Whiteley Consortium

Viability Report for the Extension of North Whiteley

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1 Introduction

Winchester City Council has identified the area of land to the north of Whiteley ("the site") as a suitable location for much needed housing.

The site requires significant infrastructure investment which is expected to enable Whiteley to function more efficiently, meet existing shortcomings and improve the quality of life for new and existing residents. The development will provide high quality new housing complemented by open space, retail centres, new schools and community facilities.

A consortium of developers and landowners, including Bovis Homes, Taylor Wimpey and Crest Nicholson, who have considerable experience in delivering large-scale housing developments requiring significant infrastructure, is promoting the northern extension.

The purpose of this report is to provide an overview of the financial viability of the site summarising work to date on master planning, revenues and expenditure.

An initial viability review has been carried out to show a base option based on the local authority's aspirations in terms of the level of affordable housing provision and affordable tenure mix. This base option raised some concerns and consequently an options appraisal has been undertaken to understand the effects of changes to these requirements.

1.1 Delivery from the development

The area of land identified as suitable for a North Whiteley extension amounts to slightly over 200 hectares (500 acres) nearly all of which is controlled by the Consortium. Technical work undertaken on behalf of the Consortium has established that an area of 125 hectares (310 acres) is suitable for development, the remainder being constrained by landscape, ecology or drainage designations and requirements.

The area identified as suitable for development will include uses needed to support the proposed housing including primary and secondary schools, playing fields and open spaces, local centres and leisure facilities. This includes approximately 87 hectares of land for residential development.

Past discussions with the council have referred to 3,000 dwellings as being realised on the site; however, later discussions have considered an increase possibly to 3,500 dwellings as a result of this technical work. On this basis, and for the purposes of the viability report, the development is expected to deliver 3,500 residential dwellings including market sale and affordable housing.

The development will include some non residential uses including:

- Retail units (1,463 sqm)
- Two community centres with possible nurseries (1,120 sqm)
- Leisure centre (1,100 sqm)
- Two primary schools (14.82 acres)
- Secondary school (23 acres)
- Sports pitch provisions
- Play area provisions
- Proposed pedestrian / cycle paths
- Provision of on and off-site green infrastructure

2 Programme and phasing

The programme for this development is based on a multi-start approach to reflect the Local Authority's requirements and local community's expectations for the early provision of key items of infrastructure. These include the main road running through the proposed development referred to as Whiteley Main Street and a three form entry primary school located in the southern half of the development. The Consortium will also be required to reinforce services and utilities at an early stage in the development programme.

Broadly, development is proposed in three phases with site preparation starting late 2013/early 2014, first sales taking place late 2014/early 2015 and the last sale expected to be completed in 2031.

The multi-start is made possible by having at least three developers promoting the site, able to start construction within different plots simultaneously.

The programme also reflects the requirements of Section 106 contributions and site infrastructure costs required for the development. Significant proportions of the costs are incurred early in the project and are discussed in more detail in section three of this report.

This section provides a high level view of the estimated programme for each phase based on the work required and informed estimates on residential build and sales rates.

2.1 Infrastructure work

As mentioned above the infrastructure work is expected to begin in December 2013. The first phase represents the multi-start element of the project and combines the infrastructure works programme to be undertaken in the 'North Village' and 'South Village'.

2.2 Residential build and market sales

The programme for residential build is expected to start approximately eight months after commencement of the infrastructure works in the first phase. An overall average build rate of approx. 230 dwellings per year has been estimated, based on anticipated sales rates and technical feasibility.

The programme is driven by the anticipated market sales rate of an average rate per annum of 175 private sale dwellings. It is estimated that the first sales will occur six months after residential construction starts. The Consortium considers an average of 175 dwellings per year to be achievable with the last sale expected to occur six months after construction is completed.

3 Financial Viability Exercise

The purpose of this financial viability exercise is to establish whether or not the scheme is viable and deliverable whilst offering land owners a competitive return for their land. Based on the estimated income and costs generated from the development a residual land value has been calculated in a number of options to establish whether or not an acceptable return for land owners can be achieved.

3.1 Base option

A base option was examined to identify issues and areas of concern which impact the viability of the development. The key areas affecting viability include:

- Significant infrastructure works delivered early in the project life cycle
- Significant levels of Section 106 contributions payable early in the project life cycle
- The level of Affordable housing and its tenure mix

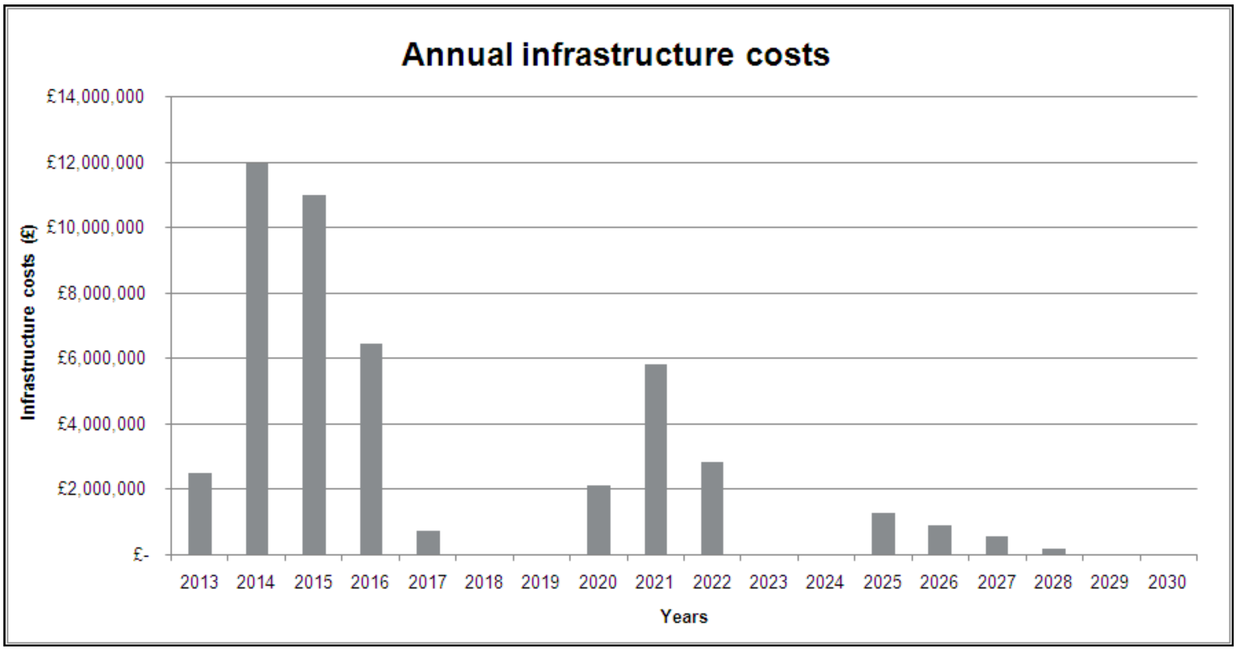
This section provides an overview of these key areas impacting viability. As the development process is at an early stage inputs as to values and cost are reasonable assumptions.

3.2 Infrastructure works

Cost

The total infrastructure cost for the development is £46m. A significant proportion (77%) of the total cost is incurred in the first stages of the development with 70% of the total costs incurred in the first four years. Approximately 32% of the total cost of £46m is incurred from infrastructure works delivered before any income is received from market sale dwellings – with receipts starting in early 2015.

The graph below shows the total annual costs incurred for infrastructure works required for the development. This highlights the significant proportion of costs early on in the development.



Major items

There are specific items required to be delivered early in the development that contribute to the development being front-loaded. The table below highlights these items, their total cost and the percentage of the total cost incurred in the first four years (2014 to 2017) of the development.

Major infrastructure item	Total cost	First four years	% of total cost
On-site highways	£8.0m	£5.6m	70%
Strategic utilities	£8.3m	£8.3m	100%
Professional / Local Authority fees	£10.5m	£7.3m	70%

Reasons for required infrastructure works

The key reasons for the required programme of infrastructure work to be carried out include the following:

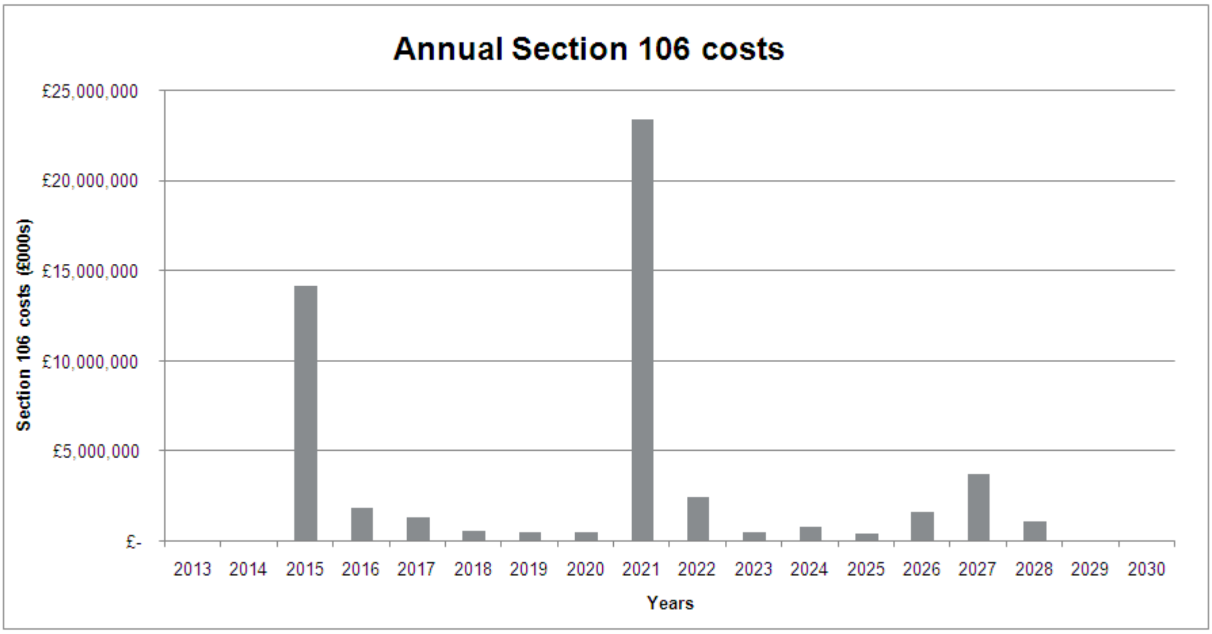
- The phasing required represents a multi-start development which is funded by four developers which reduces costs through shared risks and allows for an earlier start on site for later phases
- The main spine road is required to be carried out at the start of the development, and allows for early provision of the primary school required as part of the Section 106 contribution
- The programme meets the early requirement for utilities reinforcement

3.3 Section 106 contributions

Cost

The cost of the total Section 106 contribution to the development is £53m. The contributions are a requirement of the local authority and the timing of payments is expected to be linked to either the number of occupations/completions.

There is no agreement defining the contributions and therefore the items to be contributed and estimated timings are taken from advice by the local authority and Terence O'Rourke based on their experience of similar developments. The majority of the total costs (80%) are incurred in the first half of the development, as shown in the graph below.



Major items

The key items reflected in 80% of the total section 106 contributions payable in the first half of the development are listed in the table below.

Section 106 costs	Total cost	Year payable
3 Form Entry Primary School	£6.9m	2015
2 Form Entry Primary School	£4.7m	2021
Secondary School	£14.6m	2021
Community facilities	£2.2m	2015
Public transport	£4.1m	2015

Timing of payments

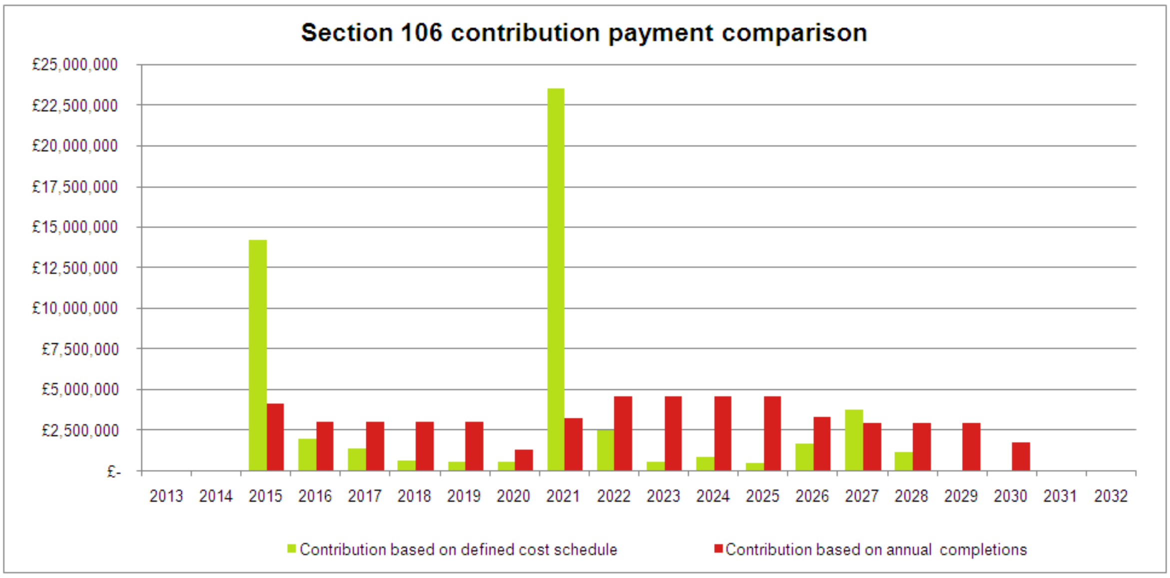
The appraisal has been based on the timing of contributions advised by the local authority and Terence O'Rourke and not on an average cost per dwelling recognised on completion of dwellings.

An analysis of the total section 106 costs has been carried out, to compare:

- Contributions based on the timings based on advice from the local authority and Terence O'Rourke ("contribution based on defined cost schedule"')
- Contributions based on an average cost per dwelling paid to the local authority on practical completion of each dwelling ("contribution based on annual completions"')

The average contribution per unit based on 3,500 units is £15,269.

The graph below highlights that specific contributions (e.g. primary and secondary schools) required for the development in years 2015 and 2021 are at a significantly higher cost than the average contribution would be based upon the number of practical completions in those years.



3.4 Affordable Housing

The local authority's aspiration regarding affordable housing is for developments to deliver 40% affordable housing with a 70:30 split between Social Rent and Intermediate housing.

Following initial modelling, there was a concern that the overall level of provision required may not return a financially viable site, if the development is to meet the local authority requirements of the infrastructure works and S106 contributions detailed above.

On this basis an options appraisal was undertaken to understand the impact of alternative levels of provision. The outcomes from the options appraisal is detailed in section four of this report.

4 Financial Viability Outcomes

The scheme is currently at master planning stage with design development on-going.

The cost review has therefore been undertaken to a proportionate level of detail, focusing on measurement of the costs for key site specific items such as infrastructure and use of benchmark data for areas such as base residential build costs. Similarly sales revenues have been researched based on those achievable within the local area, adjusted appropriately to reflect past experience of the benefits achievable from a strategic scheme.

The financial assumptions ("inputs") include a mixture of data provided and estimated by the Consortium and advice provided by EC Harris based on their knowledge of similar projects to the North Whiteley site. All estimates made by EC Harris have been discussed and agreed with the Consortium. As the development process is at an early stage these inputs as to values and cost are considered to be reasonable assumptions and conclude that, although challenging, the scheme is viable and able to deliver affordable housing whilst providing economic returns to developers and landowners.

4.1 Options appraisal

A base option has been prepared reflecting required infrastructure, Section 106 contributions in line with the local authority's requirements and policy compliant affordable housing levels.

The options appraisal exercise was undertaken to demonstrate how the viability of the base option would be improved through a reduction in the level of affordable housing provided and amendment of the tenure mix of this affordable provision. The inputs for the base option are the same inputs included within the options appraisal. The options appraisal differs in relation to the affordable housing provision and any differences are detailed under each option. An option is thought to be viable if it offers a competitive return to landowners.

As highlighted throughout the report the viability of the site is impacted by the local authority's requirement to provide section 106 contributions and infrastructure works early in the development. Therefore, the options prepared continue to meet these requirements.

The key measure testing viability is the land value generated by the development that will be available to the landowners in securing their commitment.

Option 1 – 40% affordable housing

Option one reflects the local authority's aspirations for 40% affordable housing with a tenure mix of 70:30 between social rent and intermediate. The outcome from the base option indicates the estimated land value per gross acre expected to be received by landowners is unlikely to provide a competitive return.

Option 2 – 30% affordable housing

Option two showed an improvement in the land value available due a 10% reduction in the desired level of affordable housing. The local authority's aspirations also include a split of any affordable housing as 70:30 between Social Rent and Intermediate. Based on a reduction to 30% affordable housing the viability of the scheme improves.

Two further sub options were tested varying the proportion of affordable rent. The two variants tested were a 70:30 and 50:50 split between affordable rent and intermediate and both improve viability to differing degrees.

5 Conclusion

The financial viability exercise has shown that based on 40% affordable housing with a split of 70:30 in Social Rent and Intermediate dwellings, and taking into consideration the significant costs incurred early in relation to infrastructure and section 106 contributions, the delivery of the North Whiteley scheme is extremely challenging.

However, the option appraisal demonstrates that a 30% provision of affordable housing with a 50:50 split between Affordable Rent and Intermediate Housing delivers a project that is viable whilst meeting land owners expectations.

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