

RUGBY BOROUGH COUNCIL LOCAL PLAN

For plan period 2011 to 2031

VIABILITY ASSESSMENT/DEVELOPMENT APPRAISAL

Response to Development Appraisal dated 1st February 2018
prepared by CBRE on behalf of St. Modwen Ltd.

This document refers specifically to the viability and development appraisal for the proposed Lodge Farm Development, clause DS10 of Rugby's Local Plan.

Reference CB/SALFV/02

February 2018

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Comments on Dixon Searle Partnership Viability Assessment

Dixon Searle made errors in their Development Appraisal calculations. These were highlighted in my hearing statement submission. Had they not made these errors the decisions taken by Rugby Borough Council may have been different as the viability of certain sites would clearly have been an issue.

Dixon Searle's Viability and CIL Assessment document was not made available until the end of September 2017, nearly three months after the submission of Rugby's Local Plan. How then did Rugby Borough Council make financially informed decisions on the sites included in the Publication Draft Local Plan?

Dixon Searle have concluded in clause 2.14.12 of their report that the minimum land value required to incentivise owners to sell is likely to be around £250,000 per hectare. They do, however, note, in clause 8.21 of appendix III of their viability assessment, the difficulty they found in establishing local land sale figures to help with their assessment of a minimum gross development value. In table 18a on pages 107 and 108 they set out land for sale at the time of their report. This is a very mixed range of mostly minor sites except for London Road, Rugby where 16.1 hectares was for sale at an asking price of £1,490,683 per hectare. How has that value been reflected in their conclusion that £250,000 to £500,000 per hectare is the accepted range?

Comments on CBRE Development Appraisal dated 1st February 2018

The programme used by CBRE is the ARGUS Developer Version which is a standard industry method of calculating residual land values.

The values and costs, with the exception of finance, set out in CBRE's Development Appraisal, dated February 2018, are accepted as correct.

The income from the sundry land items, that is care home and commercial land, should not be included as there is no requirement in Rugby's plan for these items.

The calculations for the level of finance cost indicated (£7 million) have not been provided and the figure appears low. A separate Cash Flow and Finance table has been prepared and this is in appendix 1.

Within that Cash Flow and Finance table the land acquisition cost is based on CBRE's appraisal and follows the stages of development set out in St Modwen's "Vision and Design Document" (pages 74 and 75) Section 6, Phasing and Delivery, which was submitted as part of their hearing statement. St Modwen confirmed during the examination process that within their appraisal they had assumed stage purchases for the site.

The housing cost figures included in the Cash Flow table assume 50% cost in the year preceding sales and 50% in the year of the sales.

The total finance cost is calculated out at £20 million. This is £13 million greater than the allowance in CBRE's appraisal.

Their appraisal should, therefore, have a residual land value of £31 million to balance the figures correctly. In addition, if the sundry land items totalling nearly £4 million are excluded as proposed above, then the residual land value would fall to £27,200,000.

Comments on Market Values

Market values were discussed at the examination.

The residual land value calculated by CBRE (£40,345,437) gives a blended* plot price of £26,897.
The corrected land value (£31,000,000) gives a blended* plot price of £20,667

The “rule of thumb” calculation for land value says that land represents 25% of sales value for open market housing. For affordable housing the current value being achieved varies between £10,000 and £15,000 per plot (assume £12,500 for this exercise).

The land value expectation is: Open market housing £307,597,500 x 25% = £76,899,375

Affordable housing £12,500 x 450 units = £ 5,625,000

Total: £82,524,375

This gives a blended* plot price of £55,016

To support the assertion that market value is in this range please refer to appendix 2. This table was prepared by CBRE for A C Lloyd and it refers to a number of sites locally. It was prepared for an option agreement negotiation relating to land at Grove Farm, Leamington and subsequently land at Godsons Lane, Napton. Of particular interest within this table are the costs for the site at Stockton, which is close to Napton, and was for agricultural land on the edge of the village. Stockton is the next parish to Grandborough. The sales values are the same as those proposed for Lodge Farm and the blended plot price is £56,164. The affordable housing requirement is 40%.

Napton was subsequently purchased at a gross blended plot price of £57,285, again with 40% affordable housing.

Agents acting for the vendors of Lodge Farm will use this sort of sales information, together with other sites in the area, to justify an open market valuation of the land. It is likely that their initial negotiating position will be around £90m.

The outcome of these negotiations is likely to result in an agreement to purchase the land at a significantly higher price than the calculated residual land value. If, therefore, Lodge Farm is allocated as proposed in Policy DS10, the higher land cost will necessitate Rugby Borough Council accepting modifications to the proposal in order to restore financial viability to the site. These modifications could include:

Reduction in section 106 costs

Reduction or omission of affordable housing

Increase in overall housing number

Increase in delivery rate of housing completions

- *A blended plot price is the average across the open market and affordable houses. If the open market housing has a plot price of £70,000 and the affordable housing a plot price of £10,000 then the blended plot price for a site with 30% affordable houses would be: (7 x £70,000) + (3 x £10,000) = £520,000/10 units gives £52,000 per unit blended.*

APPENDIX 1

Cash Flow and Finance Cost Table

Cash Flow and Finance Cost Table

Finance and cash flow calculation for Lodge Farm housing scheme							
Interest allowed at 6% p.a.							
Year	Income	Land	Build cost	Cash flow	Start balance	interest	End balance
1		14,319,130	2,381,862	-16,700,992	-16,700,992	-1,002,060	-17,703,052
2	6,026,174		9,964,926	-3,938,752	-21,641,804	-1,298,508	-22,940,312
3	18,987,168		15,166,128	3,821,040	-19,119,272	-1,147,156	-20,266,428
4	18,987,168		15,166,128	3,821,040	-16,445,388	-986,723	-17,432,111
5	18,987,168	14,319,130	15,166,128	-10,498,090	-27,930,201	-1,675,812	-29,606,013
6	18,987,168		15,166,128	3,821,040	-25,784,973	-1,547,098	-27,332,072
7	18,987,168		15,166,128	3,821,040	-23,511,032	-1,410,662	-24,921,694
8	18,987,168		15,166,128	3,821,040	-21,100,654	-1,266,039	-22,366,693
9	18,987,168		15,166,128	3,821,040	-18,545,653	-1,112,739	-19,658,392
10	22,792,168	14,319,130	15,166,128	-6,693,090	-26,351,482	-1,581,089	-27,932,571
11	18,987,168		15,166,128	3,821,040	-24,111,531	-1,446,692	-25,558,223
12	18,987,168		15,166,128	3,821,040	-21,737,183	-1,304,231	-23,041,414
13	18,987,168		15,166,128	3,821,040	-19,220,374	-1,153,222	-20,373,596
14	18,987,168		15,166,128	3,821,040	-16,552,556	-993,153	-17,545,710
15	18,987,168		15,166,128	3,821,040	-13,724,670	-823,480	-14,548,150
16	18,987,168		15,166,128	3,821,040	-10,727,110	-643,627	-11,370,736
17	18,987,168		15,166,128	3,821,040	-7,549,696	-452,982	-8,002,678
18	18,987,168		15,166,128	3,821,040	-4,181,638	-250,898	-4,432,537
19	18,987,168		15,166,128	3,821,040	-611,497	-36,690	-648,186
20	18,987,168		10,888,500	8,098,668	7,450,482		7,450,482
21	8,214,202		3,305,436	4,908,766	12,359,248		12,359,248
	<u>359,814,400</u>	<u>42,957,390</u>	<u>284,364,900</u>			<u>-20,132,862</u>	

Land purchased in three phases as set out in St Modwen's Phasing and Delivery document

Sales vaues

OPEN MARKET HOUSING		
Total market housing sales figure:		307,597,500
Number of units:	1,050	
Average value per unit: (average size 97.55m ²)		292,950

AFFORDABLE HOUSING		
Total affordable housing sales figure:		48,412,080
Number of units:	450	
Average value per unit: (average size 74.32m ²)		107,582

INCOME PER YEAR					
First sales year (25 units)					
Open market	18	@	292,950	5,273,100	
Affordable	7	@	107,582	<u>753,074</u>	
					6,026,174
Subsequent years (80 units)					
Open market	56	@	292,950	16,405,200	
Affordable	24	@	107,582	<u>2,581,968</u>	
					18,987,168
Final sales year (35 units)					
Open market	24	@	292,950	7,030,800	
Affordable	11	@	107,582	<u>1,183,402</u>	
					8,214,202
Sundry sales income (assumed year 10)					
Care home				1,000,000	
Local centre				1,805,000	
Employment land				<u>1,000,000</u>	
					3,805,000

Land and Construction costs

LAND	
From St Modwen appraisal, land plus fees	42,957,390
<p>St Modwen confirmed that the land would be bought in stages and in their Vision and Delivery document, pages 74 and 75, have indicated three phases bought at year 1, year 5 and year 10.</p> <p>Assume that these are equal land areas.</p>	
Each package cost will be:	14,319,130

CONSTRUCTION				
Allow for all other costs detailed on the appraisal to be allocated to housing construction.				
Total cost			294,831,949	
Less land			42,957,390	
			<u>251,874,559</u>	
Overheads (50% of profit figure)			32,491,316	
		Total cost:	<u>284,365,875</u>	
Total area of housing is:				
	1050	x	97.55	102,427.50
	450	x	74.32	<u>33,444.00</u>
				135,871.50
Therefore cost/m ²			2,092.90	
Average Open Market House cost is	97.55	m ²	2,092.90	204,162
Average Affordable House cost is	74.32	m ²	2,092.90	155,544
First year construction cost is ((18 x 204,162) + (7 x 155,544))				4,763,724
Subsequent years construction cost is ((56 x 204,162) + (24 x 155,544))				15,166,128
Final year construction cost is ((24 x 204,162) + (11 x 155,544))				6,610,872

APPENDIX 2

Market Sales Values Chart

Location	Developer	Vendor	Net dev acres	Total no of resi units (PM & AH)	PM units (No/ %age)	AH units (No/ %age)	S106 payment	S106 £'000 per unit	Coverage sq ft/ Density-units (per acre)	Units per NDA	Deferment	Date of Deal	Net Price paid (£m)	Abnormals	Infrastructure by developer	Gross price (£)	Gross price per acre (£)	Net price per acre (£)	Projected revenues on PM units at acquisition (£/ft/2)	Blended plot value on net land value	Time adjusted Blended plot value on net land value
Bishops Tachbrook	Bloor Homes	JR Wright	10.2	150	90	60	£2,049,998	£13,667	14,933	14.71	£5.5m on completion, £1.75m 12 months later	Jan 16	£7,975,000	£5,774,664	Estate roads & sewers	£15,799,662	£1,548,986	£781,863	£315	£53,167	£52,292
Heathcote-Leamington Spa	Bovis/Bellway	Gallagher	24	350	210 (60%)	140 (40%)	£6,039,706	£17,256.30	15,109	14.58	12 months on 50%	Oct-15	£24,000,000	£5,000,000	TBC	£29,000,000	£1,208,333	£1,000,000	£330.00	£68,571	£66,000.00
Heathcote-Leamington Spa	Barrat/DWH	Gallagher	29.8	429	257 (60%)	172 (40%)	£7,518,654	£17,526	TBC	14.40	12 months on 50%	Oct-15	£28,100,000	£7,000,000	TBC	£35,100,000	£1,177,852	£942,953	£305.00	£65,501	£63,044.87
Stockton	Taylor Wimpey	CEMEX	5.8	73	47 (65%)	26 (35%)	£177,769	£2,435	13,000	12.59	All paid on completion	Jan 16	£4,100,000	£600,000	Estate roads & sewers	£4,877,769	£840,995	£706,897	£275.00	£56,164	£56,164.38
AVERAGE OF THE COMPARABLES																		£857,928.08		£60,850.91	£59,375.23
SUBJECT SITE	ACL	Liggins	6.56	95	57	38	£17,950		15205	14.48	N/A		£ 5,480,550				£ 835,449.70	£310	£ 57,690	N/A	

Information relating to recent and current land deals around South Leamington. This was prepared to assist in the option agreement negotiations for Grove Farm, Leamington and Godsons Lane, Napton.