St George's Rutland

Viability Report

November 2019

Job number:	20382
Version:	FINAL (v2.2)

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Note – the work was commenced by BBP London LLP trading as BBP Regeneration as a subcontractor of RegenCo; on 1st February 2019 the trading activities of BBP Regeneration were transferred to SQW Ltd. This report dated November 2019 has been prepared and issued by SQW Ltd acting as a subcontractor of RegenCo.

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Context

- Following the Ministry of Defence's declaration in 2016 that the existing St Georges Barracks site would be surplus to operational requirements by 2020, work has progressed to identify options for future development.
- Rutland County Council (RCC) have recognised the development opportunity and have entered into a partnership with the Ministry of Defence (MOD) to achieve a solution that co-designs the best outcomes for delivery of housing, supporting infrastructure, commercial development and leisure and recreation.
- A key feature of the partnership is that it allows RCC and, importantly the surrounding community, an opportunity to shape and influence future growth within Rutland through the revised Local Plan process.
- As part of the initial work, a concept masterplan was produced to understand the full development potential of the site.
- A series of public consultation events were held in eight locations across the County to present the initial potential development proposals, including the concept masterplan and supporting information. Feedback to the scheme was actively encouraged and has been incorporated within the development of the detailed masterplan, of which this viability report sits alongside.
- It is the intention that the detailed masterplan and associated technical documents will provide the necessary justification for RCC to include the potential development at St Georges Barracks in their revised Local Plan which is presently being reviewed to extend the period to 2036.
- The masterplan which has been produced by EHDC-RegenCo proposes a development of 2215 homes on the main garrison site; 14 hectares of employment space (capable of generating at least 1 job for each home); a replacement 3-form entry Primary School; a new local centre with shops, health and well-being, and community facilities; a heritage zone around the site of the Grade II* listed Thor Missile site; extensive landscaped buffer areas; and significant infrastructure enhancements and improvements including highways, public transport, walking and cycling and utilities. Proposals for potential 'community ownership' of some assets have also been made.
- Rutland County Council has taken a proactive approach to seeking to secure the early delivery of strategic infrastructure by making an application to Central Government to secure Housing Infrastructure Funding (HIF). The Ministry of Housing, Communities and Local Government (MHCLG) announced in November 2019 that the application was successful, and the scheme will receive £29.4m of HIF funding to contribute towards strategic infrastructure delivery.
- Further details of all of these elements are included in the overall 'evolving masterplan' package of documents produced by the wider EHDC-RegenCo Team.

Purpose

- The master planning and appraisal process began in 2018 and was developed in accordance with the National Planning Policy Framework (2012) which placed great emphasis on assessing scheme viability. The viability assessment was undertaken to satisfy both the requirements of the NPPF and to support a Housing Infrastructure Fund bid.
- The National Planning Policy Framework was updated in 2019 but continues to place emphasis on the deliverability and viability of Local Plans and strategic sites.
- The purpose of this report is to set out the methodology and results of the viability testing that has been carried out in accordance with best practice and RICS Financial Viability in Planning Guidance Note (2012).
- This viability testing work has been carried out for Rutland County Council by SQW Land & Property (formerly BBP Regeneration), a well-established consultancy, regulated by the RICS, with extensive experience of preparing development viability appraisals, as part of the RegenCo masterplanning team. Whilst we have followed RICS Valuation Standards, this report does not constitute a valuation.

Paragraph 173 of the NPPF (2012):
"Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."

Viability Planning Policy Guidance (updated September 2019) :
"It is important to consider the specific circumstances of strategic sites. Plan makers can undertake site specific viability assessment for sites that are critical to delivering the strategic priorities of the plan. This could include, for example, large sites, sits that provide a significant proportion of planned supply"

Approach

- In considering the viability of the scheme, we have followed best practice in assessing the **Residual Land Value (RLV)** of the masterplan proposals and measured this against a **Benchmark Land Value (BLV)** based on the existing use of the site plus an appropriate allowance to enable the site to be released for development.
- Where the RLV is equal to or greater than the BLV, the scheme is considered to be viable.
- Viability appraisal has been an integral part of developing and refining the masterplan to ensure that the scheme is capable of being delivered, and not simply undertaken as a post planning exercise.
- Costs and values were derived during 2018 when the initial evidence base for the appraisal was collated. The viability appraisal was amended throughout 2018 and 2019 to reflect changes in the masterplan as the scheme evolved and in response to the Housing Infrastructure Fund assessment, however costs and values remain on a 2018 basis.

Benchmark Land Value

- The Benchmark Land Value (BLV) has been assessed based on the existing use value of the site. As a military base that is surplus to MOD requirements we have considered the potential for reuse of the existing buildings, and existing tenancy arrangements.
- We have been provided with a schedule of existing buildings and facilities and have made assumptions as to the rents achievable by repurposing the existing space within St George's Barracks as office/workshop, industrial and storage space, which fall under planning use classes B1, B2 and B8.
- We have assumed values based on local market rents for these spaces based on these uses, taking into consideration the age of the facilities and the fact that the spaces are not purpose-built, making reasonable assumptions with regard to net lettable areas.
- Taking the rent for the existing space and making allowances for voids, together with the rental income of the golf course, and taking account of holding, maintenance and management costs, we have assumed an annual rental income of £1.2m per annum.
- This annual income was then capitalised at a reasonable market yield of 9.5% resulting in a capital value of £11.9m.
- We have applied a 10% uplift which reflects a modest premium at the lower end of policy guidance reflecting the MOD's obligation to release land for redevelopment.
- **This results in a Benchmark Land Value (BLV) of £13.1m**

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The Scheme

- The masterplan envisages residential and employment uses. A total of 2,215 residential units including an element of specialist housing aimed at the retirement market as well as 110 self-build plots to contribute towards meeting unmet demand for this type of product.
- A total of 62,219 square metres of B1, B2 and B8 employment space is also envisaged at the site.
- The masterplan provides for retail, pub/restaurant, and community facilities as part of a mixed local centre.
- The main elements of the scheme are set out in the table below.

Use	Residential Units	Non-residential uses (sq m)	Land Take (ha)
Residential	1,555	-	54.9
Mixed use local centre - residential, retail, leisure and community facilities	250	4,500	5.0
Retirement	300	-	6.7
Self-Build Housing	110	-	5.5
Employment	-	62,219	14.1
Total	**2,215**	**66,719**	**86.1**

Delivery Approach

- For the purpose of viability appraisal we have assumed that the scheme will be delivered by a master infrastructure developer who will be responsible for undertaking site clearance and remediation and delivering all on and off site strategic infrastructure to support the scheme.
- The Master infrastructure developer will then sell clean serviced-to-boundary development parcels to housebuilders or commercial developers.
- This approach is commonly used to deliver large strategic sites with mixed land uses and reflects the MODs approach to similar schemes across the country.

Serviced Land Values

- To arrive at clean serviced land values for each use type, financial appraisals were prepared on a Residual Land Value basis for serviced development plots by deducting development costs and profit from an estimated Gross Development Value for different development types.
- These appraisals were carried out using Argus Developer – industry standard software.

Residential and Retirement

Market Demand and Values

- Private residential property values are typically higher in Rutland than in the surrounding area. These higher values are driven by the quality of life provided by the attractive rural setting and outdoor leisure activities offered by Rutland. The area benefits from rail connections at Stamford and Oakham that provide access to Peterborough, Cambridge and London, while Peterborough, Leicester and Corby are important local centres of employment alongside Oakham and Stamford.
- Research into comparable new-build houses and flats in the area shows typical private residential property values in Rutland to range from £160,000 for 2 bed flats to £475,000 for medium sized 4 bed detached houses. Larger homes can attract significantly higher price points.
- Land Registry data analysed by Rightmove suggests that average values remained broadly static in the two years preceding May 2018, though the trend from December 2017 is towards lower sales rates in the county. The average sales rate across Rutland was 54 sales per month. Much of this market activity was in Oakham.
- The 2017 SHMA assesses the overall Objectively Assessed Need (OAN) across the Peterborough Housing Market Area, at 2,209 dwellings per annum, with Rutland accounting for 159 dwellings per annum. The preferred development scheme anticipates the delivery of up to 225 dwellings per annum, which exceeds the OAN for Rutland. The scheme, however, is intended to contribute to meeting wider housing need across the HMA and nationally. The preferred option provides the opportunity to attract a younger and more economically active demographic into the area through the provision of employment alongside housing, and the provision of appropriate housing types. The inclusion of some specialised retirement housing will cater for some of the demand from this group, freeing up the general stock for young couples and families.
- Our financial appraisals have assumed residential sales values in the region of £230-£300 per sq ft depending on size and specification, with specialist retirement properties commanding a premium of £340 - £380 per sq ft. We have assumed sales rates up to a peak of 225 per annum – within the assessed market absorption rate and these have been considered realistic in consultation with developers and in soft market testing.

Build Costs

- We have made assumptions on build-costs for the development scheme based on a mixture of BCIS lower quartile tender price data, rebased for Rutland, and figures from specially commissioned independent quantity surveyors. Estimates for infrastructure costs have been prepared by quantity surveyors.

Development Costs

- We have assumed reasonable costs for local site works, professional fees and development contingencies.
- We have assumed a reasonable profit for housebuilders to be 20% of GDV for private residential units and 6% for affordable.

Self-Build Plots

Market Demand and Values

- Self-build accounts for 7%-10% of new housing in England each year, significantly lower than other comparable countries and has been of increasing significance in the policy agenda since the passing of the Self-build and Custom Housebuilding Act 2015 (as amended by the Housing and Planning Act 2016) and Planning Practice Guidance published in April 2016 and updated in July 2017.
- Given the relative rarity of self-build plots and the absence of an active local market, in order to establish market values of plots of this kind at St George's Barracks, we have had regard to self-build plots across the country and in particular the large scheme at Graven Hill in Bicester, Oxfordshire, former MOD land which is being developed by Cherwell District Council as a self-build and custom build focused new community. We have made adjustments to reflect the relative values in each of the areas.
- We have assumed values of £615 per square metre for serviced plots and a density of 20 dwellings per hectare.

Development Costs and Developer's Profit

- We have made assumptions on reasonable costs for servicing plots and marketing fees and have assumed a developer's profit of 15% of plot sales value.

Employment Land

- We have assumed land values for employment land of approximately £430,000 per hectare, which is considered reasonable for the local market and in light of known transactions in the area.

Table: Estimated clean serviced land values of development parcels

Residential	Land Take	Total	dpHa	Land Value	LV per Ha
Main Mix	40.21	1335	33.2	£63,588,831	£1,581,418
Village Centre	5.00	250	50.0	£617,742	£123,548
Larger Homes	14.67	220	15.0	£24,105,634	£1,643,192
Retirement	6.67	300	45.0	£9,723,993	£1,457,870
Self-Build	5.50	110	20.0	£7,474,673	£1,359,031
Edith Weston Academy site	-	-	-	£970,000	-
Total	**72.05**	**2215**	**30.7**	**£105,510,872**	**£1,464,412**
Employment	**Land Take**	**SQM**	**Coverage**	**Land Value**	**LV per Ha**
B1a	1.50	11968	80%	£646,915	£432,419
B1b	2.66	10638	40%	£1,150,072	£432,419
B1c	5.00	20000	40%	£2,162,135	£432,419
B2	1.67	6661	40%	£720,045	£432,419
B8	3.24	12951	40%	£1,400,087	£432,419
Total	**14.06**	**62219**	**44.26%**	**£6,079,254**	**£432,419**
COMBINED	**86.11**	**-**	-	**£111,590,126**	

Strategic Infrastructure Costs

Table: Strategic Infrastructure Costs (SIC) payable by the master developer

Community Infrastructure provision - school, health centre etc	£9,847,604
Landscaping and Public Open Space	£15,917,349
Offsite Transport Improvements	£11,911,000
Onsite Primary Roads including Park & Ride	£19,850,640
Utility Upgrades	£18,885,198
Site Remediation & Holding Cost	£16,797,500
Planning	£2,000,000

- An allowance of 15% master developer profit on strategic infrastructure costs has been made within our appraisal for works funded by the master developer; along with 15% contingency on HIF funded infrastructure works (that may be undertaken by others).
- Borrowing costs of £7.94m have been assumed, this is low for a scheme of this size and nature reflecting the use of upfront public funding to finance infrastructure and the willingness of the landowner to accept a deferred land receipt (see below).

Please note: The strategic infrastructure costs set out in this report post-date the AECOM report prepared to inform the Local Plan assessment. AECOM used a previous version of this viability report dated October 2018, which was the best evidence available at the time. Further work undertaken to refine the strategic infrastructure costs has since been completed. The AECOM report also includes Community Infrastructure Levy (CIL) as a strategic infrastructure cost payable by the master developer; reflecting the previous treatment of these costs. This approach was refined during the HIF assessment process and CIL costs have now been included in the housebuilder appraisals, and are thus allowed for in the residual land price assumed to be paid for the serviced development parcels.

Housing Infrastructure Fund

- Rutland County Council has taken a proactive approach to seeking to secure the early delivery of strategic infrastructure to support the scheme by making an application to Central Government to secure Housing Infrastructure Funding (HIF).
- The Ministry of Housing, Communities and Local Government (MHCLG) announced in November 2019 that the application was successful.
- The scheme will receive £29.4m of HIF funding to contribute towards strategic infrastructure delivery in the period 2019 – 2023. Our conclusion is that the scheme is viable and deliverable with this level of funding support secured.

Treatment of Land Value

- We have approached the appraisal of the site by modelling costs and revenues from the perspective of a master-developer which would undertake on- and off-site infrastructure, utility, demolition and mitigation works, before disposing of clean serviced land plots to individual house builders or commercial developers who would build out the scheme. Land values for different character types have been derived by undertaking appraisals using Argus Developer software.
- Income for the master-developer is therefore modelled as income from sales of land parcels to developers over the development period.
- A cashflow financial model has been prepared which provides a gross undiscounted estimate of residual land value of £27.4m. This reflects the high costs of site preparation including demolition, remediation and strategic infrastructure.
- The net present value of the residual land value, after applying HM Treasury discount rate of 3.5% pa to reflect the deferred land payments, is £16.7m which is in excess of the Benchmark Land Value (BLV) of £13.1m.

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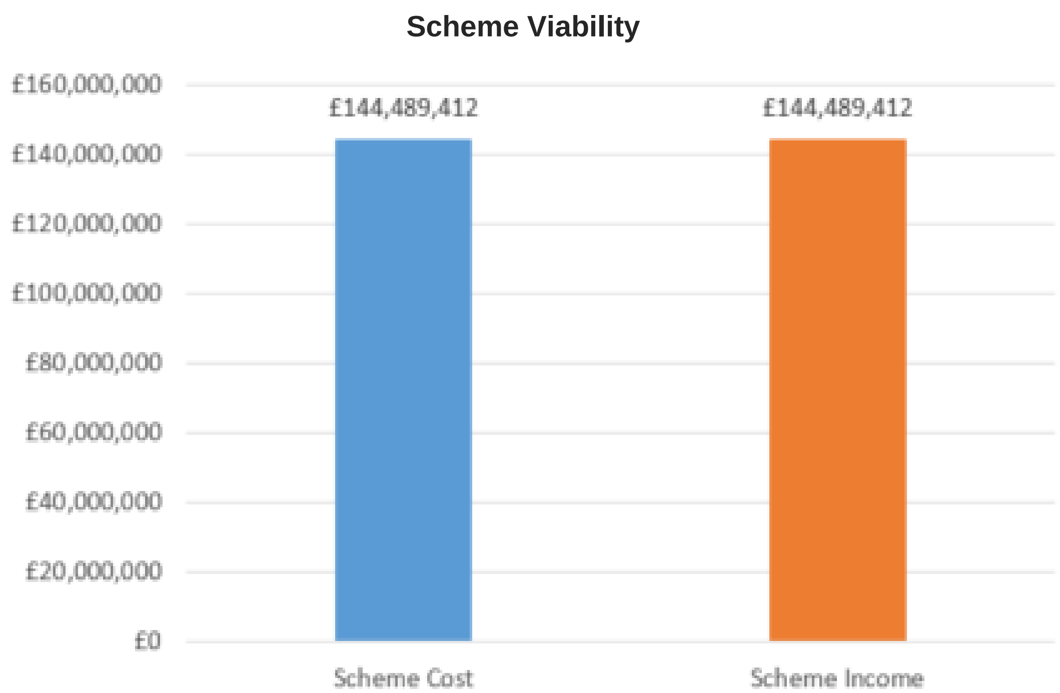
Scheme Viability Conclusion

- The following graphs demonstrate that the scheme costs (including an allowance for master developer profit and the DIO's deferred land receipt) are balanced by income from land sales and HIF funding. The figures exactly balance because the scheme costs include the residual land value, which is a dependent variable in the development appraisal.

- The anticipated deferred land receipt of £27.4m has a NPV of £16.7m, which exceeds the BLV of £13.1m, demonstrating the scheme is viable based on the present scheme design and appraisal assumptions, subject to receipt of £29.4m of HIF funding.



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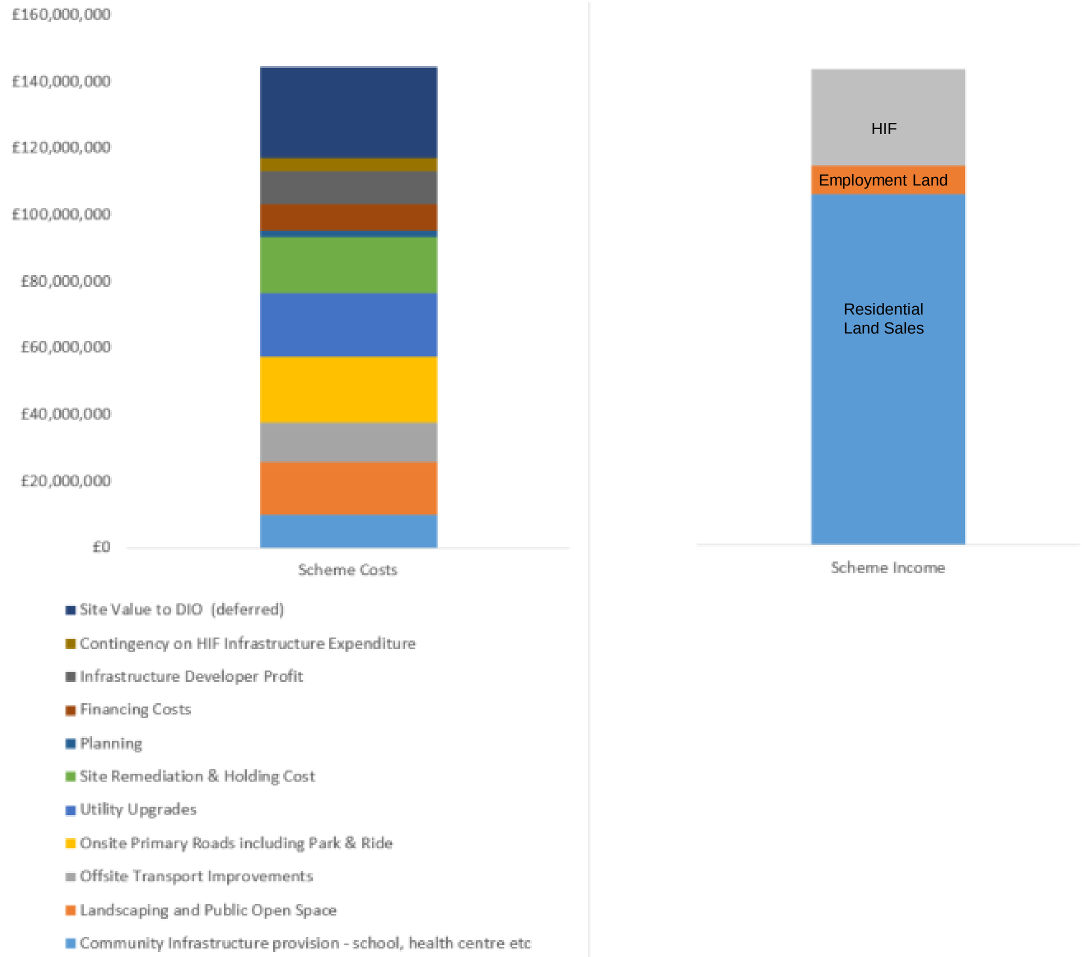
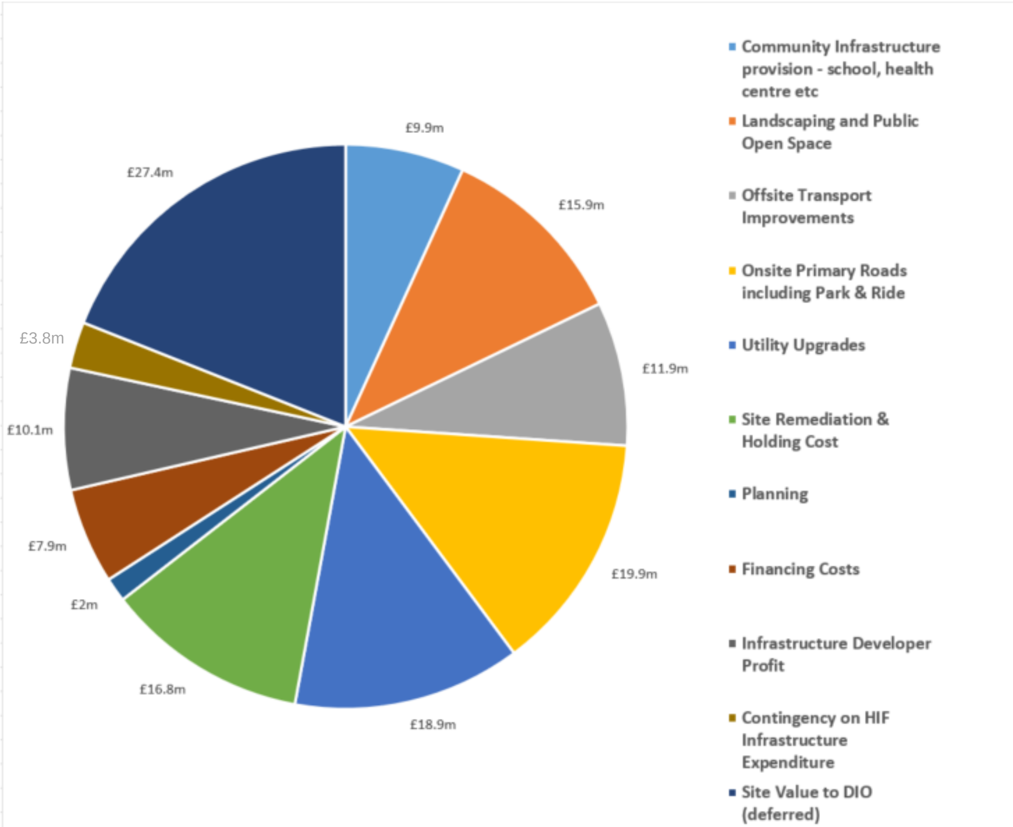
Scheme Viability Conclusion

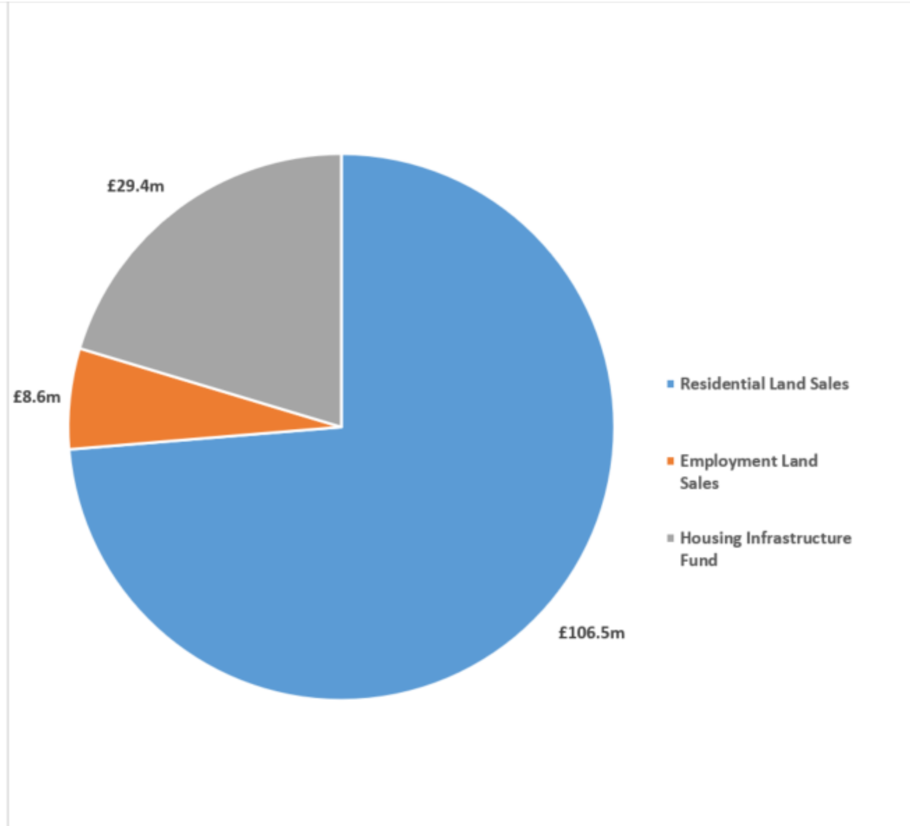
- These bar graphs and the pie charts below show a more detailed breakdown of how the scheme costs and income are derived.



Scheme Costs



Scheme Income



- The viability of alternative options for the size of the development were tested during master planning process and found to be unviable.