East Devon District Council

Cranbrook Plan DPD Updated Viability Report

July 2020

Three Dragons with Ward Williams Associates

This report is not a formal land valuation or scheme appraisal. It has been prepared using the HCA Development Appraisal Tool (DAT) and is based on district level data supplied by East Devon Council, consultation and quoted published data sources. The toolkit provides a review of the development economics of illustrative schemes and the results depend on the data inputs provided. This analysis should not be used for individual scheme appraisal.

No responsibility whatsoever is accepted to any third party who may seek to rely on the content of the report unless previously agreed.

July 2020
Three Dragons with WWA

EXECUTIVE SUMMARY

1. Three Dragons and Ward Williams Associates were commissioned by East Devon District Council (EDDC) to undertake a viability assessment at a strategic level to inform the preparation of the Cranbrook masterplan and accompanying DPD. This report is an update to the 2019 Viability Report and Appendices (CRAN063 and CRAN064) and has the following key changes:
    - Scheme characteristics – Revised land budget provided by EDDC and some amendments to the dwelling mix and garage provision, along with some further work on estate road and junction costs
    - Values – market housing sales values updated to 2020 Q1
    - Infrastructure and build costs – based on a new cost plan which has been updated in line with the updated IDP (as requested as part of the DPD examination) and scheme amendments, with costs revised to 2020 Q1
    - Land costs now treated as an input to the assessment cashflow, rather than an output
2. In addition, the modelling has been undertaken using the HCA Development Appraisal Tool, which is freely available.
3. The 2019 Viability Study considered viability across East Devon. This updated report is solely concerned with the viability of the expansion of Cranbrook.
4. The findings of the viability assessment are that the expansion of Cranbrook as set out in the DPD is viable with 15% affordable housing split 70% Affordable Rent and 30% shared ownership, and with the other planning obligations proposed. The £26.8m net residual value after all costs including land, finance and developer return are deducted is 2.3% of total scheme value.
5. While the net residual value is able to cover some changes in costs and values (i.e. £26.8m changes), sensitivity testing shows that more significant negative changes in either costs or values alone would need to see an adjustment to developer return or the scheme may become unviable.

1 Introduction

1.1.1 Three Dragons with Ward Williams Associates were commissioned by East Devon District Council to undertake a viability assessment at a strategic level to inform the preparation of the Cranbrook masterplan and accompanying DPD. At the time of the original commission in 2017, the commission also included a viability assessment of other development across the remainder of east Devon in order to inform a CIL review and both viability assessments formed part of the same report and appendices (CRAN063 and CRAN064).

1.1.2 The viability assessment was finalised in Autumn 2019, based on data collected during 2018/2019.Since its completion a CIL examination in public was held in February 2020 and an Examiners report has been published[1]. The report found the proposed CIL Charging Schedule to be based on sound evidence, which includes the 2019 Viability Assessment prepared by Three Dragons (CRAN063 and CRAN064):

"Para 33. The Council's decision to set rates for the following development:

- *All development at Cranbrook*
- *General residential development in Sidmouth and Budleigh Salterton*
- *General residential development in the rest of East Devon*
- *Sheltered housing, extra care housing and care homes East Devon District Council Draft CIL Charging Schedule, Examiner's Report 4 June 2020*
- *Rural Exception Sites*
- *Residential development on Strategic sites*
- *Retail (out of town centre)*
- *All other non-residential uses*

is based on reasonable assumptions about development values and likely costs. The evidence suggests that, residential and commercial development will remain viable across most of the area if the charges are applied. Only if development sales values are at the lowest end of the predicted spectrum would development in some parts of the District be at risk, however, I consider this situation to be unlikely."

1.1.3 As well as the CIL examination, hearings have also commenced into the Cranbrook DPD. Following the first round of hearings, sessions were suspended (in part) due to recognition of issues with the land budget following preparation of the Scott Schedule. The Council have asked Three Dragons to update the viability evidence base using the most up to date version of the masterplan land budget and its supporting evidence. The council has also requested, in response to questions put forward by participants at the Examination to set out more detail in terms of the assumptions used and to update time sensitive assumptions to a more recent period. Concerns were also expressed as to the accessibility of the Three Dragons model. Whilst it is quite possible to extract assumptions and run them in any model, the council has asked Three Dragons to further assist the examination and present the assessment and provide the detailed model using freely accessible software that any party can use without the need for subscription or other restriction. In response, Three Dragons has used, with the full model available on the council's website, the HCA Development Appraisal Toolkit (DAT). This is a free model available for anyone to use and has been used for similar viability work for both Homes England/HCA and others.

[1] See Appendix 3 for a copy

1.1.4 This report updates the assumptions, reflecting latest available information and where appropriate addresses points made during the consultation and examination processes 2017-2020. Ward Williams Associates (WWA) have revised the Feasibility Cost Plan (appendix 7) and Three Dragons has produced the updated viability assessment and this report.

Cranbrook

1.1.5 Cranbrook is a new community in East Devon close to the City of Exeter. The first 3,500 dwellings already have outline consent and around 2,100 of these have now been completed. In order to guide the next stage of development East Devon District Council has developed a masterplan and a draft DPD. The plan includes:

- 4,170 new dwellings
- Two primary schools and a Special Educational Needs school
- Two neighbourhood centres
- Employment land
- Two gypsy and traveller sites
- Open space and sports provision
- Suitable Alternative Natural Greenspace (SANGs)

1.2 Report

1.2.1 This report summarises the testing assumptions used in the viability assessment. Following this introduction:

- Section 2 reviews national and local policy requirements as well as other guidance for viability assessments
- Section 3 sets out the revised testing assumptions, including the revised land budget and the site benchmark land value; values for general housing, affordable housing, gypsy and traveller pitches and serviced land for commercial use; development and site infrastructure costs; s106 and s278 costs; and other development costs.
- Section 4 considers the findings of the viability testing

1.2.2 The appendices to this report are:

- Cranbrook new build sales values
- Gypsy & traveller pitch values
- Cranbrook Viability Model Summary
- Cranbrook Custom and Self Build Viability Model Summary
- 2020 Scott Statement of Common Ground (including additional information about how changes in this viability report respond to the issues raised)
- 2017 Workshop notes
- East Devon CIL Examination Report 2020
- WWA Cost Plan (covering dwelling costs and site infrastructure, s106, s278 and professional fees)
- HCA DAT Guide

2 Requirements of viability assessment

2.1 National and local policy context

National framework

2.1.1 The National Planning Policy Framework (NPPF) recognises the importance of positive and aspirational planning but states that this should be done *'in a way that is aspirational but deliverable'*[2].

2.1.2 The NPPF advises that cumulative effects of policy should not combine to render plans unviable:

'Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.'[3]

2.1.3 The government has long signalled its desire to simplify the planning process, including development contributions. The NPPF advises that:

'All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available.'[4]

2.1.4 In terms of affordable housing the government has reiterated previous policy on affordable housing thresholds and a desire to increase affordable housing products that can potentially lead to home ownership:

'Provision of affordable housing should not be sought for residential developments that are not major developments, other than in designated rural areas (where policies may set out a lower threshold of 5 units or fewer). To support the re-use of brownfield land, where vacant buildings are being reused or redeveloped, any affordable housing contribution due should be reduced by a proportionate amount'[5]

'Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups.'[6]

2.1.5 With regard to non-residential development, the NPPF states that local planning authorities should:

'set out a clear economic vision and strategy which positively and proactively encourages sustainable economic growth…local policies for economic development and regeneration…seek to address potential barriers to investment, such as inadequate infrastructure, services or housing, or a poor environment…be flexible enough to accommodate needs not anticipated in

[2] MHCLG, 2018 NPPF Para 16
[3] MHCLG, 2018 NPPF Para 34
[4] MHCLG, 2018 NPPF Para 57
[5] MHCLG, 2018 NPPF Para 63
[6] MHCLG, 2018 NPPF Para 64

the plan, allow for new and flexible working practices (such as live-work accommodation), and to enable a rapid response to changes in economic circumstances.'[7]

Planning Practice Guidance

2.1.6 Planning Practice Guidance[8] (PPG) provides further detail about how the NPPF should be applied. PPG contains general principles for understanding viability. The approach taken reflects the latest version of PPG, which was updated in September 2019. In order to understand viability, a realistic understanding of the costs and the value of development is required and direct engagement with development sector may be helpful[9]. Evidence should be proportionate to ensure plans are underpinned by a broad understanding of viability, with further detail for strategic sites that provide a significant proportion of planned supply[10].

2.1.7 For a specific site, values should be based on market evidence (rather than average figures) from the actual site[11]. All development costs should be taken into account, including within setting of benchmark land values, in particular para 012 within the PPG Viability section states that:

'Costs include:

- build costs based on appropriate data, for example that of the Building Cost Information Service
- abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value
- site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value
- the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value
- general finance costs including those incurred through loans
- professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value
- explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return'

2.1.8 Land values[12] should be defined using a benchmark land value that is established on the basis of Existing Use Value plus a premium for the landowner. The premium should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The benchmark should reflect the implications of abnormal costs, site specific infrastructure and fees. It should be informed by market evidence including current costs and

[7] MHCLG, 2019 NPPF, para 81
[8] MHCLG, Planning Practice Guidance
[9] PPG Paragraph: 010 Reference ID: 10-001-20180724
[10] PPG Paragraph: 005 Reference ID: 10-004-20180724
[11] PPG Paragraph: 011 Reference ID: 10-011-20180724
[12] PPG Paragraph: 013 Reference ID: 10-013-20190509 and 014 Reference ID: 10-014-20190509

values but that this should be based on development that is compliant with policies, where evidence is not available adjustments should be made to reflect policy compliance.

2.1.9 PPG states that developer return should be 15 – 20% of gross development value and that where affordable housing is provided a lower figure is more appropriate[13].

2.1.10 Recent changes (June 2020) allow CIL collecting authorities more discretion around how they deal with the late payment of CIL based on a deferral system for firms with turnover of less than £45m pa[14]. this responds to issues facing developers resulting from Covid-19 restrictions.

Other guidance on viability testing for development

2.1.11 Guidance has been published to assist practitioners in undertaking viability studies for policy making purposes – "Viability Testing Local Plans - Advice for planning practitioners"[15]. The foreword to the Advice for planning practitioners includes support from DHCLG, the LGA, the HBF, PINS and POS. PINS and the POS16 state that:

"The Planning Inspectorate and Planning Officers Society welcome this advice on viability testing of Local Plans. The use of this approach will help enable local authorities to meet their obligations under NPPF when their plan is examined."

2.1.12 The approach to viability testing adopted for this study follows the principles set out in the Advice. The Advice re-iterates that:

"The approach to assessing plan viability should recognise that it can only provide high level assurance."

2.1.13 The Advice also comments on how viability testing should deal with potential future changes in market conditions and other costs and values and, in line with PPG, states that:

"The most straightforward way to assess plan policies for the first five years is to work on the basis of current costs and values". (page 26)

2.1.14 But that:

"The one exception to the use of current costs and current values should be recognition of significant national regulatory changes to be implemented……" (page 26)

Guidance on Land Value Benchmarks

2.1.15 Planning Practice Guidance sets out the principles that area wide viability studies should follow when taking land values into account:

'To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to

[13] PPG Paragraph: 018 Reference ID: 10-018-20190509
[14] https://www.gov.uk/guidance/coronavirus-covid-19-community-infrastructure-levy-guidance
[15] The guide was published in June 2012 and is the work of the Local Housing Delivery Group, chaired by Sir John Harman, which is a cross-industry group, supported by the Local Government Association and the Home Builders Federation.
[16] Acronyms for the following organisations - Department of Communities and Local Government, LGA Environment and Housing Board, Home Builders Federation, Planning Inspectorate, Planning Officers Society

sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+). '[17]

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.'*[18]

2.1.16 PPG goes on to define a 'premium' for a landowner as being:

'**…reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements**'[19]

2.1.17 The benchmark land values should therefore both reflect emerging policy requirements and planning obligations, and be informed by comparable market evidence which may or may not have taken current and or emerging policy requirements into account.

2.1.18 Advice for Planning Practitioners is similar to that contained within the PPG and states:

'**We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values…….).**'

2.1.19 Advice for Planning Practitioners also notes that reference to market values can still provide a useful 'sense check' on the benchmark values that are being used for testing, but it is not necessarily recommended that these are used as the basis for the input to a model. Therefore, land value benchmarks used to test plan policies can be less than the value at which land is being traded in the market. This point was highlighted in the London Mayoral CIL examiner's report (also from 2012) which, sets out important principles in the treatment of benchmark land values

'Finally the price paid for development land may be reduced. As with profit levels there may be cries that this is unrealistic, but a reduction in development land value is an inherent part of the CIL concept. It may be argued that such a reduction may be all very well in the medium to long term but it is impossible in the short term because of the price already paid/agreed for development land. The difficulty with that argument is that if accepted the prospect of raising funds for infrastructure would be forever receding into the future. In any event in some instances it may be possible for contracts and options to be re-negotiated in the light of the changed circumstances arising from the imposition of CIL charges'.

[17] PPG Paragraph 013 Reference ID: 10-013-20190509
[18] PPG Paragraph 014 Reference ID: 10-014-20190509
[19] PPG Paragraph 016 Reference ID: 10-016-20190509

2.1.20 Recent RICS research also highlights the drawback in using market evidence to set land value benchmarks:

'If market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for sites and try to recover some or all of this overpayment via reductions in planning obligations'.[20]

2.1.21 Recent guidance in London[21] is also consistent with these views, stating that:

'The Mayor considers that the 'Existing Use Value plus' (EUV+) approach is usually the most appropriate approach for planning purposes. It can be used to address the need to ensure that development is sustainable in terms of the NPPF and Development Plan requirements, and in most circumstances the Mayor will expect this approach to be used.' Para 3.47

Policy requirements

2.1.22 The Cranbrook DPD contains requirements that have an impact on viability. These include:

- Secondary and primary schools, with special educational need provision
- Provision of community buildings
- Provision of employment land
- Open space (children's play, open space and allotments)
- Space for retail development
- Sports hub and pitches/courts
- Space for the expansion of the energy centre
- Gypsy and traveller sites
- Cemetery
- Undergrounding of power lines
- Self/custom build plots
- Transport enhancements including facilities for additional rail services as well as London Road enhancements
- Enhanced carbon standards
- Parking standards
- Electric vehicle charging
- SANGS provision
- Nationally Described Space Standards

2.1.23 These requirements have not changed since the 2019 viability report although there have been updates to reflect new information and to bring the costs to 2020 Q1

2.2 Principles of viability testing

2.2.1 The Advice for planning practitioners[22] summarises viability as follows:

[20] RICS, 2015, Financial Viability Appraisal in Planning Decisions: Theory and Practice
[21] GLA, 2017, Affordable Housing and Viability SPD 2017
[22] Local Housing Delivery Group, 2012, Viability Testing Local Plans - Advice for planning practitioners

'An individual development can be said to be viable if, after taking account of all costs, including central and local government policy and regulatory costs and the cost and availability of development finance, the scheme provides a competitive return to the developer to ensure that development takes place and generates a land value sufficient to persuade the land owner to sell the land for the development proposed. If these conditions are not met, a scheme will not be delivered.' (page 14)

2.2.2 Reflecting this definition of viability, and as specifically recommended by the Advice for planning practitioners, we have adopted a residual value approach to our analysis. Residual value is the value of the completed development (known as the Gross Development Value or GDV) less the costs of undertaking the development. The residual value is then available to pay for the land. The value of the scheme includes both the value of the market housing and affordable housing (and other non-residential values). Scheme costs include the costs of building the development, plus professional fees, scheme finance and a return to the developer. Scheme costs also include planning obligations (including affordable housing, direct s106 costs) and the greater the planning obligations, the less will be the residual value.

2.2.3 The residual value of a scheme is then compared with a benchmark land value. If the residual value is less than the benchmark value, then the scheme is less likely to be brought forward for development and is considered unviable for testing purposes. If the residual value exceeds the benchmark, then it can be considered viable in terms of policy testing.

2.2.4 The benchmark land values used in the testing are a measure of a competitive return to a landowner for the purposes of viability testing. PPG paragraph 012 – 015 sets out that benchmark land values should be based on the current use value of a site plus an appropriate site premium in most cases. The principle of this approach is that a landowner should receive at least the value of the land in its 'pre-permission' use, which would normally be lost when bringing forward land for development. The benchmark land values used in this study are based on the principle of 'Existing Use Value Plus' which is considered further, along with other approaches to determining land value in a later chapter.

2.2.5 Note the approach to Local Plan level viability (or CIL) assessment does not require all sites in the plan to be viable. The Harman Report says that a site typologies approach (i.e. assessing a range of example development sites likely to come forward) to understanding plan viability is sensible, a view echoed in CIL guidance. Viability *'…is to provide high level assurance that the policies with the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan"*.

3 Updated testing assumptions

3.1 Key changes

3.1.1 The key changes in this updated viability assessment from the 2019 assessment (CRAN063 and CRAN064) are:

- Scheme – Revised land budget and some amendments to the dwelling mix and garage provision, along with some further work on estate road and junction costs
- Values – market housing sales values updated to 2020 Q1 (other values remain suitable for 2020 Q1)
- Infrastructure costs – amended in line with the updated IDP and scheme amendments, with costs revised to 2020 Q1
- Dwelling and site costs revised to 2020 Q1
- Land costs now treated as an input to the assessment cashflow, rather than an output

3.2 Cranbrook Expansion

3.2.1 Cranbrook is a new community in East Devon close to the City of Exeter. The first 3,500 dwellings already have outline consent and approximately 2,100 of these have been completed at the time of writing. In order to guide the next stage of development East Devon District Council has developed a masterplan and a draft DPD for 4,170 dwellings and supporting facilities.

3.2.2 There are four areas identified for the expansion of Cranbrook (Bluehayes, Treasbeare, Cobdens and Grange). The masterplan and draft DPD have different requirements for the various areas in terms of development characteristics and infrastructure. For the purposes of testing the viability of the plan and any CIL implications all of these four areas have been tested jointly[23]. The draft DPD key requirements are set out in Table 3.1.

Table 3.1 Key Cranbrook DPD Requirements

	Bluehayes	**Treasbeare**	**Cobdens**	**Grange**
Dwellings	960	915	1495	800
Nationally described space standards	New dwellings required to achieve nationally described space standards			
Education	Secondary school contributions	Primary school and early years; secondary school contributions	Primary school and early years, SEN; secondary school contributions	Secondary school contributions
Community				Community building
Open space	Formal open space and play; allotments	Formal open space and amenity, play, allotments	Formal open space and amenity, play, allotments	Formal open space and amenity, play, allotments

[23] The cost equalisation process in the DPD ensures that the different landowners and developers share the infrastructure costs and provides greater certainty that the infrastructure required to support the development as a whole will be provided.

	Bluehayes	**Treasbeare**	**Cobdens**	**Grange**
Sports		Sports hub with facilities and pitches	Extension of existing sports hub	
Mixed use	Business spaces	Business spaces, shops	Business spaces, shops	Business spaces, shops
Other		Land for energy centre, Gypsy and traveller pitches, noise mitigation	Gypsy and traveller pitches, site for worship, underground power lines, cemetery	Underground power lines
Self-build	4% of all dwellings will be custom/self-build			
Transport	Contributions for sustainable transport, enhancement of London Road, footbridge			
Carbon/energy	Higher carbon standards District heat			
Suitable Alternative Natural Green Space (SANGS) and management	8ha per 1000 population generated by residential development schemes			
Town centre/other	Health & well-being hub, extracare, emergency services			

3.3 Cranbrook land budget

3.3.1 Table 3.2 provides the February 2020 updated land budget developed by East Devon District Council. The residential areas make up 55% of the development area (39% of the total area including SANGS[24]). Both the total land area and the net developable areas have increased compared to the previous land budget.

Table 3.2 Cranbrook Land Budget

Land area (ha) as revised February 2020	**Net developable area for housing**	**Residual Area**	**Developable Area - Gross**
Residential (excluding Mixed use areas)			
Residential (excluding Mixed Use and Roads)	75.01		
Mixed Use land (incl land for housing)			
Mixed Used Land (excluding roads)	3.78		
Road Network area with residential frontage	29.75		
Road network with no residential frontage		3.29	
Gypsy and Traveller Site		2.13	
B Class employment		4.93	
Education		6.25	
Sports Hub		9.96	
Allotments		2.45	
Amenity Open Space		2.64	

[24] Suitable Alternative Natural Greenspace

Land area (ha) as revised February 2020	Net developable area for housing	Residual Area	Developable Area - Gross
Formal Recreation		7.53	
Play Space (children)	0.49	0.00	
Play Space (Youth)		0.49	
Cemetery Land		1.00	
SANGS		78.27	
Energy Centre expansion		3.63	
Incidental Open space included for SUDS and ecology		30.31	
Other - including Flood zones		15.80	
TOTAL	**109.03**	**168.68**	**277.70**
Safeguarded Land: Station Land[25]		1.98	

3.4 Housing development

3.4.1 Table 3.3 sets out the dwelling sizes and mixes assumed in the testing, as well as the number of garages. The housing floorspace coverage is 3,754 sq m/net developable ha, which is approximately the same as Cranbrook phase 1 (3,760 sq m/net developable ha[26]).

3.4.2 970 garages are allowed for (split single and double garages), again based on the level of provision in Cranbrook phase 1[27]. This allowance is more than the 2019 viability study and more than suggested by examination participants as part of the Scott Schedule.

3.4.3 The DPD includes a policy that requires dwellings to meet the nationally described space standards (NDSS). The dwelling sizes that have been applied for the viability testing (in table 3.3) are consistent with the NDSS.

[25] DPD policy CB10 safeguards this land from other forms of development. It is excluded from the land budget as there is no change of land use within the DPD.
[26] Based on applications 19.0787.MRES, 19.1013.MRES, 18.1237.MRES, 17.1973.MRES, 17.0391.MRES, 16.1007.MRES, 13.1752.MFUL (Persimmon, Bovis & Taylor Wimpey), 11/0053/MRES (Charles Church, Persimmon & Wimpey) covering 1,990 dwellings
[27] Based on applications 19.0787.MRES, 19.1013.MRES, 18.1237.MRES, 17.1973.MRES, 17.0391.MRES, 16.1007.MRES, 13.1752.MFUL (Persimmon, Bovis & Taylor Wimpey), 11/0053/MRES (Bovis, Charles Church, Persimmon & Wimpey) covering 2,497 dwellings

Table 3.3 Cranbrook dwelling sizes and mix

Type and tenure	sq m (inc circulation)	Split	Number
Custom and self-build	4%		
3bd	105	59%	100
4bd	125	41%	70
CSB sub-total		*100%*	*170*
Market housing			81%
2 bed terrace	70	10%	337
3 bed terrace	93	10%	337
4 bed terrace	115	15%	506
2 bed semi	70	5%	169
3 bed semi	100	35%	1,181
3 bed detached	105	10%	338
4 bed detached	125	15%	506
Sub-total		*100%*	3,374
Affordable Housing			15%
Affordable Rent		70%	
1 bed flat	55	10%	44
2 bed flat	67	0%	-
2 bed terrace	70	65%	284
3 bed terrace	93	25%	110
Shared Ownership		30%	
2 bed terrace	70	40%	76
3 bed terrace	93	60%	112
Affordable housing sub-total			626
Total			*4,170*

Garages	% of dwellings	Number
Total garages	23%	970
Single garages	*79%*	*764*
Double garages	*21%*	*206*

3.5 Values

Market values

3.5.1 The 2019 set of the market values and the market value areas in East Devon was derived from an analysis of new build Land Registry data for the period June 2014 to April 2018, indexed to May 2018 using Land Registry House Price Index. The Land Registry data was matched to Energy Performance Certificates to enable a value per sq m to be generated for the different house types. This is then grossed up by the dwelling sizes to provide an approximate dwelling value.

3.5.2 This approach was accepted as appropriate to inform the CIL review as set out in the Examiner's report on the East Devon CIL charging schedule. However, following discussion and comments made by participants at the Cranbrook DPD examination to use the latest available data for the viability testing, the council have requested the figures on values are updated using the same approach. The lack of transactional data since Covid 19 restrictions were applied by the UK government has meant that a mid-point in 2020Q1 is the latest date when transaction data from Land Registry and EPC records is available, and so this has been used as the base date for the values (and the costs) used in this viability assessment.

3.5.3 Therefore, using the same (and accepted through the CIL examination process) method for generating a robust set of dwelling prices the values data has been updated to show the following (details in Appendix 1):

Table 3.4 Market values by dwelling types 2015 – Feb 2020, indexed using HPI[28]

Dwelling type	Count of sales	Average £ per sqm
Flats	42	£2,853
Terrace	304	£3,047
Semi detached	266	£3,148
Detached	247	£2,972

3.5.4 The values for flats have dropped slightly since the previous data was prepared in 2018, however the houses have all risen in value[29].

Table 3.5 Cranbrook Market values by dwelling types

2 bed flat	2 bed terrace	3 bed terrace	4 bed terrace	2 bed semi	3 bed semi	3 bed detached	4 bed detached
£174,033	£213,290	£283,371	£350,405	£220,360	£314,800	£312,060	£371,500

3.5.5 In normal circumstances it would be good practice to sense check the price paid data from Land Registry with the advertised price of properties on the market. However, given that the housebuilding industry has only recently reactivated at time of writing and that the economy in general has been impacted by the Covid19 pandemic this is unlikely to be representative of the full plan period. As it is not possible to predict the future with any certainty, it is considered appropriate to rely on the substantial volume of transactions from a 5 year period preceding the pandemic, noting that the figures set out in Table 3.2 and 3.3 account for some 859 transactions.

3.5.6 However, Three Dragons has reviewed the selling prices across the winter 2019/20 to review whether in the short period prior to the pandemic the market was reflective of the preceding 5 years – accepting that transactions and prices are often more subdued during the winter. There were no flat transactions recorded over that period and the values per square metre for terraces and semi-detached were within 0.5% of the values set out in Table 3.2. Detached properties

[28] Indexed using the change in the HPI between the transaction date and February 2020, by dwelling type
[29] Flats dropped by 1%, terraces have risen 6%, semi-detached risen by 5% and detached risen by 1%

were lower but with only a limited number of transactions (7), of which 6 were from one scheme, so potentially not reflective of the wider market.

3.5.7 Therefore, given the number of transactions recorded, all within the Cranbrook area, it is considered that the figures set out in Table 3.4 and 3.5 are reasonable and robust to use within the viability testing and the best available evidence.

Affordable housing values

3.5.8 The viability testing is based upon DPD policy CB11 15% affordable housing split 70% affordable rent and 30% shared ownership[30].

3.5.9 Discussion with the Council's Housing Enabler in November 2017 and a survey of local Registered Providers in January 2018 was used to provide the transfer values for affordable housing in East Devon, including Cranbrook (i.e. an estimate of how much the RPs may pay for the affordable units) in the January 2019 viability report.

3.5.10 The discussions were further updated prior to the Cranbrook examination in response to queries from the other participants and at the time came to similar conclusions to the January 2019 viability report as to a suitable set of transfer values and therefore no changes were made to the January 19 viability report.

3.5.11 A single housing association is currently taking the affordable housing in Cranbrook and contact with New Business Managers in June 2020 has confirmed that the values that they prepared and shared previously with Three Dragons, participants at the Examination representing developers and the council in June 2019 were still appropriate to be applied in terms of the base date for this work of February 2020.

Table 3.6 Affordable housing transfer values

Affordable rent	**June 2019 housing association figures confirmed in June 2020**
1 bed flat	£93,500
2 bed flat	£110,000
2 bed terrace	£135,500
3 bed terrace	£159,000
4 bed terrace	£185,000
Shared ownership	
2 bed terrace	£160,000
3 bed terrace	£184,000

[30] Note that the policy allows social or affordable rent, and intermediate or other

Other values

3.5.12 Other components of the overall scheme GDV are the gypsy and traveller pitches, the self-build plots and the commercial land:

- Custom and self-build (CSB) net plot values at £55,000/plot, totalling £9.4m. Self-build plot values are estimated as the residual value for custom build three/four bed houses, and the estimate is based on a separate residual value exercise[31].
- Employment land at £0.8m/ha (as per MHCLG Exeter area employment land benchmark[32]) for 4.93ha employment land and the 0.59ha proportion of the total 3.78ha mixed-use land identified for commercial development[33]. The combined 5.5ha have a gross value of £4.4m.
- Gypsy and traveller plot values of £55,000 per plot based on sales evidence originally presented in the 2019 viability report, totalling £825,000[34].

Benchmark land values

3.5.13 Benchmark land values have been developed in accordance with the guidance discussed in section 2.1. The benchmark land values *per hectare* remain the same as the 2019 viability assessment report although these are now applied to the changed land budget. These benchmarks are a cost to the scheme.

Table 3.7 Benchmark Land Values

Category	Ha	£/ha benchmark	Total
Site area excluding SANGs	199.43	£300,000	£59,829,000
Net developable for residential	*109.03*	*£300,000*	
Land for other development uses, non-frontage road and green space	*90.4*	*£300,000*	
SANGS	78.27	£25,000	£1,956,750
Total	277.7	£222,491	£61,785,750

3.5.14 When these benchmarks are used in the viability testing, the additional costs related to site purchases are also included:

- Agents and legal costs at 1.75% of site value
- Stamp Duty Land Tax at the prevailing rates

3.5.15 The payments for land are phased with 50% in 2021/22 (the year before housing delivery) and 50% in 2026/27 (the year before the 2nd 50% of the housing delivery). Breaking down a large land purchase into smaller parcels is a standard component of risk mitigation for the development industry.

3.5.16 The benchmark land value for development land is £300,000/gross ha and is approximately 15 times the agricultural land value of £19,750/ha[35]. This is the mid-point of the range suggested

[31] Sales values at 5% over comparable general estate housing, build costs at 5% over median, 12.5% professional fees, 3% marketing and 17.5% developer return, provision of garages and inclusive of district heat connection charges and carbon reduction. See appendix 4
[32] MHCLG, 2018, Land Value Estimates for Policy Appraisal
[33] This split of the mixed-use area is based on the broad assumption that housing will take approximately 2.75ha and that the balance of 1.03ha will be split in proportion to the proposed retail and community floor areas (57%:43%).
[34] See Appendix 2
[35] MHCLG, 2018, Land Value Estimates for Policy Appraisal

by the HCA (now Homes England) guidance[36] and was found sound as a benchmark for large sites in the 2020 East Devon CIL examination.

3.5.17 The £25,000/ha benchmark land value for the SANGs land is based on the comparable agreement to purchase 39ha SANGs land for the urban extension of 2,500 dwellings at SW Exeter[37]. This also takes into account the flood and landscape issues affecting the Cranbrook SANGs, meaning that these areas are unsuitable for built development uses. £25,000 per ha represents a premium of 27% over the existing use agricultural value suggested by MHCLG.

3.5.18 Taken together, the benchmark for the whole 277.7ha is £222,491/gross ha. This is equivalent to over 11 times the agricultural value which remains in the range suggested by the HCA.

3.6 Development costs

Plot and infrastructure costs

3.6.1 Ward Williams Associates has developed an updated cost estimate for the Cranbrook masterplan (see appendix 7 for more details). This includes dwelling build costs as well as the range of site infrastructure costs, s106 and s278 costs, and professional fees.

Table 3.8 Cranbrook Development 2020 Q1 costs

Item		Cost £'s	Notes
A	Surveys	1,700,000	Topo, Getotech, Nuisance, Archaeological, Ecological
B	Enabling Works	1,460,000	Site Clearance & Tree Protection Works
C	Housing	465,460,000	4,000nr Dwellings, 170nr Self-Build Plots & 15nr Traveller's Pitches.
D	Plot costs	39,910,000	For the 4,000nr dwellings
D	Infrastructure	80,690,000	Primary, secondary and tertiary roads, lighting, foul and surface drainage, adoption/maintenance
E	Section 278 Works	11,780,000	Road, Roundabout and Bridge Works on London Road
F	Landscaping	14,040,000	POS, SANGS, Off Plot Parking, Walls & Land Provision, employment land servicing
G	Section 106	71,670,000	Based on IDP – note some s106 items are included in Landscaping (e.g. SANGs provision, cemetery)
H	Utilities	40,720,000	District heat, electricity, water, telecoms
I	Site Wide Abnormals	24,540,000	Allowances for earthworks and strategic retaining, attenuation, undergrounding power lines, pumping stations.
J	Abnormal Plot Costs	19,900,000	Allowance for additional foundations, garages, carbon reduction over building regulations.
K	Sewage Treatment Plant and Outfall Provision Therefrom	n/a	

[36] Homes and Communities Agency, 2010, Annex 1 (Transparent Viability Assumptions) to the guidance for its Area Wide Viability Model "For greenfield land, benchmarks tend to be in a range of 10 to 20 times agricultural value."

[37] Teignbridge District Council capital programme 2018-19 to 2021-22 project KB1, with a budget of £1.1m for purchase and delivery of 39ha of SANGs. The land price element of this was £25,000/ha (source TDC, personal contact, February 2020).

Item		Cost £'s	Notes
L	Professional Fees	48,340,000	Fees at 6.3% overall - note that the fees vary by type of cost item and that additional fees are not added to some all-in project cost allowances e.g. many of the s106 items.
Total Estimated Development Cost		817,210,000	As at 2020 Q1

3.6.2 Within the site wide abnormals, the cost for undergrounding the powerlines have been updated with the figures agreed between EDDC and Persimmon.

3.6.3 The updated Infrastructure Delivery Plan have been used as the basis for the s106 items to be included in the viability testing. Where items are already part-funded, the remaining funding gap is used. The s106 costs have been provided by EDDC and are based at 2020 Q1.

Table 3.9 Cranbrook s106 2020 Q1 costs

Transport	"Public transport" range of measures including bus services, enhanced rail frequency and 2nd train station	£6,378,000
Transport	Off site walking and cycling infrastructure	£2,530,000
Transport	Car club vehicles and/or e-bike docking stations	£300,000
Transport	Travel planning	£285,000
Transport	EV Charging ducting	£400,000
Community development	Children's Centre	£36,000
Education	West Primary school of 420 places plus early years	£8,104,000
Education	East primary school of 630 places plus early years	£12,129,000
Education	Enhanced Secondary education provision – expansion to around 1125 places	£2,583,000
Education	Special Educational Needs (SEN) provision	£1,018,000
Healthcare	Health and Well-being Hub building	£8,769,000
Healthcare	Extra Care Housing x 55 flats	£3,500,000
Public Services	"Blue Light" Emergency services facility	£1,900,000
Community development	Youth services facility (fit out)	£36,000
Public Services	Town Council Office	£2,000,000
Public Services	Library facilities (fit-out)	£480,000
Sport and Recreation	Sports Centre and Swimming Pool including 6x lane 25m swimming pool, learner pool, 60x station gym, dance/exercise studio, 4x court sports hall and 2x squash courts,	£3,994,000
Sport and Recreation	Allotments 0.8ha within the extant permitted area (in 2x clusters); 2.43ha within the expansion areas (in 6x clusters);	£720,000
Sport and Recreation	0.97ha (1x destination play space incorporating LEAP and NEAP, 7x LEAP, 4x NEAP) within the expansion areas	£2,323,000
Sport and Recreation	Natural Grass Sports Pitches organised into two sports hubs	£850,000
Sport and Recreation	Natural grass pitch expansion of Ingrams (1xJSP)	£75,000
Sport and Recreation	Artificial Grass Sports Pitches	£314,000
Sport and Recreation	Changing/clubhouse facilities and car parking for sports pitches	£676,000
Sport and Recreation	Cricket	£310,000
Sport and Recreation	Tennis Courts	£373,000
Sport and Recreation	Bowls	£50,000
Environment and GI	Amenity open space	£590,000
Environment and GI	Parks and recreation grounds	£2,466,000

Community development	Community Centre (s)	£1,650,000
Environment and GI	SANGS maintenance	£2,500,000
Environment and GI	Off site habitat mitigation	£2,069,000
Transport	Engine Testing Bay at Exeter Airport	£1,518,000
Environment and GI	Biodiversity net gain	£743,000

3.6.4 In addition to the s106 items above, there are s278 items relating to London Road as follows:

Table 3.10 Cranbrook s278 2020 Q1 costs

Item	**Total cost ***
A – New cross roads	£625,000
A - Signalisation	£244,000
B – New 3 arm roundabout	£1,832,000
C – New pedestrian bridge (items 5 and 6 in IDP) allowance	£2,856,000
D – Enhanced existing roundabout with fourth arm added to serve Treasbeare expansion area	£163,000
D - plus pedestrian crossing facilities	£20,000
E – Pedestrian and cycle crossing point (provide a toucan crossing)	£149,000
F – Enhancement to existing roundabout (4th arm to be enhanced)	£102,000
F - Pedestrian crossing points	£82,000
G – Provide enhanced pedestrian crossing point as pelican crossing	£129,000
H – Gribble Lane closed to vehicular traffic and toucan crossing provided at this location to provide safe links to the sports hub located in Cobdens expansion area	£149,000
I - T junctions	£176,000
J – Low speed (20mph design standard) staggered cross roads	£625,000
K – Provision of T junction to serve as secondary access to Grange	£176,000
L – New three arm roundabout to provide access to Cobdens lane and the Cobdens expansion area	£1,832,000
Road closures - Station Road, Gribble Land and Cobdens Lane	£82,000
Upgrading of London Road between A and B	£353,000
Upgrading of London Road between I and L	£1,900,000
London Road Service Diversions	£1,370,000
** including adoption and professional fees*	

3.6.5 The £71.669m for s106 and £12.865m for s278 totals £84.5m, which is an increase over the combined total of £80.7m in the 2019 viability study.

3.6.6 East Devon District Council has provided an updated housing delivery trajectory for Cranbrook. The additional development at Cranbrook is anticipated to have the first completions in 2022/23 and continue to 2032/3. In order to use this trajectory within the HCA DAT cashflow minor amendments have been made in 2026/27 and 2027/28, with development reduced by 15 dwellings in 2026/27 and then increased in 2027/28. Table 6.5 details the housing trajectory and the cashflow amendments.

Table 3.11 Cranbrook housing trajectory

Area	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	Total
Bluehayes					20	65	150	179	150	159	150	87			960
Treasbeare				30	105	105	105	105	105	105	105	105	45		915
Cobdens				40	100	120	185	192	192	168	130	130	130	108	1495
Grange				20	67	85	97	115	115	115	72	55	55	4	800
Expansion Area Total	0	0	0	90	292	375	537	591	562	547	457	377	230	112	4170
Net of self-build				75	277	360	522	576	547	532	442	362	215	96	4000
Amended for cashflow				75	277	360	522	561	561	532	442	362	215	96	4000

3.6.7 The housing delivery trajectory is used to inform the programme of costs over the development. Further detail can be found in the DAT model. Costs are phased in one of the following ways:

- Phased in advance of dwelling sales costs (8 months before first sale)
- Phased with sales start and end dates
- SANGs phasing
- Oher costs - individually phased

3.6.8 Table 3.10 indicates which approach is taken for each cost, and how the total is apportioned across the different phases. Note that phases run concurrently.

Table 3.12 Cranbrook cost programme

		Phase 1	**Phase 2**	**Phase 3**	**Phase 4**
Phase Start date	Build	20/10/2021	31/07/2022	28/01/2025	28/11/2024
Phase End date	Build	28/02/2033	27/10/2031	05/09/2030	01/12/2028
Phase Start date	Sales	20/06/2022	01/04/2023	28/09/2025	29/07/2025
Phase End date	Sales	31/03/2033	26/11/2031	06/10/2030	31/12/2028
Item	Total cost	Proportion allocated across phase 1	Proportion allocated across phase 2	Proportion allocated across phase 3	Proportion allocated across phase 4
Phased with build start/end dates for residential phases					
EV Charging ducting	400,000	103,460	156,340	99,300	40,900
CSB servicing plots	2,805,000	725,513	1,096,334	696,341	286,811
Energy - carbon reduction	6,828,000	1,766,062	2,668,724	1,695,051	698,163
Sub-total	*10,033,000*	*2,595,035*	*3,921,398*	*2,490,692*	*1,025,874*
Infrastructure and utilities	111,861,000	28,932,848	43,720,872	27,769,493	11,437,787
Enabling works	1,540,000	400,695	112,638	513,333	513,334
Other site abnormals	21,044,000	5,443,031	8,225,047	5,224,173	2,151,749
Other plot abnormals	14,564,000	3,766,979	5,692,339	3,615,513	1,489,169
Phased with sales start/end dates for Res phases					
Offsite walking and cycling	2,530,000	654,385	988,851	628,073	258,693
Travel planning	285,000	73,715	111,392	70,751	29,141
Car club/ebike	300,000	77,595	117,255	74,475	30,675
SEN Provision	1,018,000	263,306	397,885	252,719	104,091
Extra care housing	3,500,000	905,275	1,367,975	868,875	357,875
Blue light emergency facility	1,900,000	491,435	742,615	471,675	194,275
Town Council office	2,000,000	517,300	781,700	496,500	204,500
Allotments	720,000	186,228	281,412	178,740	73,620
LEAPS, NEAPS etc	2,323,000	600,844	907,945	576,685	237,527
Artificial grass pitches	314,000	81,216	122,727	77,951	32,107
Cricket	310,000	80,182	121,164	76,958	31,698
Bowls	50,000	12,933	19,543	12,413	5,113
Amenity open space	590,000	152,604	230,602	146,468	60,328
Parks and Rec grd	2,466,000	637,831	963,836	612,185	252,149
SANGS maintenance	2,500,000	646,625	977,125	620,625	255,625
Offsite habitat mitigation	2,069,000	535,147	808,669	513,629	211,555
Biodiversity net gain	743,000	192,177	290,402	184,450	75,972
Sub-total	*23,618,000*	*6,108,796*	*9,231,095*	*5,863,169*	*2,414,941*
Other Landscaping	9,600,000	2,483,040	3,752,160	2,383,200	981,600
Public transport	6,378,000	1,649,670	2,492,841	1,583,339	652,151
CHP	20,890,000	5,403,199	8,164,857	5,185,943	2,136,003
SANGS phasing					
SANGS provision	4,130,000	420,923	1,683,693	1,262,770	762,614
	Sang start	01/04/2022	01/10/2024	01/10/2027	01/10/2029
	Sang end	31/03/2023	01/10/2026	31/03/2029	31/10/2030
Other Costs		Start date	End date		
Childrens centre, youth services	72,000	01/04/2022	31/03/2026		
Community centre & Library fit	2,130,000	01/04/2024	31/03/2025		

Schools provision	22,816,000	01/04/2023	31/03/2026
LA Fees	120,000	01/04/2021	31/03/2033
Surveys	1,717,000	01/01/2020	31/03/2023
G&T ph1	520,667	01/04/2025	31/03/2026
G&T ph2	1,041,333	01/04/2030	31/03/3031
Health & well being hub	8,769,000	01/04/2023	31/03/2025
Cemetery, B space	1,514,000	01/04/2027	31/03/2029
Spts centre/ s pool	3,994,000	01/04/2024	31/03/2026
Grass pitches	925,000	01/04/2026	31/03/2028
Clubhouse & tennis courts	1,049,000	01/04/2027	31/03/2029
Transport -E,F,F,G,I, J*	1,263,000	01/04/2022	31/03/2023
Transport – B*	1,832,000	01/04/2023	31/03/2024
Transport H & K*	325,000	01/04/2024	31/03/2026
Engine Test bay	1,518,000	01/04/2025	31/03/2026
Transport - D,L,Stn rd closure*	2,097,000	01/04/2026	31/03/2027
Transport London Rd pt1	1,811,500	01/04/2026	31/03/2027
Transport - A,C*	3,725,000	01/04/2028	31/03/2029
Transport London Rd pt2	1,811,500	01/04/2032	31/03/2033
HV power lines	5,100,000	01/04/2021	31/03/2022
*see s278 list in earlier table			

Other development costs

3.6.9 The developer return for market housing is assumed to be 17.5% of sales value. This is the mid-point within the range suggested by PPG. This level of return relates to the risk of development, with factors that increase risk leading to a higher return to compensate for this, and factors lowering risk leading to a reduced return. The table below rehearses factors affecting development risk for the Cranbrook expansion. The table of risk factors below show that the expansion of Cranbrook includes factors that both increase and decrease risk. Taking all the above into account and the planning guidance suggested range, it is considered reasonable for a mid-point return of 17.5% to be used within the viability appraisal.

Table 3.13 Risk Factors

Higher Risk Factors	Lower Risk Factors
• Large scale of development • Development period of 11 years housing delivery plus 2-year lead-in • Delivery of significant additional infrastructure – some of which is early in the development programme (e.g. Bluehayes primary school) • C-19 impacts (short term?) plus future economic cycles	• Multiple established developers sharing risk • Established market in Cranbrook (compared to the initial phase) • Current and proposed community infrastructure (including new schools, progress on the town centre and the proposed additional local centres) increasing saleability • Current and proposed transport infrastructure serving Cranbrook increasing saleability • EDDC track record in sourcing third-party funds for infrastructure • Detailed design and costing work as part of the Cranbrook plan and the viability assessment reduces uncertainty about scheme components and costs • Establishment of an equalisation framework to spread the costs of infrastructure provision • Continued growth in nearby off-site employment opportunities increasing saleability

3.6.10 6% has been applied as a contractor return in respect of the affordable housing, and is applied to cost rather than revenue. This complies with the requirement in the guide to the HCA Development Appraisal Tool[38] and also reflects specific viability guidance for other parts of the UK[39].

3.6.11 The other costs applied to development are:

Table 3.14 Other development costs

Type	Cost	Comment
Finance	6%	of development costs (net of inflation)
Marketing fees	3%	of GDV (1% agent; 0.5% legal; 1.5% marketing)

3.6.12 The allowances in table 3.14 along with the 17.5% return on market housing value and6% return on affordable housing cost were part of the evidence base for the recent East Devon CIL examination and were not subject to concern by the Examiner.

[38] HCA (now Homes England), 2014, Development Appraisal Tool User Manual, para 4.14
[39] Welsh Government, 2020, Development Plans Manual page 145

4 Cranbrook testing results

4.1 Introduction

4.1.1 The Cranbrook expansion is modelled using the values and costs noted in section 3. A set of sensitivity tests have also been carried out in order to understand the impact of changes in some of the inputs.

4.1.2 The HCA DAT provides a residual value based on the deduction of all costs (including land costs, developer return and finance charges) from the gross development value (GDV). The DAT also provides a present value estimate of the residual by applying a time discount that adjusts the residual back to the scheme start date. The discount is based on the finance rate used in the modelling (6%)[40]. Most viability appraisals use the unadjusted residual value to determine viability although present value estimates can be useful in comparing projects with different timescales.

4.2 Viability results

4.2.1 The testing shows that the proposed expansion of Cranbrook is viable as tested with 15% affordable housing with a 70% Affordable Rent/30% shared ownership tenure split. This test includes the costs of land and the development costs for dwellings, site infrastructure, s106 and s278 items. It also includes developer return of 17.5% and the costs of finance at 6%, with land costs included in the finance calculations.

4.2.2 After deduction of finance charges of £25.9m and developer return of £187.6m, the unadjusted net residual value is £26.8m, which is 2.3% of GDV and 2.4% of total costs. Whilst this sum is significant in absolute terms and could cover some changes in costs or values, it is a small proportion of both total costs and total values. If the £26.8m net residual is added to the £187.6m developer return this would take the total return to 18.6% of the £1,154.6m scheme GDV.

[40] Note that estimates of social time preference vary – e.g. the UK Treasury Green Book discount rate, known as the Social Time Preference Rate (STPR), for use in UK government appraisal is 3.5%.

Table 4.1 Cranbrook expansion viability results

Values	
Market housing	£1,047,154,581
Affordable housing	£92,947,135
Employment land	£4,285,126
Gypsy and traveller pitches	£800,971
CSB	£9,397,370
Gross Development Value	**£1,154,585,183**
Costs	
Land (with fees and SDLT)	£65,945,788
Market housing build	£439,576,581
Affordable housing build	£58,682,267
Other site and s106/s278 costs (excluding land)	£318,339,570
Sales and marketing costs	£31,727,637
Total direct costs	***£914,271,843***
Finance	£25,929,350
Return on market housing	£183,252,052
Return on affordable housing	£3,451,898
Return on employment land and gypsy & traveller	£890,067
Total costs	**£1,127,795,209**
Residual value	
Residual value	£26,789,973

4.3 Sensitivity tests

4.3.1 A set of sensitivity tests have been run using changes in values, dwelling build costs and developer return. These explore how the viability may change under different scenarios.

4.3.2 These tests show that if dwelling build costs increase without any change in values or an adjustment in developer return, then the scheme will become unviable. If revenues increase, then this offsets increases in dwelling build costs – e.g. a 2% increase in revenues and a 5% increase in build costs remains viable. While the scheme remains viable with a 2% fall in revenue, if revenues were to drop by 5% with no change in cost the scheme becomes unviable. Alternatively, if costs increase or revenue decreases but developer return is reduced to 15% (still within the PPG range) then the scheme remains viable. It is unusual for costs and values to change in opposition to one another (the pattern post 2008/9 crash shows this) and it is reasonable to expect developer return to flex within the PPG range if market conditions change.

Table 4.2 Cranbrook expansion sensitivity tests

Scenario	
Base case	***Viable***
+5% build cost	***Unviable***
+5% build cost, 15% dev return	***Viable***
+2% sales revenue, +5% build cost	***Viable***
+5% sales revenue, +5% build cost	***Viable***
+7% build cost	***Unviable***
+2% sales revenue, +7% build cost	***Viable***
+5% sales revenue, +7% build costs	***Viable***
-2% sales revenue	***Viable***
-5% sales revenue	***Unviable***
-5% sales revenue, 15% dev return	***Viable***

4.4 Conclusion

4.4.1 The expansion of Cranbrook as set out in the DPD is viable with the level of affordable housing and other planning obligations proposed. While the net residual value is able to cover some changes in costs and values, more significant negative changes in either costs or values alone would need to see an adjustment to developer return.

4.4.2 The current development at Cranbrook has benefited from significant public sector investment, some of it repayable. EDDC has indicated that it will continue to seek third party funding and securing additional support will strengthen the viability.