Viability Study:

Ashton Park, Trowbridge

By

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1. RELEVANT EXPERIENCE

1.1. My name is John David Turner of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors having qualified in 1977 following the award, in 1975, of an Honours degree in Estate Management from the Polytechnic of the South Bank - now South Bank University.

1.2. In 1991, after 6 years with the Valuation Office and 10 years with Debenham Tewson & Chinnocks, I set up the practice of Turner Morum Chartered Surveyors. I am a specialist in the field of development site appraisal and associated subjects. Some of the work I am currently undertaking or have recently undertaken is attached to this statement as **Appendix 4**.

1.3. I regularly advise, across the whole of the UK, on the value, potential and viability of major tracts of development land. I am currently instructed by a substantial number of Developers, Local Authorities, Landowners, Receivers & Liquidators and have over 40+ years of experience in this field.

2. BACKGROUND

2.1. Turner Morum were appointed by Mr. Chris Minors of Persimmon Homes ('Persimmon') in March 2020 to undertake a viability assessment in regard to their proposed development known as Ashton Park to the South East of Trowbridge. The proposed scheme is for 2,200 residential units extending to circa 2.172m square feet and other non-residential land uses including circa 34 acres of employment land.

2.2. The total site area equates to 416.8 gross acres (168.7 hectares) and the proposed development extends to 136.4 net residential acres (55.2 hectares) plus the other non-residential land uses. An indicative masterplan can be viewed at **Appendix 1**.

2.3. I have carried out a development appraisal adopting a bespoke valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as **Appendix 2**.

2.4. In undertaking this viability assessment, I am aware of and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)* (see **Appendix 5**).

2.5. I am also aware of viability guidance documents such as the *RICS Financial Viability in Planning (2012)* and *Viability Testing Local Plans* (the Harman report), as well as the updated Planning Practice Guidance on Viability, published following updates to the National Planning Policy Framework (NPPF).

3. MECHANICS OF THE ASSESSMENT

3.1. My residual appraisal analysis can be summarised as follows:

- **Appendix 2 Tab 1A** – Appraisal showing the viability of the proposed 2,200-unit scheme with **30%** affordable housing (660 units) with a broadly 60/40 split as affordable rent/shared ownership, reflecting the policy position.
- **Appendix 2 Tab 1B** – Appraisal showing the viability of the proposed scheme with **20%** affordable housing (440 units) with the same 60/40 affordable tenure split.
- **Appendix 2 Tab 1C** – Appraisal showing the viability of the proposed scheme with c. **14.5%** affordable housing [the "break even" point - see below] (319 units) with the same 60/40 affordable tenure split.

3.2. I will now run through the various appraisal inputs in sequential order as they appear in my residual appraisal analysis:

REVENUES

3.3. Market revenues for the residential units are based upon Persimmon's internal estimates as to unit prices, a summary of which is included within the

Accommodation Schedule at Tab 2 of **Appendix 2**. The adopted market revenues produce average unit prices ranging from £200,000 for a 2-bedroom house to £450,000 for a 5-bedroom house, resulting in an average market revenue of c. **£275** per square foot.

3.4. It should be noted that the unit values were arrived at prior to the current pandemic and the adopted revenues may need to be revisited in due course (see later comments in section 5).

3.5. The values included for the affordable dwellings are based upon a recent offer received from Green Square at nearby Hilperton (summarised at Tab 3 of **Appendix 2**), which included values of **£162** per square foot for the Affordable Rent units and **£164** per square foot for the Shared Ownership units. These values blend to £163 psf on the basis of the adopted mix which equates to c. 59% of equivalent Open Market Value (OMV), which is within the range of typical ratios I would expect to see.

3.6. I would highlight that the Green Square offer upon which my adopted values are based was obtained in 2019 and since this time and as a result of the current pandemic, a number of RP's have reduced/revoked their offers. Accordingly, it may be necessary to review the adopted affordable values in due course (see later comments at section 5)

3.7. The value of the Local Centres has been included at **£500,000 per acre**, which produces a combined total 'plot' value of c. £1.48m when applied to the acreage of 2.97 acres.

3.8. The value of the Employment Land has been included at **£125,000 per acre**, which produces a total Gross Land Value (GLV) of c. £4.2m when applied to the acreage of 33.61 acres.

DEVELOPMENT COSTS

3.9. Fees and marketing costs in respect of the development are included at **2.75%** of Market Housing Gross Development Value ("GDV"), and the cost of disposing the affordable units to a Registered Provider is included at **0.5%** of affordable GDV, which I would consider to be standard industry benchmarks. I have also included a sales/marketing rate of **2.75%** on the local centre and employment land values.

3.10. Standard construction costs are included on a rate per square foot basis and reflect the RICS' Building Cost Information Service (BCIS) Lower Quartile figures for Q2 2020 (updated 25th April 2020); this represents the most up to date data available at the time of my report. The base build costs (before allowances) are stated as follows:

- Estate Housing 2-Storey: £97.83/ft2 [£1,053/m2] applied to housing
- Estate Housing Single Storey: £102.38/ft2 [£1,102/m2] applied to bungalows
- Flats (Apartments) 1-2 Storey: £113.81/ft2 [£1,225/m2] applied to flats

3.11. As required under BCIS, the following allowances are then applied at the levels stated below:

- Weighting for Location – **1.03** (Wiltshire)
- Net-to-Gross (on flats only) – **15%**
- Externals Allowance – **10%**
- Contingency – **2.5%**

3.12. After the above allowances/adjustments, the build cost for Houses comes to **£113.61**/ft2, the build cost for Bungalows comes to **£118.89**/ft2 and the build cost for Flats comes to **£151.99**/ft2. These build costs then blend to **£114.30**/ft2 on the basis of the adopted mix. Full details as to the BCIS costs incorporated within my appraisal analysis are contained within Tab 4 of **Appendix 2.**

3.13. By way of context, I would typically look to adopt Median BCIS build costs (rather than lower quartile) for a scheme of this nature but I understand the Council's view is that Lower Quartile BCIS costs are appropriate so, notwithstanding I do not agree with this, I have nonetheless adopted Lower Quartile build costs in this instance in order to minimise the areas likely to be subject to disagreement and encourage swift agreement on the viability to enable the scheme to proceed. For the avoidance of doubt, I would reiterate that I believe it entirely appropriate to adopt median BCIS costs and it can be noted that such Median costs have been adopted within the Council's Local Plan Viability Testing[1].

3.14. I have also not made any additional cost allowance for the additional costs arising from the Government's proposed changes to parts L and F of the Building Regulations [in order to meet the Future Homes Standard]. The current consultation document[2] proposed changes to Part L (conservation of fuel and power) are intended to come in to effect in "late 2020" – which would therefore affect all of the proposed dwellings, and to Part F (ventilation) "by 2025" – which would therefore affect a significant proportion of the proposed dwellings (i.e. those delivered post-2025).

3.15. The document provides indicative costs arising from the proposed amendments to Part L of between £2,557 and £4,847 per [semi-detached] dwelling – depending upon which option is implemented. Though no indicative costs are provided for the costs associated with the 2025 changes to part F, Persimmon's internal estimates indicate this cost is likely to be in the region of £8,000 per dwelling (in addition to the part L cost outlined above). We await the results of the consultation from the Government but I believe it would be entirely appropriate to apply an additional cost (over and above BCIS – which, as it is based upon analysis of historic cost, wouldn't cover such costs) of c. £2,500-£5,000 on all (2,200) units for changes to part L and a cost of c. £8,000 on those

[1] Wiltshire Local Plan Viability Study – HDH Planning & Development (February 2014): http://www.wiltshire.gov.uk/wcs-exam85-wiltshire-core-strategy-viability-study-final.pdf
[2] The Future Homes Standard: 2019 Consultation on changes to Part L (conservation of fuel and power) and Part F (ventilation) of the Building Regulations for new dwellings: MHCLG (Oct 2019): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852605/Future_Homes_Standard_2019_Consultation.pdf

(circa 1,800) dwellings anticipated to be delivered from 2025. Though again, in the interests of trying to minimise likely areas of contention and reach an agreement on the viability I have not presently included such costs.

3.16. In addition to the standard housebuild costs illustrated above, I have also applied a cost reflecting the provision of (non-integral) single, shared double and double garages on the site. I have been provided with a schedule showing which dwellings are intended to be provided with a garage which produces between 744 and 764 total garage spaces (depending upon the percentage of affordable housing tested – see tab 2 for detail) – to which I have applied a 'blended' cost of **£9,000** – reflecting the cost of a single or half a shared double.

3.17. An allowance for Technical Fees is included at **6.0%** of the standard build cost – which reflects the cost associated with architects, quantity surveyors, engineers & project management, planning and all other technical / professional consultancy fees. By way of comparison the suggested allowance for professional fees within the 3-Dragons model is 12% of standard build costs.

3.18. I have then made allowances for Developer Profit at **20%** of the market housing GDV, **6%** of the affordable housing GDV and **15%** on the local centre Gross Land Value (GLV). I would suggest these assumed returns are within industry-accepted parameters and the above allowances result in a blended return ranging from 17.57% on GDV in the 30% affordable housing scenario to 18.77% on GDV in the 14.5% affordable housing scenario.

3.19. It is my professional opinion, in the current economic climate, that a development could be considered unlikely to come to fruition unless it can achieve a profit margin of around 20-25% of GDV (blended). Banks require Developers to illustrate these levels of developer profit before they will provide development finance and clearly such is considerably higher than that shown in my analysis.

3.20. I have included an Abnormal/Infrastructure cost allowance within my appraisal analysis at c. **£56.829m**, based upon a January 2020 cost plan produced by Mr

Mat Tustain of Tustain Associates ('Tustain'). This includes all cost items that are outside of the BCIS Standard Build Costs such as:-

- Plot Abnormals
- Off-Site Highways and Access Works
- Internal Primary Infrastructure Roads
- Foul Water drainage & Surface Water Drainage
- Utilities, Archaeology & Ecology
- Landscaping & Play Areas
- Site Clearance, Earthworks & Ground Remodelling, and
- Associated fees, management costs and contingencies

3.21. A full summary of the cost plan is included at **Appendix 3A** and also replicated at Tab 5A of **Appendix 2.**

3.22. The cost of the Ashton Relief Road has also been included at c. **£31.02m** based upon a separate cost plan also produced by Tustain which is included at **Appendix 3B** and summarised at Tab 6 of **Appendix 2**.

3.23. In addition to the above, S106 obligations are presently estimated at c. **£24.512m** (equating to £11,142 per dwelling) which has again been included on the basis of the Cost Plan produced by Tustain [**Appendix 3A** and also at Tab 5B of **Appendix 2].**

3.24. Residential Community Infrastructure Levy (CIL) has been estimated for each tested scenario in accordance with the methodology contained within the adopted CIL Charging Schedule - in indexing the base CIL rate of £30 psm to November 2019 [in line with the CIL regulations] using the BCIS All-In Tender Price Index (TPI) which increases the CIL rate to £36.51 psm. This has been applied to the total GIA of market houses and garages (only – i.e. not to affordable) to produce residential; CIL totals of c. **£6.226m** in the 30% affordable housing scenario, **£6.791m** in the 20% affordable housing scenario and c. **£7.129m** in the 14.5% affordable housing scenario. [NB: CIL is included within the Mat Tustain cost

plan at Tab 5B of **Appendix 2** but the index has since been updated – hence please refer to my estimates].

3.25. It is assumed that the CIL applicable to the non-residential elements (i.e. local centres and employment land) would be included within the reflected rates per acre [see paras 3.7 & 3.8 above].

3.26. With regard to scheme finance costs, I have calculated these through an annual cashflow for each tested scenario. As with any cashflow, there are numerous assumptions made as to build rate and timings; a full breakdown of my assumptions can be viewed as **Appendix 2** Tabs 9A-C.

3.27. To summarise, I have assumed a finance rate on debit of **6.0%,** with no additional allowance included for intro/exit fees, which I would suggest is an optimistic assumption in the present climate. I have also assumed that site purchase, abnormal/infrastructure expenditure and the construction of houses will all commence in Year 1 with [perhaps optimistically] revenue from the sale of dwellings accruing from Year 2, on the basis of 156 market sales per annum (3 outlets each delivering 52 market completions per annum), plus a proportionate quantum of affordable housing. These assumptions result in a total project duration of 11-14 years, depending upon the percentage of affordable housing.

3.28. The result of the above assumptions is to produce a total finance cost of c. £22.971m in the 30% affordable housing scenario, c. £23.486m in the 20% affordable housing scenario and c. £23.396m in the 14.5% affordable housing scenario. I find expressing finance costs as a percentage of total costs to be a useful benchmarking exercise. In these scenarios, my assumed finance costs equate to c. **4.9%** of total costs (c. 4.0% of GDV), whereas I would usually expect finance costs to be considerably higher for a scheme of this nature.

FUNDING

3.29. Part of the reason for the modest finance costs is the inclusion of both HIF and LEP funding which assist cashflow; full details of which are set out at Tab 7 of **Appendix 2** but in summary, I have modelled the scheme to include:-

1. **£4.5m of LEP grant** funding – which represents the 'unspent' proportion of the £5m secured, and
2. A **£8.784m HIF loan** – required to fund the delivery of the relief road.

3.30. In each scenario I have modelled the receipt and payback (with interest if applicable – calculated using a debit rate of 2%) of this funding in accordance with the contractual payback arrangements. The effects of removing this HIF funding are set out in the 'Sensitivity Testing' section below.

4. VALUATION METHODOLOGY

4.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an adopted Benchmark Land Value. If the RLV exceeds the Benchmark Land Value, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the Benchmark Land Value, a deficit is produced and the scheme should be considered "Non-Viable".

4.2. The issue of what is deemed to be an appropriate Benchmark Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Benchmark Land Value (BLV).

4.3. For sites of this nature – in common with many experts advising both applicants and local authorities - I frequently adopt BLV's ranging from £100,000 to £150,000 per gross acre – intended to reflect typical Minimum Price provisions in Option Agreements. For the purposes of this assessment I have adopted a BLV at the

bottom of this range of **£100,000** per gross acre, which equates to £41.676m in total when applied to the whole site gross acreage.

4.4. I have then made allowances for SDLT at the prevailing rates (equating to **4.97%**) and Agents/legal fees at **1.25%** of the total BLV. After these adjustments the gross BLV equates to c. **£44.27m** for the whole site.

5. SUMMARY CONCLUSIONS & SENSITIVITY ANALYSIS

5.1. The conclusions of my viability analysis can be summarised as follows:

Tab	Scenario	RLV	BLV	Surplus/ Deficit	Viable/ Non-Viable
1A	**30.0% Affordable Policy Position**	£24.615m	£44.270m	**-£19.656m**	**NON-VIABLE**
1B	**20.0% Affordable**	£36.180m	£44.270m	**-£8.090m**	**NON-VIABLE**
1C	**14.5% Affordable**	£44.323m	£44.270m	**£52,355**	**VIABLE**

5.2. Plainly at the policy level, when tested against the input assumptions referred to above, the scheme is non-viable. I have accordingly undertaken a sensitivity analysis by varying the level of affordable housing below the policy requirement to try and identify the break-even position (where the RLV is equal to the BLV).

5.3. In this instance, I have reduced the affordable housing to 20% (Tab 1B) however, even with this reduction the scheme still shows a deficit and is therefore non-viable. I have also tested reducing the percentage of affordable housing further below 20% affordable which has shown the 'break-even' level of affordable housing to be circa **14.5%** (as per Tab 1C).

5.4. As mentioned above, I have looked at the effects of removing the LEP and HIF funding that has been secured – the results of which are summarised below:-

Tab	Scenario	RLV	BLV	Surplus/ Deficit	Viable/ Non-Viable
1A	**30.0% Affordable Policy Position**	£15.572m	£44.270m	**-£28.698m**	**NON-VIABLE**
1B	**20.0% Affordable**	£26.736m	£44.270m	**-£17.534m**	**NON-VIABLE**
1C	**14.5% Affordable**	£34.772m	£44.27m	**-£9.498m**	**NON-VIABLE**

5.5. As can be seen, the RLV is shown to reduce by (and therefore the deficit is shown to increase by) circa £9-9.5m – which results in the 14.5% affordable housing scenario being non-viable.

5.6. It is also important to note that this Viability Study has been carried out shortly after the outbreak [in the UK] of the Novel Coronavirus (COVID-19) which was declared as a "Global Pandemic" by the World Health Organisation on 11th March 2020.

5.7. Whilst further guidance is expected to be released by the RICS in due course, the initial guidance contained within the 'Valuation Practice Alert[3]' relating to "Market Uncertainty" resulting from the Corona Virus highlights that practitioners are "*faced with an unprecedented set of circumstances on which to base a judgement*" and that work is to be carried out and reported "*on the basis of 'material valuation uncertainty'*". Their 'Valuation Practice Alert" has advised practitioners to highlight the following:

> *"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.*
>
> *Market activity is being impacted in many sectors. As at the valuation date, we** consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*
>
> *Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our*

[3] https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/valuation-coronavirus/

valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review."

5.8. It is too early to quantify the exact impact of the current pandemic on the adopted appraisal inputs in the [hopefully] short term and scheme viability over the longer term, however I have undertaken additional sensitivity analysis which is designed to reflect possible effects on viability of the following 'what if' scenarios:-

1. A reduction in market revenues
2. An increase in build costs
3. A slower completion/sales rate
4. An increased finance rate, and
5. An Increased 'hurdle' rate (the required return/profit margin a lending bank might prescribe)

5.9. The aforementioned sensitivities would be designed to individually (rather than cumulatively) test the effect of a number of possible scenarios that are currently being flagged in the property press [such as "the number of sales falling" and "house prices falling" etc]

5.10. The below matrix summarises the effects of the above listed sensitivities:-

Scenario	Surplus/Deficit at:		
	30% Affordable	20% Affordable	14.5% Affordable
BASE Position	-£19.656m	-£8.090m	+£52,355
5.0% reduction to market revenues	-£41.920m	-£32.697m	-£25.014m
5.0% increase in standard build costs	-£36.474m	-£24.852m	-£16.570m
33.3% reduction in sales/completion rate	-£41.371m	-£36.145m	-£33.248m
0.5% increase in debit finance rate	-£22.202m	-£10.720m	-£2.675m
2.5% increase in 'hurdle'/profit rates	-£32.742m	-£21.870m	-£14.166m

5.11. As referenced above, the RICS highlights that the future impact of COVID-19 is currently unknown and assessments should be kept under frequent review. Accordingly, as and when more is known about the effects of the current pandemic it may be necessary for me to update my assessment.

5.12. For the avoidance of doubt, within this assessment I have NOT increased the required return for risk and reward ["profit"] NOR have I reduced the market revenue or sales rate assumptions which remain based upon pre-pandemic assumptions.

6. NON-TECHNICAL SUMMARY

6.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an appropriate Benchmark Land Value (BLV). If the RLV exceeds the BLV, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the BLV, a deficit is produced and the scheme should be considered "Non-Viable".

6.2. The inputs I have adopted within my analysis can be seen within the summary table below, which I have then compared with Wiltshire Council '*Local Plan Viability Study*[4]' document (dated February 2014):

Input:	Turner Morum Assessment Allowance:	HDH Planning Local Plan Viability Allowance:	Comments/references:
Market Revenues	c. £275 psf	£196 psf	The Council's Viability Assessment is dated February 2014 and the assumed revenue assumptions are therefore outdated
Affordable Revenues	c. £163 psf (blended), equating to 59% of OMV	AR @ £120.77 psf (62% OMV), SO @ 70% OMV = £137.20 psf	The adopted affordable values in the TM assessment are based upon RP offer rather than benchmark %'s
Fees and Marketing (Market):	2.75% on GDV	3.0% on GDV	-
Transaction Costs (Affordable):	0.5% on GDV	-	-
BCIS dataset	**Lower Quartile** (5 year age), weighted to Wiltshire	**Median** (15 year age), weighted to Wiltshire	-
Standard Construction Costs (excl. garages):	c. £114.30 psf (blended)	-	This specific site not tested – variable build costs adopted in 2014 Local Plan Viability

[4] http://www.wiltshire.gov.uk/wcs-exam85-wiltshire-core-strategy-viability-study-final.pdf

Externals allowance	10%	20% (for larger greenfield sites)	-
Contingency	2.5%	2.5%	-
Professional Fees:	6.0%	11.0%	-
Developer Profit:	20% on market GDV / 6% on affordable GDV / 15% on Local Centre GLV	20% on market GDV / 6% on affordable GDV	-
Finance Rate:	6.0%	7.0%	-
Completions per annum	156 market per annum (3 outlets @ 52)	50 per annum per outlet [taken from 525 unit typology]	Typology not tested – largest greenfield site is 525 dwellings
Total project length	11-14 years [depending on the % affordable]	-	Typology not tested – largest greenfield site is 525 dwellings
Benchmark Land Value:	£100,000 per gross acre	£145,000 per gross acre (£120,000 + £25,000 uplift)	-
Acquisition Costs	1.25% agent/legals + SDLT at prevailing rates	1.5% agent/legals + SDLT at prevailing rates	-

6.3. In this instance, one can observe from the table in **Section 5** above and the appraisal included as **Appendix 2** that the RLV of the proposed scheme does not exceed the adopted BLV, even when the affordable housing % is reduced from 30% to 20% and the scheme can be considered technically non-viable at this level. The 'break even' percentage of affordable housing (when the RLV equals the BLV) is estimated to be circa **14.5%**.

7. CONCLUSIONS

7.1. The deficit shown essentially represents the level of [normally required & obtainable] profit which the applicant is willing to forgo in this instance in order to see the scheme proceed.

7.2. Clearly, any requirement to provide a greater percentage of affordable housing and/or additional S106 contributions would worsen the viability of the scheme; a turn of events that I believe would prejudice delivery of the development.

7.3. I believe the conclusions of my assessment are particularly apparent when one considers the optimistic position I have taken on market revenues (in making no downward adjustment for the effects of COVID-19) and the conservative position I have taken in relation to construction costs (adopting lower quartile costs with no additional allowance for changes to building regs), professional fees, profit requirements, finance and Benchmark Land Value.

7.4. I hope this provides a sufficient level of information, and I would welcome the opportunity to discuss the findings of my analysis if required.

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John Turner MRICS
Turner Morum LLP

30th April 2020

8. AUGUST UPDATE

8.1. The majority of this report and the underlying appraisal work was prepared in April of this year (2020). Since this time the Chancellor has changed – with immediate effect – the regime on Stamp Duty Land Tax (SDLT) meaning that properties under £500,000 are not subject to SDLT.

8.2. All of the unit values for the subject scheme adopted in my appraisal analysis are under this threshold. However, the 'Stamp Duty Holiday' is presently due to run to March 2021 and as it is not anticipated that any dwellings would be completed prior to that date I do not believe my analysis or report require updating.

[Postscript added 11th August 2020]