D|S|P Planning & Development Viability Consultants

South Downs National Park Authority

South Downs
National Park Authority

High level Viability Assessment: Old Malling Farm, Lewes

Ref: DSP15338

Final Report

March 2015

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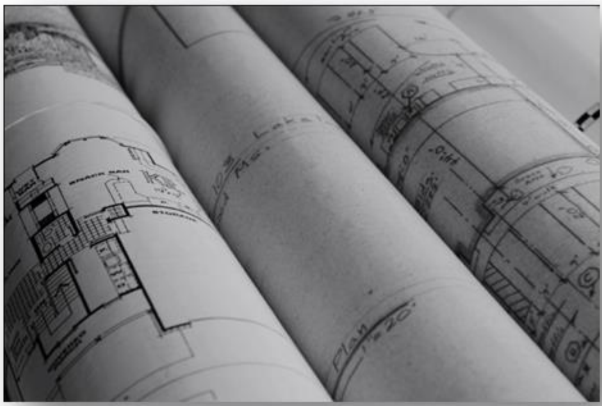

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This has been a desk-top exercise based on information provided by the South Downs National Park Authority (SDNPA).

As a high-level viability overview, this assessment in no way makes any recommendation on the relative merits of the site assessed within this report; it merely comments on the likely viability potential of the site in question by considering the strength of the development value / costs relationship based on the current stage high-level assumptions used – as part of further informing the SDNPA's wider review and consideration of the potential allocation of this site.

The assumptions made on type, scale, mix of development and dwelling unit / size etc. are just that; they are intended to be representative of the potential as informed by the information and discussions with the Authority, including its work in progress on the potential capacity of the site.

In this instance, 'high-level viability' means an early stage, provisional test of site viability at a level appropriate to informing the Authority's site allocations work and based on generic assumptions rather than site specific matters. Assumptions have been based on a mixture of market norms, local knowledge and previous research within the South Downs National Park.

The high-level viability overview is intended to provide the Authority with evidence to support the allocation of the site in terms of its likely viability / deliverability at this early stage. Neither this report nor the assumptions used within this report should not be used for development management purposes or in replacement of specific advice on site viability at planning application stage (if required or appropriate).

This review does not in any way provide formal valuation advice.

1 Introduction

1.1. Background to the review

1.1.1 South Downs National Park Authority (SDNPA) in conjunction with Lewes District Council is currently at the Examination stage of their Local Plan Part 1 / Joint Core Strategy ("the Plan"). Hearings were held in January 2015 and the Inspector's interim response has indicated that modifications to the draft Local Plan are required to enable the Inspector to find the Plan sound (subject to Sustainability Appraisal and Public Consultation). These modifications include a case for the allocation of the Old Malling Farm site in Lewes.

1.1.2 Dixon Searle Partnership (DSP) has been commissioned by SDNPA to carry out a high-level viability assessment of the Old Malling Farm Site proposed for allocation to test, so far as is practical and possible at a very early stage, the potential viability of this site. This is likely to be part of an ongoing and evolving process and is not intended to replace any future viability work that may be associated with a detailed planning application.

1.1.3 In line with national policy and in the interests of wider planning objectives in the context of the development plan delivery, as part of its wider evidence base the Authority needs to have considered information on viability and be as confident as possible that the this site has the potential to support deliverable and viable development overall. Through this process the Authority also needs to assess the options for the selection of allocations based on a number of factors including accessibility, settlement impact and integration, landscape impact, environmental impact, deliverability and viability.

1.1.4 The current stage review is necessarily a high-level exercise given its timing. The delivery of any proposals for the site will need to be market-led in the usual way. However, the approach and aim of the SDNPA is to progress proposals that are suitable in terms of local needs and provide an optimal balance in terms of meeting the various planning objectives whilst understanding the commercial drivers that are necessary to support such a development. Therefore, the SDNPA aims to guide and influence the proposals as appropriate and also to develop the context for the review of the specific scheme proposals that will come before it in due course through the usual planning application processes.

1.1.5 We understand that development here will be wholly residential and potentially capable of meeting the development criteria of Major Development in a National Park, including the requirements of NPPF paragraphs 115 and 116 and the statutory purposes. Those include design, affordable housing, sustainability / environmental and other matters alongside the scheme finances supporting the necessary developer's return (profit associated with risk-reward) and an appropriate level of land value. These are not matters prescribed through this work or its findings, but feed into the need to make reasonable current stage assumptions about the likely values / costs relationships involved in progressing significant residential development here.

1.2. Background – the site

1.2.1 The site is a greenfield site situated on the northern side of the town in a 'green finger' between the 1970s part of the Malling Estate to the east and the River Ouse, mainline railway and Landport Estate to the west. The site lies wholly within the South Downs National Park and is currently in agricultural use. There is an existing access bridge over the disused railway cutting (a Site of Nature Conservation Importance SNCI), providing single track access to Old Malling Farm from Old Malling Way. A further double width access point onto Monks Way, which is at grade and currently used for agricultural vehicles, is situated at the northern end of the site. Monks Way would form the principal access to the site, with the railway bridge providing secondary access for pedestrians, cyclists and emergency use.

1.2.2 From information provided by SDNPA, we are lead to believe that the site extends to 10 hectares of which two thirds (6.67ha) are developable. The remaining site area is to be left undeveloped (for mitigation purposes). At 30 dwellings per hectare (dph), it is therefore expected that the site could accommodate approximately 200 dwellings. We understand also that further land in the same current ownership but outside the site boundaries would be left in a natural state.

1.2.3 One of the aims of any development brought forward by the allocation of this site is that landscape mitigation should not be considered only in relation to the undeveloped areas of the site. The design and layout of the whole development should be approached holistically to link local character (landscape and townscape character) and achieve an exemplar of sustainable development in the South Down National Park. Figure 1 below shows the site in the context of the wider Lewes area.

Figure 1: Site Location[1]

Landscape and Visual Assessment Old Malling Farm, Lewes

1.2.4 Ultimately, the scale and type of housing, and / or any other form of development that forms part of the proposals here, will be influenced by a wide range of factors all to be considered – including the landscape and environmental constraints. At this stage the scale of development appraised in any trial viability scenario (the crux of this review) is purely assumption based and for exploring parameters, rather than indicative of fully deliverable scheme details. This is the key reason why this review is necessarily described as high level. This is not unusual; a firmer, later stage review might well be based on some indicative scheme layouts and accommodation schedules that will be arrived at after considering the achievable scale of development given the site characteristics. Such information is not available at present.

[1] Alison Farmer Associates - SDNPA Landscape & Visual Assessment, Old Malling Farm, Lewes (May 2012)

1.3 Scope of appraisals - Brief

1.3.1 The SDNPA have requested that DSP test the following variables on the basis that the site is being brought forward as an unexpected new allocation for the Plan.

- 200 unit residential development;
- 50% affordable housing (40% sensitivity test);
- 50% affordable rent / 50% intermediate tenure (assumed shared ownership for the purposes of this exercise);
- 75% affordable rent / 25% intermediate tenure (assumed shared ownership for the purposes of this exercise);

1.3.2 Core Policy CP1 of the Authorities' Joint Core Strategy seeks to achieve a district-wide target of 40% affordable housing. However, recent changes in Government policy prevent local authorities from seeking affordable housing contributions on schemes of 5 or fewer in designated rural areas such as the National Park and including Lewes and allow only contributions towards provision elsewhere on sites for 6-10 dwellings. The Authorities consider it desirable to make up for this shortfall where possible on other, larger sites in order to ensure that the target is still achieved overall. Moreover, there is a particular shortage of affordable housing in Lewes and Circular 2010[2] in particular states that National Parks should support the delivery of affordable housing to meet the needs of its communities by pro-actively responding to local housing needs. There is '*an expectation that new housing will be focussed on meeting affordable housing requirements'*[2].

1.3.3 CP1 states that the affordable housing requirement may exceptionally be determined on a site by site basis where justified by market and/or site conditions. The Authorities are of the opinion that the Old Malling Farm site has not been acquired by a developer and so would not be subject to an unrealistically high hope value. As a greenfield site with no abnormal development costs it is considered that 50% affordable housing could be delivered on this site without unduly affecting the viability of the development. The provisions of Policy CP1 with regard to demonstrating any lack of viability as a result of this site-specific target would still need to apply.

[2] www.defra.gov.uk – English National Parks & the Broads – UK Government Vision and Circular 2010 (March 2010)

1.3.4 The purpose of this assessment is to provide evidence for Plan making purposes that the proposed site allocation is potentially viable and deliverable on the basis of the variables highlighted above.

1.3.5 DSP undertook a Community Infrastructure Levy and Affordable Housing Viability Assessment, reporting in January 2014. The SDNPA have asked DSP to carry out this high-level site specific viability assessment by building on our localised evidence for that study.

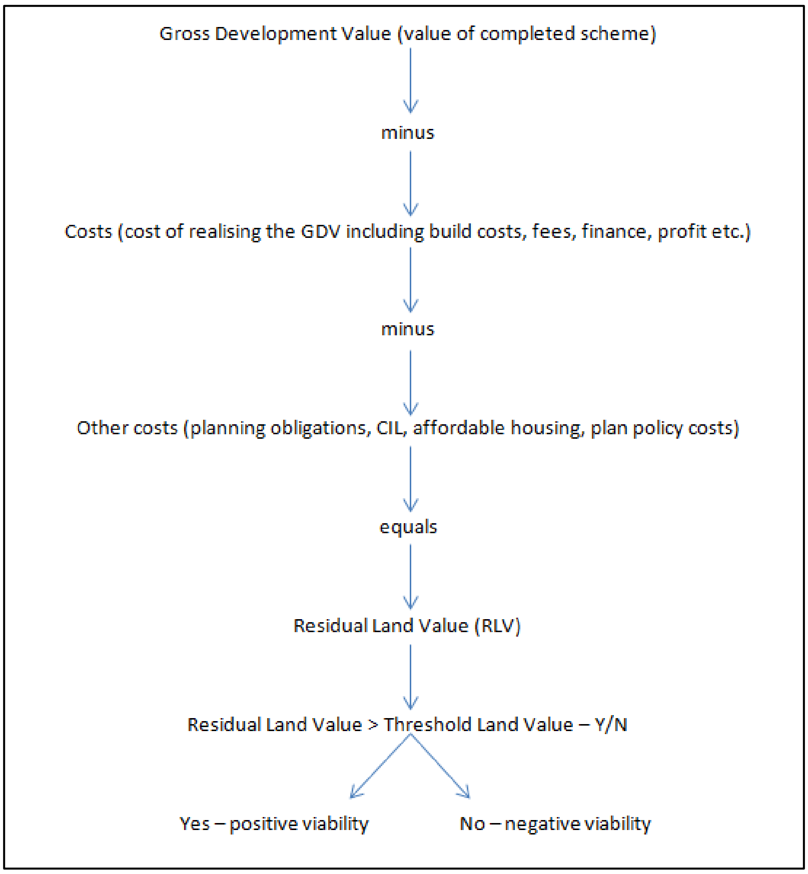
2 Methodology – Appraisals Process Summary

2.1 Residual valuation principles

2.1.1 The approach used to carry out the site appraisals applies the well-recognised methodology of residual land valuation. Put simply, the residual land value (RLV) produced by a potential development is calculated by subtracting the costs of achieving that development from the revenue generated by the completed scheme (the gross development value – GDV). Having allowed for the costs of acquisition, development, finance, profit and sale, the resulting figure indicates the sum that is potentially available to pay for the land – i.e. the residual land value (RLV).

2.1.2 The diagram below (see following page) illustrates the general nature of, and the principles involved in, the residual valuation approach:

Figure 2: Simplified Residual Land Valuation Principles



2.1.3 A viable development can be defined as *'the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project'*[3]. Under normal circumstances, if the residual land value (RLV) created by a scheme proposal exceeds the existing or alternative use value (sometimes with an element of uplift required to incentivise the sale of the land) then we usually have a positive viability scenario – i.e. the development is much more likely to proceed.

2.1.4 In order to guide on a range of likely viability outcomes the assessment process also requires a benchmark, or range of benchmarks of some form, against which to compare the RLV - such as an indication of current or alternative land use value relevant to the site and locality; including any potential uplift that may be required to encourage a site to be released for development (which might be termed a premium, over-bid, incentive or similar). We have termed this – Threshold Land Value (TLV). Essentially this means reviewing the potential level(s) that land value (i.e. the scheme related RLV) *may* need to reach in order to drive varying prospects of schemes being viable. This follows the methodology typically used in such a viability review, whether for site-specific purposes or for strategic / policy level considerations. Related to the latter, this methodology and the assumptions basis used shares much in common with the CIL (Community Infrastructure Levy) and Affordable Housing Viability Assessment prepared by DSP for the SDNPA earlier in 2014. Further information on the SDNPA CIL proposals, including the viability study, is available on the authority's web-site at: http://www.southdowns.gov.uk/planning/planning-policy/community-infrastructure-levy .

2.1.5 The level of land value sufficient to encourage the release of a site for development is, in practice, a site specific and highly subjective matter. It often relates to a range of factors including the actual site characteristics and/or the specific requirements or circumstances of the landowner. For the purposes of this report we have taken a very high level view on the potential threshold land value. We have applied a premium over greenfield land values equivalent to a multiplier of approximately 25 (agricultural land is worth in the region of £20,000 per hectare in current use; it has a relatively standard value regardless of location and experience suggests that a value

[3] Financial Viability in planning – RICS Guidance note (August 2012)

in the region of approximately £500,000 per net developable hectare may be appropriate as a high level assumption). It also reflects, in our experience, the typical level in option agreements between landowners and developers (typically this can be approximately £100,000 per gross acre to £200,000 per net acre (£247,000 per gross hectare to £500,000 per net hectare).

2.1.6 In appraising the assumed development content for the site (and sensitivity appraisals), we have entered the TLV (as applied to the relevant site area) into the appraisal as a fixed land cost. Notwithstanding our comments above, this does not prescribe or 'fix' a land value, but rather creates a high level and potentially generous land value benchmark against which to test the viability of the scheme at this early stage. It should be reiterated here that although the above range of land value benchmarks may be relatively typical, the NPA is clear that there is an expectation that market norms for land values in the Park may not always be appropriate and certainly not at the expense of affordable housing and other essential infrastructure.

2.1.7 The outcome of the appraisals therefore is either a surplus or a deficit in relation to the cost of development having taken into account the assumed land value and fixed profit level (%).

2.1.8 Argus Developer software has been used to run the appraisals, the proprietary format report summaries of which are included at Appendix II. Whilst the CIL study has been used as a basis for these inputs, consideration has also been given to the particular appropriateness of assumptions given the site and location characteristics including updates to costs and values where appropriate.

2.1.9 At the rear of each of the Appendix II appraisal summaries are tables showing the outcomes of sensitivities to changes made to the base appraisal assumptions in respect of sales values and sustainable construction cost inputs. The base assumptions in each case were sales values at £4,000/sq. m – consistent with CIL Viability Assessment value level 6 – 'VL6' sales values. The appraisal sensitivity tests show how the results alter from the base position (by adding and subtracting 5% on sales values and build costs up to +/-10%. The further sensitivity tests simply give a feel for the potential impact of various increased costs trials when considered against the varying values sensitivities.

2.2 Assumptions

2.2.1 Further details on the range of assumptions used as inputs to this high level assessment of viability are outlined at Appendix I to this report and outlined briefly below.

2.2.2 In terms of property market context, this overview is being undertaken at a point where local house prices have been rising notably over the last year or more, following a continuation and strengthening of the trends identified on finalising the CIL and affordable housing viability assessment work completed in January 2014, based on available data from the end of 2013. At that stage, depending on the data-set under review, local houses prices were indicated to have risen by at least 3 to 4%, and probably more, over the preceding year.

2.2.3 The following Land Registry House Prices Index sourced extract (see Figure 2 below) gives a feel for the significant strengthening of house prices, and how the rate of increase has gathered pace; showing East Sussex prices to have increased by just under 8% in the year to February 2015 (latest available Land Registry data).

Figure 3: East Sussex house price trends overview.

Date	Index	Monthly change	Yearly change	Sales volume	Average price (all)
February 2015	321.81	-0.1	7.7		£197,560
January 2015	321.99	0.5	7.9		£197,672
December 2014	320.53	-0.1	7.9	873	£196,771
November 2014	320.8	0.2	8.6	844	£196,938
October 2014	320.19	1.1	8.9	1050	£196,563
September 2014	316.8	0.9	8.4	1095	£194,485
August 2014	313.98	1.3	8.8	1146	£192,755
July 2014	309.91	1.7	7.9	1119	£190,253
June 2014	304.88	0.8	7.3	974	£187,163
May 2014	302.5	0.7	6.2	967	£185,701
April 2014	300.5	0.3	4.9	881	£184,473
March 2014	299.47	0.2	4.5	885	£183,842
February 2014	298.81	0.1	4.0	857	£183,441
January 2014	298.49	0.5	5.0	842	£183,240

(Source – Land Registry as at 31.03.2015 - http://www.landregistry.gov.uk/public/house-prices-and-sales/search-the-index)

2.2.4 Only time will tell how the market develops from here. However, recent forecasts significant further growth over the next 4 to 5 years – e.g. Savills (http://www.savills.co.uk/research_articles/144283/186116-0). Potential values growth has not been relied upon in the appraisal assumptions used here, although the sensitivity analysis sheets at the end of each appraisal summary (see Appendix II) do allow consideration of the effect on the appraisal output land values and therefore viability positions of both rising and falling values from the assumed base levels. These potential effects can also be viewed in combination with trial construction cost increase adjustments, should those be relevant.

2.2.5 Taking the above into account and following a review of recent data collected for another site specific case currently being undertaken on behalf of SDNPA in Lewes as well as other market data (RightMove / Zoopla etc.) it is our opinion that our values assumptions (£4,000/m² on average for market housing) represent a relatively cautious approach to values and that there is potential for higher values to be assumed in the locality.

2.2.6 For the affordable housing revenue we have assumed for affordable rent that the Local Housing Allowance rates for the Brighton & Hove Broad Rental Market Area (the area that covers the site) represent a reasonable proxy for 80% of the net rent per week. These have then been capitalised using assumptions (based on extensive experience in dealing with affordable housing on site specific cases) on management, maintenance, voids etc. and applying a yield of 6%. The results of these calculations indicate average capital values for affordable rented properties of approximately 50% of market value.

2.2.7 For intermediate tenure we have assumed shared ownership properties with the capitalised values based on typical assumptions again taken from experience of reviewing numerous site specific cases and dealing with affordable housing on a daily basis. For this exercise we have assumed an initial share of 25% with rent of 2.75% on the unsold equity and again applying a 6% yield. The results of these calculations indicate average capital values for shared ownership properties of approximately 56% of market value. Again, a relatively cautious approach to the shared ownership assumptions has been used.

2.2.8 Build costs are sourced from the RICS Building Cost Information Service (BCIS) adjusted for both location and time (Lewes Location factor of 109 compared with national base 100). The BCIS lower quartile figure has been used (approximately 12% lower than the median) as it is widely recognised that base build costs for volume housebuilding would be significantly less that shown by BCIS data (typically around 20% less). Other costs (including fees etc.) assumptions are informed by DSP's experience of both site-specific and strategic level viability reviews and assessments, based on market norms adapted as necessary for the circumstances and including previous and current site specific and strategic level work undertaken for South Downs National Park Authority.

2.2.9 Dwelling mixes and tenure are all included as per instructions received from SDNPA and as shown within Appendix I.

2.2.10 For site-wide infrastructure (opening up costs or similar) a notional but typical cost allowance has been made equivalent to approximately £23,000 per unit (or £690,000 per net ha / £460,000 per gross hectare). This is at the upper end of normal high level range of assumptions for this type of cost assumption. We would expect that at this level this could also cover site wide mitigation.

2.2.11 In this case we have entered costs relating to the Community Infrastructure Levy (CIL) as indicated by the SDNPA Preliminary Draft Charging Schedule for the area (£200/m² for market housing; £0 for affordable housing) as instructed by SDNPA (assuming an equivalent amount would be applicable should the site permission pre-date the adoption of CIL). However, the way that this exercise has been carried out means that the results of the appraisals generate a 'surplus' that can be regarded as being 'available' to cover unknown / unquantified (at this stage) costs / abnormals or additional s106 requirements or a combination of the those (for example mitigation measures, cycle links, highways issues, flood risk issues etc.). The results summaries in Appendix I show the level of surplus both in absolute terms and in an equivalent '£ per unit'.

2.2.12 Other assumptions used within this study and as set out in Appendix I include an allowance for meeting the energy requirements of the now superseded Code for Sustainable Homes Level 4 and an assumption that 10% of dwellings will meet Lifetime Homes standards or equivalent.

3 Outcomes

3.1 Results & Conclusions

3.1.1 The Argus Developer appraisal summary reports (in order as follows at Figure 4 below) are available at Appendix II, based on the assumptions and results summaries outlined in the Appendix I sheets.

3.1.2 Taking into account all the assumptions as set out in Appendix I and the discussion above in this report, all results at this stage point to viable development with significant surpluses generated (assuming a fixed land cost of £500,000/net hectare). The results tables in Appendix I show, as a base, surpluses ranging from approximately £6.0m with a 50% affordable housing requirement and 75% / 25% tenure split to £7.7m with a 40% affordable housing requirement and 50% / 50% tenure split. In between those results, a 50% affordable housing requirement and 50%/50% tenure split generates a surplus of approximately £6.2m. In terms of an equivalent £ per unit sum, the above surpluses equate to between approximately £30,000 and £37,000 per unit dependent on affordable housing proportion and tenure mix. This data is summarised below taken from Appendix I.

Table 1: Summary of Base Results

Percentage Affordable	Percentage AR	Percentage SO	Residual Land Value (£)	Fixed Land Cost (£)*	Surplus	Surplus per Unit**
50%	50%	50%	£9,578,082	£3,335,000	£6,243,082	£31,215
50%	75%	25%	£9,302,359	£3,335,000	£5,967,359	£29,837
40%	50%	50%	£11,126,114	£3,335,000	£7,791,114	£38,956
40%	75%	25%	£10,910,960	£3,335,000	£7,575,960	£37,880

*assumes £500,000 per net hectare / £333,500 per gross hectare - 17 x uplift from assumed agricultural value (gross)

** for s106 costs, additional mitigation measures, abnormal / unknown costs at this high level review stage

3.1.3 Further sensitivity tests (the results of which are also shown in Appendix I) show a range of results (surpluses) from approximately £3.5m (£17,000 per unit) with a 50% affordable housing requirement, 75% / 25% tenure split, 5% increase in build costs and 5% decrease in sales values to approximately £10.3m (£52,000 per unit) with a 40% affordable housing requirement, 50% / 50% tenure split, 5% decrease in costs and 5% increase in sales values.

3.1.4 It is recognised that an assessment of this nature can only review the likely viability of sites based on a specific set of high level assumptions; and that changes to those assumptions will result in changes to the viability outcomes. However, in very brief summary (see Appendix I for the viability results and Appendix II for the detailed appraisals), at this review stage based on current assumptions and information the results indicate a very good prospect of delivering viable development with a high proportion of affordable housing and a tenure mix of 75%/25% affordable rent / shared ownership or 50%/50%.

3.1.5 As discussed above, the results (in terms of the surpluses created when applying the assumed development costs and values) indicate the potential to cover additional site-specific s106 requirements (over and above allowances made for CIL). This could include, for example, cycle links to the town centre, play areas and landscaping (or any other currently unknown costs / abnormals. This is on the basis noted within the assumptions at Appendix I (again bearing in mind these are assumptions as necessary to build up the appraisals, rather than a firm indication of detailed strategy or needs requirements, etc.).

Main text of review report ends.
March 2015.

Appendices follow:

I – Assumptions & Summary Results
II – Appraisal summaries