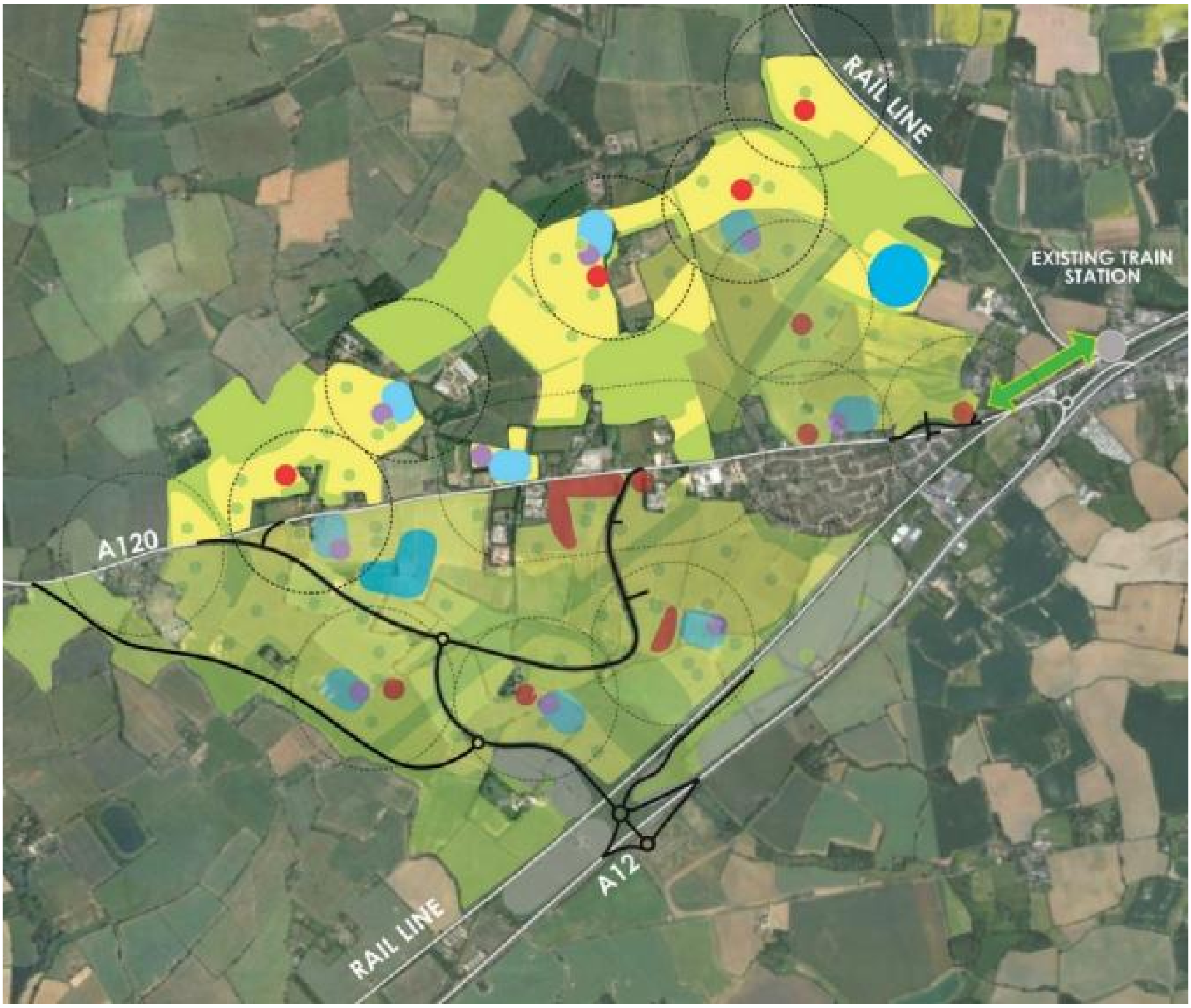
EXD/085(2/2)

L&Q

February 2020

Viability Analysis

West Tey Garden Community –250 dpa Scenario Analysis



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1. Introduction

1.1. Savills, on behalf of L&Q, Cirrus Land Limited and Gateway 120, have carried out a 250 dwelling per annum (dpa) scenario on the proposed scheme at West Tey as part of their due diligence of the scheme. This is a scenario of the baseline viability assessment that had been previously been submitted to the Inspector (EXD/061).

1.2. Following the conclusion of the Hearing Sessions in January 2020, the Inspector has requested for additional information on the 250 dpa scenario to be publicly provided. This note summarises the key changes to the assumptions and the results of the scenario. It should be read alongside the workbooks of the financial model.

2. Key Changes to Assumptions

2.1. The key change is that the delivery rate has been reduced from an average of 354 dwellings per annum (dpa), as per the baseline viability assessment, to 250 dpa. This scenario looks at a reduced rate of delivery following discussions and representations made at the Examination regarding an appropriate rate of delivery for a large scale development.

2.2. In our baseline viability assessment (EXD/061) at Appendix 6 and throughout the body of the report, we provide evidence as to why we consider that the higher average delivery rate of 354 dpa is appropriate. However, in line with best practice, we have tested the implications to the viability of the scheme of reducing the delivery rate. This has resulted in three key changes on the assumptions previously used.

Sales Values

2.3. The baseline viability assessment used an average sales value of £334 per sq ft. However, this average sales value was based on the delivery of 354 dpa, as per our original evidence base. If the delivery rate is restricted to 250 dpa, this will reduce the number of developers on the site, and reduce the supply of homes to the market (noting that our research suggested that the market could support a delivery rate even higher than 354 dpa), and that the delivery rate includes affordable housing within the total numbers.

2.4. Therefore, in order to best reflect the market, we have increased the average sales value by 5%, to reflect the restricted supply (but continued demand for new homes in the locality).

Infrastructure Costs

2.5. As the delivery rate has reduced, this has impacted on the delivery of infrastructure. This is due to the need to deliver the scheme in more contracts spread over a greater number of phases all of which will increase costs, due to multiple mobilisations, site set ups, and general further accommodation works. Certain items, such as bus support, cost more the longer it takes to deliver.

2.6. We have summarised the key infrastructure items in the below table.

Table 1 – Summary of Infrastructure Items under 250 dpa scenario

Item	Total	Per Dwelling
Education	£138,000,000	£8,118
Healthcare & Emergency Services	£26,450,000	£1,556
Community Facilities	£47,000,000	£2,765
Open Space	£89,500,000	£5,265
Waste	£15,000,000	£882
Water Supply, Network and Works	£94,500,000	£5,559
Surface Water / SUDs	£30,543,000	£1,797
Telecommunications	£7,000,000	£412
Energy	£71,900,000	£4,229
Transport	£130,700,000	£7,688
Public Transport	£67,800,000	£3,988
Consultant Fees	£53,879,475	£3,169
Contingency	£71,839,300	£4,226
Total	**£844,111,775**	**£49,654**

Source: Create Consulting

2.7. Overall, there is a c. £126 million increase in infrastructure costs with the 250 dpa scenario.

Finance Cost

2.8. The assumptions changed have impacted on the overall finance cost to reflect the length of the delivery programme. This has impacted on the finance rates, which has increased to £157 million (from the original £94 million). The rate applied has remained the same (6%). This is considered justified as detailed at Appendix 1.

3. Conclusions

3.1. Adopting the revised assumptions of average sales values, infrastructure costs and finance costs, this produces the following summary table.

Table 2 - Summary of 250 dpa Scenario

Revenue	Totals (subject to rounding)
Private Housing	£3,940,000,000
Affordable Housing	£1,020,000,000
Commercial	£44,000,000
Costs	
Land Acquisition (Stamp/Advisor Fees)	£12,600,000
Infrastructure Costs	£844,000,000
Build Costs	£2,020,000,000
Fees and Contingency	£310,000,000
Sales and Marketing	£87,000,000
Finance	£157,000,000
Return pre-tax (IRR)	9.21%
Land Value	**£195,000,000**

3.2. This shows that the residual land value has changed from £191,400,000 (£110,127 per gross acre) to £195,000,000 (£112,000 per gross acre).

3.3. The scheme is still viable under these assumptions.

Appendices

Appendix 1.0
Interest and Inflation Note

21 February 2020
Inflation and Interest Rate note v1.docx

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Dear Sir

Colchester Braintree Borders – Inflation and Interest Rates

We have sought to provide additional clarity regarding the treatment of an allowance for inflation to the interest rate that is used in the viability appraisals for the New Garden Communities. This has arisen from a proposition put forward by Mr O'Connell that a 2% inflationary allowance should be added to the 6% rate that has been applied by HYAS in their appraisal for The North Essex Authorities.

There were 5 appraisals put before you by the Councils and the promoters of the NGC's:

- HYAS for the North Essex Authorities for all the proposed NGC's
- Avison Young presenting work by Grant Thornton for NEGC
- Savills for L & Q/Cirrus Land in respect of Colchester Braintree Borders
- Gerald Eve for Galliard Homes in respect of East of Braintree
- G L Hearn for the Andrewsfield consortium and Countryside Properties.

In addition Mersea Homes (West of Colchester) confirmed during the hearings that they agreed with and were content to rely upon the HYAS work.

The work for NEGC assumes there will be an underlying guarantee for the funding and adopts an interest rate of 3.5%-4%. Gerald Eve have assumed interest rates be in the range 6-7% while the all the other models, including our own, take 6% as being the appropriate rate. In no case has an additional allowance been added to the interest rate to reflect inflation.

These viability appraisals have all been undertaken by leading, trusted and respected practices with long experience in the sector for some of the UK's leading residential developers, who have proven track records of developing at scale. The consistency in the approach taken to the treatment of interest rates is not only correct but to be expected because it is accepted practice.

It is accepted that over the course of the development of the NGC's there will be fluctuations in interest rates. The rate that we have applied is considered to be prudent and realistic in representing the cost of debt funding over the period of development. Since that judgement has already been made in selection of the interest rate there is neither the need nor the justification to add a further margin to reflect inflation. It is significant that our clients weighted cost of capital is at 3.4%, significantly below the rate that we have applied in the viability appraisal.

In conclusion we remain firmly of the opinion that the viability appraisal for the Colchester Braintree Borders is robust and that it has been carried out in accordance with RICS guidance. We suggest the consistency of approach to the treatment of interest rates that has been adopted by the North Essex Authorities, the site promoters and their professional advisors is compelling, and that you should be completely confident that it can and should be relied upon.

Yours sincerely

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