



Oxford City Council

Land at Barton Viability Study

May 2011

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1 Background

- 1.1.1 In May 2010 Oxford City Council (the Council) appointed King Sturge (KS) to provide detailed advice on the viability of a range of development options for the strategic housing land at Barton.
- 1.1.2 This advice involved assessing a series of possible delivery structures for the development, in order to determine how best to secure the funding necessary to bring the site forward. Among the options considered were early disposal of the land, a contractual development arrangement with a development partner, prudential borrowing and partnership with the HCA. Ultimately the Council decided that the delivery structure that most effectively met its requirements and safeguarded its interests was to enter into a co-investment joint venture partnership.
- 1.1.3 The next phase of the viability advice provided a full appraisal of the preferred development option selected for the site. This process was designed to identify and assess the factors affecting the viability of the proposed development option. The purpose of this exercise was to establish a viable development proposal to take to the market, with the aim of securing a private sector delivery partner.
- 1.1.4 Following an Options Appraisal, which assessed a series of potential development scenarios for the site to determine which would best deliver the Council’s key objectives, a preferred development option was identified, which comprised 822 residential units to be delivered on 16.43 ha. The table below sets out the unit mix appraised:

Table 1

Unit Type	Total	Percentage
1 Bed	92	11
2 Bed	202	25
3 Bed	411	50
4 Bed	117	14
Total	822	100

- 1.1.5 The table on the following page sets out the tenure split appraised:

Table 2:

Tenure	Total	Percentage
Private	411	50
Social Rent	329	40
Shared Ownership	82	10
Total	822	100

1.1.6 KS tested this scenario through a detailed viability assessment. This summary report sets out the findings from the appraisals produced, and the conclusions drawn in relation to viability, focussing particularly on the delivery of affordable housing.

1.1.7 We have been asked to provide a high level, non-commercially sensitive summary of the viability assessment carried out. The assessment was a technical exercise which tested the impact of varying the different cost and revenue assumptions, through multiple iterations of the toolkit, in order to appraise viability, and ultimately to identify a viable development proposal. This report describes the methodology used in assessing these options, and the conclusions drawn, but does not, as a summary document, provide detailed commentary on the sensitivity analysis carried out.

1.2 Agreed Delivery Structure

1.2.1 In order to enable development to take place at Barton, significant upfront funding is required to deliver the infrastructure necessary to service the site. Having considered a number of options for securing this funding, KS advised the Council to engage with a private sector delivery partner able to provide the finance required to facilitate development.

1.2.2 This structure requires the Council to put its land into a joint venture with an infrastructure provider. The resulting co-investment Joint Venture then provides the necessary services to the site, which is then sub-divided into parcels for sale to the house builders who deliver the development. In addition to financing delivery of the site, this structure provides the Council with an ability to continue to influence the way in which the land at Barton is developed.

1.2.3 Continued uncertainty in the property market means that developments of this scale and nature are not attractive to prospective investors unless they consider that development proposals are viable. KS advised the Council that if it did not present the market with a development opportunity which was demonstrably viable, proposals from developers or investors were likely to be qualified, and that a prolonged negotiation around affordable housing levels would almost certainly ensue. The result of this would be to delay the delivery of housing on the site, which is

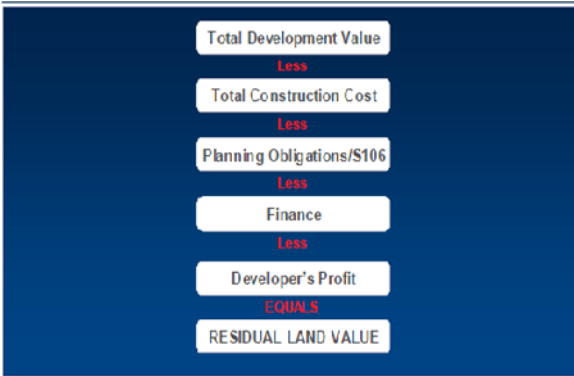
the Council's key objective. Presenting a viable development opportunity to the market was seen to be critical to achieving the Council's objectives.

2 Policy Position

- 2.1.1 Affordable housing policy requirements are detailed in the Council's adopted Core Strategy and saved Local Plan policies HS.4 and HS 5, which are supported by the adopted Affordable Housing SPD. These provide that the City Council "will seek the provision of generally a minimum of 50% of the proposed dwellings as affordable housing". This level of provision will be sought on all relevant sites, 0.25 ha and above, unless it can be demonstrated that an alternative percentage of provision should be made to ensure that the development is viable. In assessing the mix of affordable dwelling types the City Council will have regard to the characteristics of the site and to its Supplementary Planning Documents.
- 2.1.2 The policy does provide an opportunity to negotiate the affordable housing provision down to a commercially viable level, provided that a developer can clearly evidence that the 50% affordable housing requirement renders the project unviable. However, the Council has accepted a reduction in the 50% requirement in very few instances. The scale of proposed development at Barton makes agreeing to a reduced affordable provision particularly sensitive for the Council.

3 The Viability Appraisal

- 3.1.1 The industry standard approach to assessing the financial viability of residential development is to undertake a residual appraisal to arrive at a land value. In simple terms, this approach calculates the value of the completed project (Gross Development Value, or GDV); subtracts from this value the total cost of delivering that project, including planning and Section 106 costs, and finance costs; and further subtracts a standard level of developer's profit, to leave a residual land value (RLV).
- 3.1.2 A residential development is only considered financially viable if the RLV is greater than the existing use value (EUV). Unless this is the case there is unlikely to be an incentive for the site to be brought forward for development.
- 3.1.3 The diagram on the following page illustrates the residual approach.



3.1.4 There are a number of industry standard toolkits designed to appraise development viability. Given the size and complexity of this site, in carrying out the viability appraisal we developed a bespoke financial model in Excel. This gave us the flexibility necessary to model a range of different scenarios; to carry out sensitivity analyses in relation to specific components, and to interrogate appraisal outputs in detail.

3.1.5 The table below sets out the main components within the model:

Table 3

Item	
Total number of dwellings	822
Affordable Housing %	50% (411 units)
Social Rented	80% (329 units)
Shared Ownership	20% (82 units)
Remediation/ Landfill	£2.1m
S106 contributions inc. School (£7m)	(£14.68m)
CSH Level 6 (£20,675 per unit from 2016)	£6.2m
HCA Grant	-
Energy Centre	£1m

3.2 Revenue Account Assumptions

3.2.1 The GDV for the base case appraised is a product of the capital receipts from the market housing (50% of units), the social rented accommodation (40% of units) and the shared ownership (10% of units). Assessment of the private residential values, including comparable evidence and data sources, is discussed in detail in the Baseline Data Review.

3.2.2 In order to determine the estimated affordable housing unit values to be included in the appraisal, we adopted the following methodology:

3.3 Social Rent

3.3.1 The value for social rented accommodation was generated by capitalising rents at an appropriate yield, after deductions for major repairs, voids/ bad debts, management, maintenance and service charge. In order to estimate the indicative rents, a formula has been used which, as set out in HCA guidance, applies a 70% weighting to relative average county

annual earnings and a 30% weighting to relative capital values (EUV as at January 1999), with an adjustment factor for the number of bedrooms in the respective properties. We ensured that target rents were in line with rent cap levels stated in the HCA's guidance (Circular 09/07 - Rents, rent differentials and service charges for housing associations – November 2007).

- 3.3.2 Our assumptions regarding the adopted yield for capitalisation and outgoings are based on experience of the affordable housing market and knowledge of the practice of Registered Providers active in the area.
- 3.3.3 The resultant capital value rates fell within the range £110 - £127 per sq ft. We adopted the higher figure for the purposes of our financial modelling exercise.
- 3.3.4 Please note that the viability appraisal exercise was undertaken prior to the Government's announcement of the proposed new affordable housing tenure, 'Affordable Rent'. Values for the appraisal were generated in line with prevailing policy, which stipulated social rent and shared ownership. The values appraised do not, therefore, reflect the increased rent levels which could be generated under Affordable Rent. It is understood the City Council is extremely concerned about the new Affordable Rent model, and places priority on the traditional 'social rent' model as the tenure best able to provide much needed homes within the City at a price occupiers can afford.

3.4 Shared Ownership

- 3.4.1 The value of the shared ownership accommodation was generated on the assumption that an RP will sell an average of 25% equity to prospective purchasers, with rent on the unsold equity charged at 2.5%. The rental income was capitalised into perpetuity at 5.25%.
- 3.4.2 This produced a shared ownership value of £135 per sq ft.
- 3.4.3 No Social housing Grant or internal subsidy was assumed for either Affordable Housing tenure. This reflects the HCA's position in relation to the provision of funding on Section 106 sites.
- 3.4.4 Subsequent to this viability exercise, KS has been involved with a strategic piece of work for the Council, which involved testing the viability of delivering affordable housing on a broad range of sites across the city. This exercise produced a spread of affordable housing values reflecting the broad range of market values underpinning them. The affordable housing values used in the appraisal at Barton are at the bottom end of this value spectrum, which is a reflection of the market value of residential stock in the immediate vicinity of the site. It should be noted that the majority of comparable evidence used in assessing affordable housing values at Barton is existing stock. This has a downward impact on affordable housing values, which is more pronounced in respect of shared ownership, which derives more directly from market value than social rented values does.

3.5 Cost Assumptions

3.5.1 Construction Costs – In producing the appraisal we relied on the onsite cost estimate provided by Peter Brett Associates, cost consultants appointed to advise the Council and the HCA. These costs include construction, services and highways, and have been reviewed by KS building consultancy team (cost breakdown matrix dated 19th March 2010). The base case construction costs, including professional fees and the Section 106 costs detailed in Table 3 below, are £133.7m.

3.5.2 Infrastructure Costs – the table below sets out specific infrastructure costs required to enable development at the site. These are the costs assumed as part of the base case appraisal.

Table 4

	Actual Base Cost	Professional Fees	Fee Cost	Total Cost
Services	4,400,000	8%	304,000	4,752,000
Transport	4,103,000	8%	328,240	4,431,240
Highways	4,725,000	8%	378,000	5,103,000
Access	1,673,000	8%	133,840	1,806,840
Fees	1,896,125	8%		1,896,125
Abnormals	277,500	8%	22,200	299,700
Other (Landfill, CHP, SUDS)	3,600,000	8%	288,000	3,888,000
				22,176,905

- 3.5.3 Code For Sustainable Homes – For the purposes of the appraisal exercise we assumed CSH level 4 for the period 2013-2016 and CSH Level 6 from 2016 onwards. 355 of the units in the 822 unit base case scheme appraised fall in the period 2016/17 and 2017/18. Costs for CSH are based on an additional £20,675 per dwelling, which is an average across flatted, terraced and detached dwellings. This produces an overall cost of £6.2m.
- 3.5.4 Developer’s Profit - The level of profit assumed is a function of the risk the developer is required to take on. We have assumed a rate of profit on cost of 20%. The model calculates developer’s profit on the private build costs including the base construction, code uplift, professional fees, contingency, marketing costs and interest payments. The profit on cost is not calculated on any costs relating to affordable housing.
- 3.5.5 Planning Obligations – We have factored in the projected Section 106 costs in accordance with the Council’s Planning Obligations SPD. We have relied on the Council’s calculations of allocated contributions for the site, on the basis of the base case scheme. These assumptions are set out below:

Table 5

Description	Base Cost £/psf
Provision of 1.5 form entry Primary school	£7,000,000
Temporary Primary School Provision	£600,000
Allotments (s106) City	£9,162
Community Facilities (adds.106) City	£822,000
Indoor sports facility (s106) City	£187,860
Library (s106) County	£187,222
Museum (s106) County	£10,846
Open space/ecology	£526,580
Play areas (s106) City	£120,952
Public Art (s106) City	£347,230

Description	Base Cost £/psf
Public realm long term management dowry	£500,000
Secondary Education (s106) County	£3,840,000
Social & Healthcare (Infrastructure)	£150,080
Social & Healthcare (Transport Cont)	£4,127
Sports Grounds (s106) City	£141,454
Waste Management (s106) County	£82,800
Admin fees	£151,726
Total	£14,682,039

3.5.6 Tables 4 and 5 set out the significant number of costs associated with delivering the infrastructure necessary for the site forward to come for development.

3.5.7 On the basis of the assumptions detailed above, the scheme was shown to generate a negative land value of £6.72m, and as a consequence, to be unviable.

3.5.8 In light of this, a detailed analysis of the factors affecting project viability was carried out, considering a range of options for improving viability. KS concluded that there were three key routes by which a viable scheme could be achieved:

- delivering a reduced level of affordable housing;
- accepting a much reduced s106 package; and
- permitting a higher value use on the site (e.g. major food retail outlet).

3.5.9 This analysis was carried out on the basis of two development models. The first was a traditional contractual development arrangement, and the second an infrastructure funding model. Since the Council has decided to adopt this latter development model at Barton, we have confined this summary report to discussion of the viability of this model.

3.5.10 The table on the following page sets out the results of this exercise, and the resulting land values.

Table 6

	Affordable units %	SR/SO	Alternative Use	Outcome
Base Case	50% (411)	80/20 (329/82)	-	Site unviable
1 – Reduce Affordable	40% (329)	100/0 (329)	-	Site viable
2 – Reduce S106	50%	80/20	-	Site viable
3 – High Value Use	50%	80/20 (264/66)	8 acre store	Site viable

3.5.11 As demonstrated by the table above, all three scenarios produce a positive residual land value, and a viable scheme. However, given the Council's strategic objectives, not all of these options are, in practice, deliverable.

3.5.12 The options appraisal process identified provision of key elements of infrastructure as fundamental to the delivery a sustainable community on the site. The Council took the view that the provision of a new primary school on site was a prerequisite, as was a significant contribution towards increased capacity at Cheney School for secondary school provision. It is understood that the primary school will also provide for a range of community activities outside school hours.

3.5.13 Provision of a major out of town food retail outlet on the site would reduce housing numbers through required land take. Given that the delivery of new residential accommodation including affordable housing is another of the principal objectives set out by the Council, a change of use to a major food retail of this scale was also unacceptable to the Council as a means of improving the viability of the development.

3.5.14 In light of the above, and as set out in detail in the report to the City Executive Board, produced by Steve Sprason, the recommendation made to Members was that in order to achieve viability, while ensuring OCC's objectives are effectively met, it was necessary to accept a reduced level of affordable housing.

3.5.15 We therefore conducted a sensitivity analysis, testing the impact of reducing the level of affordable housing from 50% until we reached a level at which the development was viable. The table below shows the three key stages in this sensitivity analysis: the base position; a reduction in the level of affordable housing to a zero land value position; and a reduction in the level of affordable housing to a point at which the site delivers sufficient margin to be considered viable.

Table 7

	Affordable % (units)	SR/SO (units)	Alternative Use	Land Value
Base Case	50% (411)	80/20	-	(£6.72m)
1a – Reduce Affordable	42.5%	100/0	-	£0
2a – Reduce Affordable	40%	100/0	-	£2.33m

3.5.16 At a minimum of 40% affordable, 100% of which is social rent, the site delivers a positive residual land value, and is considered viable.

4 Delivery of Additional Affordable

4.1.1 On the basis of the viability analysis described above, the recommendation to accept 40% and not 50% affordable housing as the base position at Barton was accepted by the Council. This decision was made to expedite the delivery of affordable housing in the short to medium term.

4.1.2 In order to ensure that, if possible, the level of affordable housing delivered can be increased beyond the minimum threshold, the Council will impose appropriate mechanisms to ensure that the JV uses best endeavours to deliver 50% affordable housing (80% social rented, 20% shared ownership). We understand that elected members have emphasised the priority of delivering 50% affordable housing if this is viable.

4.1.3 HCA grant has been excluded from all affordable housing appraisals given clear indications by the Agency that grant would not be forthcoming in respect of this scheme. In the event that HCA grant funding is available for the affordable housing element of the development, this would have a positive impact on overall site viability, and could lead to the delivery of additional affordable homes.

4.1.4 It should also be emphasised that it will also be possible to test and review viability issues through the procurement process, with a view to increasing the quantum of affordable housing delivered.

5 Conclusion

5.1.1 The examination of viability at Barton made clear that if the site is to come forward, it must be seen to be a viable and deliverable development opportunity. The demonstration that the scheme is deliverable will be key to securing an investment partner for the Council who can provide the funding required to service the site.

- 5.1.2 In appraising development viability, it was clear that applying a 50% affordable housing requirement to the proposed scheme resulted in a negative land value, and therefore an unviable site. A number of options were considered for improving the viability position, but ultimately these were felt to compromise delivery of the Council's core objectives to an unacceptable extent, and as such were not pursued. The decision to accept a 40% minimum affordable housing requirement allows OCC to take a viable development opportunity to market, and to secure an investment partner to enable delivery of the project.
- 5.1.3 The proposed delivery strategy provides that, in the event that scheme viability improves, additional affordable housing will be delivered, with a view to achieving 50% affordable overall, if this is viable.

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