of £359.8m.

Costs incurred in developing the site

1.13 In calculating the costs incurred in developing the site there is firstly the costs of construction as outlined below and the other costs associated with the acquisition including Stamp Duty Land Tax (SDLT) at the prevailing rate, agent fees at 1% and legal fees at 0.50%.

1.14 We have adopted build costs of £1,010 per sq m (£93.83 per sq ft) for the houses which is in line with the Dixon Searle Partnership report, however we do appreciate that this cost exceeds the level achieved by volume housebuilders. This produces a residential build cost of £137 million. We have therefore adopted these costings within our appraisal of the site and we have allowed for a 10% allowance for plot externals, 5% contingency on the build cost and 8% for professional fees. These assumptions are broadly in line with the CIL Viability report undertaken by Dixon Searle Partnership.

1.15 We have had regard to the S106 costs given in the CIL Viability report undertaken by Dixon Searle Partnership and have included these within our appraisal.

1.16 Wakemans have undertaken an infrastructure, abnormals and S106 combined cost plan for the site which equates to a total cost of approximately £61.54 million. This can be split as follows;

- Section 106 = £26,471,098 (£17,467 per dwelling)
- Abnormal and Infrastructure = £35,065,289 (£23,377 per dwelling)

1.17 The Section 106 cost stated above makes allowances for Education, Highways, Health & Community and Emergency Services in line with the draft IDP list.

1.18 We have also allowed for agent/marketing fees for the disposal of the market housing of 3% and of 1% on the affordable housing. We have allowed for £750 per unit for legal fees on the disposal of all housing. We have allowed for finance on the scheme at a debit interest rate of 6.0%. These assumptions are in line with the CIL Viability report undertaken by Dixon Searle Partnership.

1.19 The Local Plan Housing Trajectory assumes a sales rate of 80 units per annum, being based on two sales outlets, which we consider to be achievable and have included in our appraisal.

Developer's profit

1.20 We have allowed for developers profit of 20% on the GDV of the market housing and 6% on the GDV of the affordable housing which is in line with the market norm. The total profit for both market and affordable housing is £64.9million which represents a blended profit on GDV of 18.06% (market and affordable). We believe this is a reasonable figure in line with development schemes of a similar nature as well as the CIL Viability report undertaken by Dixon Searle Partnership.

Residual Land Value/Benchmark Land Value

1.21 The estimated residual land value within our appraisal calculations in respect of the proposed scheme is £40 million, equating to £387,000 per hectare / £157,000 per gross acre.

1.22 This represents a significant uplift from the existing use value of the subject site as agricultural land and demonstrates that the scheme is viable and deliverable.

1.23 The Benchmark Land Value (BLV) assumed in the CIL Viability report undertaken by Dixon Searle Partnership which would incentivise a landowner to dispose of equates to £250,000 per hectare (£101,174 per gross acre). Our residual appraisal is significantly above this figure.

1.24 It is appreciated that the precise elements of the S106 contributions will be detailed through the application process, however, the proposed development is clearly viable and deliverable at the subject site. It is therefore able to effectively contribute towards future housing and infrastructure delivery in Rugby.