

Eastleigh Borough Council Local Plan

Viability Study

High-level review of
Strategic Growth Option (SGO)

Additional Scenario Testing

October 2018 (v2 Final)

DSP18490A

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General Introductory Notes

1. Eastleigh Borough Council (EBC) appointed Dixon Searle Partnership (DSP) to provide a Viability Assessment – as a part of the evidence base being gathered to inform the Council’s development of policies for its new Local Plan (LP).
2. The assessment addresses development viability only – i.e. the financial scope or otherwise to support a range of LP policies and development costs, collectively.
3. The viability assessment work behind this (and ongoing work that will inform subsequent fuller reporting stages for EBC) draws upon a range of existing information and updated research. This is conducted using an approach consistent with DSP’s substantial experience in the preparation of both strategic viability assessments for local authority policy development and site-specific (development management stage) viability reviews and advice. DSP has worked previously with EBC, as well as with a range of authorities within Hampshire and adjoining areas, and has wider experience from a range of projects across the country.
4. It is important to note that such information and assumptions guidance rarely fits all eventualities; guidance being the most appropriate description of this. This review (as with all similar assessments in our experience) is unlikely to be able to fully reflect site-specific circumstances. It is therefore not intended to prescribe development assumptions, land values or other appraisal inputs / output findings; or otherwise substitute for the usual considerations and discussions that will continue to be needed as this or other particular proposals and developments having varying characteristics come forward. This is also true in respect of the long timescales over which the economy and development climate, national and more local influences and impacts are very likely to vary – all affecting how the viability of this and other developments will ultimately pan out.
5. Every scheme is different and no document of this nature can reflect all the variances seen in site specific cases. The high-level, point in time, nature of specific assumptions, values and other matters considered within and found from this (or subsequent DSP assessment work and reporting) are likely to be subject to change. A degree of professional judgment is usually required.

6. In this particular case, this further report of findings provides information to supplement and begin refining the DSP May 2018 SGO Update. This sets out briefly the work undertaken in September – October 2018 in respect of additional sensitivity testing that EBC has requested in order to further inform and build on the Council’s consideration of the potential viability of the proposed Strategic Growth Option (SGO). The aim of this aspect of our wider assessment continues to be to inform the review SGO’s viability prospects. However, this is still early stage review work given (as previously acknowledged) the long term overall nature of such a proposal and the likelihood that a wide range of influences on its viability and delivery will come into play both leading up to and over the course of that.
7. At this further reporting stage, the appraisal assumptions are again not based on any firm proposals on dwelling numbers or mix; or relating to other scheme content. Likewise, there remains work for EBC and its partners to consider on potential development timing and phasing. All in all, a very wide range of matters remain to be considered and worked-up to take this beyond, effectively, the current broad concept type stage. In our experience this is fairly typical in such circumstances, however.
8. With this acknowledged, we consider that the current concept based approach is appropriate given the stage EBC is at in the Local Plan process; with this and other information and assessments relevant and suitable in the context of the Council reviewing and checking that there is a reasonable prospect of delivery of the SGO.
9. EBC’s master planning work, being carried out by other consultants, is still in its relatively early stages. At the point of finalising this report, a further initial iteration of that master planning work was emerging and this was used to check and to some extent adjust input assumptions – for example broadly representing (high-level) the estimated quantum and timings of works related to the Link Road, provision of retail, new schools building and serviced land for that as well as other development uses including employment provision (B Uses) and mixed/community uses.
10. Accordingly, the current stage assumptions, these additional scenario tests and related further preliminary findings are necessarily subject to considerable further review and settling down; a process of review that we envisage will be continued by EBC while the proposals progress.

11. This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of DSP. We accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.
12. To the extent that the document is based on information supplied by others, DSP accepts no liability for any loss or damage suffered by the client or others who choose rely on it.
13. In putting this and any subsequent work forward, again DSP is not at any stage providing formal valuation or related advice. Rather, we continue to seek to provide an overview of the potential viability positions. Our work, as reported here and otherwise, is not intended for other purposes. We reiterate that is not intended to over-ride particular site considerations as the Council's wider work continues and planning proposals come forward – including any in respect of the proposed SGO, and more generally in the Borough.

1. Introduction and Purpose

1 Further review context

- 1.1 Our understanding is that the context for the further viability review remains as reported previously – May 2018. Developer contributions would be secured by way of section 106 arrangements.
- 1.2 On this basis, this current stage additional sensitivity testing continues to include assumptions broadly representing the costs of the provision of the most significant elements of this i.e. highways and education infrastructure – as far as are estimated at this stage (information supplied by EBC, with the Council having continued liaison with Hampshire County Council and others on this.
- 1.3 These assumptions have been revised from those used previously, to some degree. An outline is provided below.
- 1.4 Since reporting previously, in July 2018 the new NPPF (National Planning Policy Framework) has been introduced. The criteria formerly included at para.s 173 and 174 (NPPF 2012) are no longer included. The new NPPF does however continue the same general theme in regard to policies being: *‘...underpinned by relevant and up-to-date evidence. This should be adequate and proportionate, focused tightly on supporting and justifying the policies concerned, and take into account relevant market signals.’*
- 1.5 In regard to *‘Development contributions’* the NPPF again continues the established theme that: *‘Such policies should not undermine the deliverability of the Plan.’*
- 1.6 The Government’s guidance on considering viability continues to be set out in the *‘Viability’* section of the PPG (Planning Practice Guidance) which was updated alongside the issue of the new NPPF – on 24th July 2018.
- 1.7 We will not quote lengthily from it here but, in summary, the guidance sets out the overall expectations and principles of assessment. It then goes on to guide on considering the inputs to viability assessment.

- 1.8 Although early days in terms of the new NPPF and Viability PPG settling in and being interpreted etc. in DSP's view these recent publications alter little of the established understanding of the reasons for and approach to viability assessment. There are in our view perhaps two aspects that may be drawn out as helping to add some clarity over previous guidance.
- 1.9 These relate firstly to the consideration of land value (where at para.s 013 to 017 a clear steer is now provided towards the use of the 'EUV+' (existing use value plus) basis).
- 1.10 Secondly, regarding 'return to developers' (i.e. development profit) the PPG says (within para 018): *'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees and end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.'*

2. Additional scenario testing approach and assumptions

- 2.1 The methodology remains as previous and therefore is not repeated here – section 2 of the May 2018 report outlines this.
- 2.2 To set up for the additional scenario testing now requested by EBC, as a first step DSP set up a new base appraisal. The Argus Developer standard format appraisal summary reports appended to this report provide an overview of the assumed scheme content and input assumptions.
- 2.3 The basis of appraisal, using residual valuation principles and most of the assumptions remain unaltered from previous (May 2018 report).
- 2.4 The (purely indicative) base number of dwellings included is again 5,200 and the assumed foodstore (approx. 2,223 sq. m GIA), other retail (approx. 3,096 sq. m total) and land assumed for community/mixed uses (at 7.94Ha) are as before.
- 2.5 Within the new base appraisal ('v1'), however, the following elements of high-level development content assumptions have been changed (updated) as follows:
- Land area set aside and assumed to be serviced for new on-site education provision has been increased slightly to 21Ha total;
 - Land area assumed for employment uses (B class i.e. offices, industrial) has been reduced to 6.67Ha total (from the previous 10.46Ha assumption);
 - The assumed cost (appraisal inputs) for the building of the new schools (currently envisaged as a single secondary and 3 or possibly more primary education sites, we understand – all details TBC as with most other elements) have been increased within the appraisal from the previous approx. £42.2m to a revised indicative/potential approx. £51m total;
 - Based on latest estimates information from EBC, the assumed costs (appraisal inputs) representing the strategic highways related works (Link Road) have been increased by £10.6m within the latest appraisal versions –

i.e. to a total now of £51.6m (compared with the previously assumed approx. £41m);

- Relating to the M3 Junction 12 improvement proposals, again based on estimates now available, additional costs of £10.1m have been allowed for (included with the appraisals), timed to take approximately 12 months to construct and completing at approximately the same point as the Link Road is assumed to complete – see 2.6 below;
- Additional costs allowances for the provision of environmental and other local infrastructure have also been added at this point of revisiting; totaling £8.3m, once again based on EBC's latest available estimate information. As with other elements, necessarily indicative, but this additional cost element has been spread across the first half of the programme as it is expected that some of these elements would come in earlier phases with the provision of others building up steadily throughout the development period.

2.6 Within appraisal v1 (new base), compared with earlier iterations there have also been some adjustments/potential refinements to the timing assumptions related to the above, although all such inputs remain rather fluid at this stage. The single key timing adjustment has now been to assume completion of the Link Road around one quarter of the way through the overall timeframe assumed at approximately 20 years duration of delivery overall. So this runs through the approximate 18 month site works period (assumed prior to any housebuilding) on to around month 75 of the cashflow, by which time it is assumed that in the order of 1,250 dwellings could have been completed. This has previously been assumed as a front-loaded cost to a greater degree – cost committed over a shorter initial period. As noted above, the M3 J12 improvement (added costs) timings are related to these too.

2.7 The range of site works and infrastructure costs are assumed to be spread from the beginning to approximately 80 months from the overall scheme end; completing approximately 68 months before the assumed final house building stages end. As an indication, the 3,380 assumed private market homes within the base (set 1) 5,200 dwellings scenario tests are assumed to be completed and produce revenue spanning approximately 239 months. At around 14/month, this suggests potentially that 3 to 4 sites and sales outlets might typically be operating throughout – again all

highly indicative. All costs and timings are necessarily broad current stage indications, but their inclusion is enabling the further consideration of viability and updates the earlier information. Previously, with a wider range of unknowns and non-costed items, there was a greater range of matters needing to be considered in the context of the potential surpluses (or deficits) produced by the appraisals.

- 2.8 With the base reviewed, the Council wished to look at a series of “what-ifs”, effectively, i.e. the additional scenario tests to be undertaken bearing in mind the number of variables involved and allowing review of how those might influence potential outcomes – either individually or collectively.
- 2.9 The variables to be looked at were, firstly, the quantum of assumed housing (5,500 dwellings in place of the base 5,200, assuming for now the same overall level of infrastructure provision (e.g. highways and education) and overall timeframe). We understand that the preliminary land budget/potential parceling exercise indicates this level of capacity being realistic). Secondly, we were to look at the potential impact of varying the land value input assumption (between £250,000 and £350,000/Ha) and the development profit level (between 15% and 20% GDV market housing). The land value assumption at £250,000/Ha is as previous, continued as the base test. The land area (gross, overall) remains at the previously assumed c. 300 Ha, of which approximately 177Ha is assumed developed (across all development uses, including approx. 141Ha residential).
- 2.10 In our view the test scenarios using the £250,000/Ha land value assumption (fixed price input for the appraisal purpose) may still be regarded as the base, consistent with both our earlier stage work and in our view supporting a sufficient level of uplift to EUV, thereby being consistent also with the principles now reinforced by the July 2018 reissued ‘Viability’ section of the Planning Practice Guidance which accompanied the release of the new NPPF 2018. The guidance is clear in setting out that land price or expectation is not a relevant justification for failing to accord with the relevant policies in the Plan. So necessary infrastructure provision should not be hampered by land prices that become too high in particular circumstances.
- 2.11 However, the testing of variables on this and the other matters adds to the usefulness and robustness of the information, by further exploring and beginning to guide additionally (especially now with a more comprehensive costs view included as

above) on how the capacity to support more cost or indeed the requirement for other funding could develop, dependent on how matters progress.

2.12 So this developed into scenario testing comprising 18 no. new tests, as follows:

Set 1:

1. **Appraisal v1 = 5,200 units new base** – as above, with revised timings / sizes on employment land, school land, supermarket construction & sale, school cost (£51m), changed road phasing (to be complete by approx. 1,250 dwelling). 300 ha land at £250,000/Ha; development profit at 20% GDV on market housing;
2. Appraisal v2 = as v1 above but with land at £300,000/ha;
3. Appraisal v3 = as v1 but with land at £350,000/ha
4. Appraisal v4 = as v1 but inputting 17.5% DP (development profit; %GDV market housing)
5. Appraisal v5 = as v2 but @ 17.5% DP
6. Appraisal v6 = as v3 but @ 17.5% DP
7. Appraisal v7 = as v1 but @ 15% DP
8. Appraisal v8 = as v2 but @ 15% DP
9. Appraisal v9 = as v3 but @ 15% DP

Set 2:

10. **Appraisal v10 = 5,500 units (Assumes no changes to timings or infrastructure; other assumptions as v1)**
11. Appraisal v11 = as v10 but with land at £300,000/ha
12. Appraisal v12 = as v10 but with land at £350,000/ha
13. Appraisal v13 = as v10 but @ 17.5% DP
14. Appraisal v14 = as v11 but @ 17.5% DP
15. Appraisal v15 = as v12 but @ 17.5% DP
16. Appraisal v16 = as v10 but @ 15% DP
17. Appraisal v17 = as v11 but @ 15% DP
18. Appraisal v18 = as v12 but @ 15% DP

2.13 As previously, the results of these additional scenario tests in each case show the residual sum (as a surplus i.e. positive or deficit i.e. where negative) potentially available to support additional cost or otherwise be allocated over and above current

assumed allowances. This in each case is after allowing for the current high-level assumptions made on development costs and estimated planning infrastructure obligations and works, land value and development profit (at the now various exploratory input levels).

- 2.14 These indicative surplus (or deficit) sums are to be considered within the same context as previous – as to their preliminary nature and with a high possibility of movement in these. They are tabled below (see section 3) and also shown within each of the print summaries of the above version numbered Argus appraisals that are appended to this report. To the rear of each the summaries once again the Argus ‘Sensitivity Analysis report’ grids shows a wider range of potential and indicative only combinations what the effect(s) of rising or falling housing sales values and/or rising of falling housebuilding costs could be on the reported residual (surplus/deficit) in each case.
- 2.15 On reviewing the updated indicative outcomes, it should be noted that as currently prepared, the results of the appraisals show a straight surplus (or deficit); positive or negative (minus) £m indications respectively – see 3.2 and the table below. Where a surplus is shown, this indicates the level of sum that could be available, based on the assumptions used, to fund additional works / costs not current allowed for (including finance, fees and other related costs). Where a deficit is shown (a minus figure) this may be regarded as a current stage assumptions based funding gap (indicative level of shortfall for supporting the level of assumed costs).

3 Results from additional scenario testing

- 3.1 From this exercise a wide range of results is produced overall, as above further informing EBC's ongoing consideration of the SGO viability prospects, as viewed currently and also enabling a view of potential sensitivity to some of the key inputs.
- 3.2 These are as shown below, allowing EBC to consider the ranges within which the outturns could be seen. This information may also help to give a feel for the varying assumptions sets (combinations of influences) that could produce broadly similar outcomes to each other. The indicative surpluses (non-bracketed) / deficits (bracketed -£ figures) from the various test main results shown here are rounded to the nearest £0.1m but even viewed at that level of apparent accuracy in fact they are really provisional guides only, once again, based on current assumptions.

AH % assumed	Indicative capacity (approx. no. of dwellings)	Development Profit	Land Cost (£/Ha)	Land Cost (£m)	Indicative Surplus / (Deficit) Result (£m)	Appraisal Version
35%	5,200	20.0%	£250,000	£75m	£9.1m	1
			£300,000	£90m	(-£21.7m)	2
			£350,000	£105m	(-£53.8m)	3
		17.5%	£250,000	£75m	£37.6m	4
			£300,000	£90m	£6.8m	5
			£350,000	£105m	(-£25.3m)	6
		15.0%	£250,000	£75m	£66.1m	7
			£300,000	£90m	£35.3m	8
			£350,000	£105m	£3.2m	9
	5,500	20.0%	£250,000	£75m	£31m	10
			£300,000	£90m	£1.2m	11
			£350,000	£105m	(-£29.8m)	12
		17.5%	£250,000	£75m	£61.2m	13
			£300,000	£90m	£31.4m	14
			£350,000	£105m	£0.4m	15
		15.0%	£250,000	£75m	£91.3m	16
			£300,000	£90m	£61.6m	17
			£350,000	£105m	£30.5m	18

(DSP September –October 2018)

- 3.3 As above and as included previously, further sensitivity test outcomes are shown to the rear of each of the above Argus appraisal summary prints – appended to this document. The grid on pages 5 and continued on page 7 at the end of each summary shows in each case the indicated surplus (where non-bracketed) or deficit (bracketed) figure arising from the market sales values and / or build costs altering up or down in the steps and combinations shown. The land value input, as a cost to the scheme, is always shown bracketed and corresponds with the assumptions as noted above. There can be seen the effects of rising values and / or falling costs from the base input levels showing in increasing surpluses – moving upwards and to the right within each set; increasing deficits (larger bracketed figures) looking to the left and downwards within the grids.
- 3.4 The results are seen to emphasise our previous note in respect of how much the figures are prone to move around – how sensitive they are to varying inputs. As before, there continues to be a significant level of uncertainty and necessary assumption making involved with much of this, although this is expected to narrow with growing knowledge of the scheme and delivery climate in due course.
- 3.5 The previous finding, therefore, that ultimately, the detail of the “package” of works and obligations that this SGO proposal will be able to support will be dependent on a number of factors that are likely to continue to move around.
- 3.6 Overall, however, in our view these indications continue to be representative of a scheme that looks to have reasonable prospects for viable delivery in the context of the high-level NPPF based criteria.
- 3.7 DSP is happy to assist further with ongoing review if required.

SGO Viability – EBC additional scenario testing (DSP v2 Final)

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Appendix

Appraisal summaries – Additional scenario testing (v1 – 18)