

2<sup>nd</sup> October 2019  
Our Ref: CAR.19.8024

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## BY EMAIL

Dear Sir(s)

### Re: East Devon CIL Draft Charging Schedule consultation document (August 2019)

Boyer is instructed by our client (Mr D and Mrs J Pyle) to submit representations in response to the consultation on the East Devon Community Infrastructure Levy (CIL) Draft Charging Schedule (August 2019).

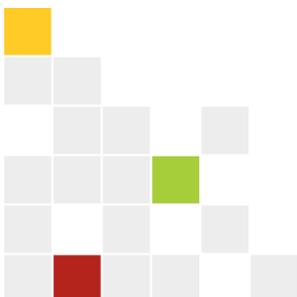
#### Context

The purpose of this consultation is to update the 2016 Charging Schedule to reflect changes in legislation, national policy and guidance and critically to ensure that the latest evidence on development costs and values in the district are taken into account. It is also intended to ensure the Charging Schedule aligns with development proposed through the emerging Cranbrook Plan. It is within the context of the emerging Cranbrook Plan that our comments set out below are made.

Land controlled by our client relates specifically to the proposed Expansion Area of Treasbeare Farm (Policy Reference CB3) which is identified to deliver around 915 new homes as part of a comprehensive mixed use development supporting a range of land uses including sport, recreation, open space (including SANGs) and employment. Representations to the Submission version of the Cranbrook Plan were made on behalf of our client and confirm that the Treasbeare Expansion Area is a suitable and sustainable location for development as a component of the expansion of Cranbrook.

The current CIL Charging Schedule was adopted by East Devon Council in April 2016 and came into effect on the 1<sup>st</sup> September 2016. This extant Charging Schedule sets a CIL rate of £68 per square metre (£80 at the indexed rate) for residential development at the Cranbrook Expansion Areas alongside a £0 rate for retail development.

The 2019 draft Charging Schedule now proposes to apply a £0 (Nil) CIL levy on all development at Cranbrook. This is justified on the basis that development at Cranbrook is not able to support CIL due to the level of S106 planning obligations and other costs associated with this development area.



Such an approach is supported as a matter of principle and is also consistent with paragraph 3.47 of the Cranbrook Plan where it states that: *“The Community Infrastructure Levy does not apply within the Cranbrook Area and therefore all development proposals which lead to cumulative impact upon infrastructure requirements will be expected to contribute through the S106 regime in accordance with this policy.”*

### **Cranbrook Infrastructure**

Total Infrastructure Costs identified in the Cranbrook Infrastructure Delivery Plan (IDP) amount to c.£113m which equates to a ‘per unit’ costs of £27,145. For the proposed Treasbare Expansion Area this would equate to a S106 obligations burden of c.£24.5m.

In response to concerns expressed during the consultation on the Preliminary draft charging Schedule (February 2019) regarding the viability implications associated with the scale of S106 contributions, the Council note that as the Charging Schedule proposes a nil charge at Cranbrook it is not possible to ‘improve’ viability by setting a lower rate of CIL.

Such a position is understood and as a result this places greater emphasis on the Examination of the Cranbrook Plan to ensure that the plan is viable and deliverable with development sites not subject to such burdens as to render them unviable.

Representations to the Cranbrook Plan and specifically the Three Dragons Viability Assessment were submitted previously on behalf of our client. A copy of which is attached to these representations.

It is accepted that it will be a matter for the Cranbrook Examination process to consider the deliverability and viability of the plan in terms of the S106 obligations on individual sites. With the proposed levy for Cranbrook reduced to £0, it is self-evident that there is no further scope through the CIL regime to enhance the viability credentials of individual sites and the Cranbrook Plan Area.

It is recognised and accepted that development should be supported by the delivery of necessary infrastructure and Policy CB6 of the emerging Cranbrook Plan is intended to provide the policy framework through which this is achieved. The policy wording does not directly signpost to, or signal the relevance of, the Cranbrook Infrastructure Delivery Plan (IDP), the latest iteration of which was published February 2019.

There is reference within the supporting text to Policy CB6 to the IDP, although this is framed in the context of such a document being prepared. Given the publication date of the Cranbrook IDP (Feb 2019), this seems somewhat confused.

It is explained in the IDP that it is intended to be a supporting document to the Cranbrook Plan and therefore not in itself a policy document. It is also recognised within the IDP (see paragraph 1.7) that it references the situation at a particular point in time and ascribes values to infrastructure and acknowledges that costs will vary in time, stating that: *“as such it must remain a live document and will be periodically updated.”* Notwithstanding, it goes on to state that the broad principles set out will remain consistent.

It is not clear what is meant by “principles”, but it is assumed that this relates to the categorisation of how costs are applied, but it is not clear. The concern with this ambiguity is that this could also relate

to the specific infrastructure requirements and associated costs. If this were the case then it would impose a rigid framework that would run counter to the expressly stated position within the IDP (see paragraph 3.4) that: *“this infrastructure plan must be kept under review and remain as a live document. This will allow it to reflect changes both to viability, deliverability and priority of the identified infrastructure.”*

This is of particular relevance as a number of Infrastructure requirements are proposed to be enshrined in policy. By way of example, CB14 and CB3(11) requires the safeguarding of land for the District Heating Energy Centre which is listed as ‘critical’ infrastructure (£20m); CB22 seeks to impose a policy requirement for a Leisure centre, listed as ‘important’ infrastructure (£3.93m). There is concern that the inclusion of specific infrastructure requirements within Policy renders the basis of the IDP as being a live document incorrect. Moreover, it has the potential for policy infrastructure requirements to become out of date as future iterations of the IDP are prepared on the basis of changes to viability, deliverability and the priority of the identified infrastructure.

As explained previously, the S106 burden on Treasbeare Farm equates to c.£24.5m (or £27,145 per unit). In the wider context of the Cranbrook Plan area, the Three Dragons Viability Study concludes that development at Cranbrook is unable to sustain the 25% affordable housing policy obligation in the adopted East Devon Local Plan, but that 15% affordable housing can be achieved so long as the developers return is reduced to 17.5%. As set out within separate representations on the Three Dragons Viability Assessment in response to the Cranbrook Submission draft public consultation, we have expressed a number of concerns with the assumptions applied in the viability assessment. These relate to private sales values, affordable housing transfer values, build costs, land values and developer return and will inform our participation at the Examination in Public.

In general terms we wish to make the observation that the approach to viability should reflect the recognised position in national planning guidance where it asserts that viability helps to *“strike a balance”* between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission. (Paragraph: 010 Reference ID: 10-010-20180724).

The scale of expected S106 contributions and viability assessment does not, in our view, strike the balance set out in national guidance and critically, does not ensure that the policy burdens imposed on future development at Cranbrook will not adversely affect the overall financial viability of the development. This is a key feature of national guidance where it is expressly stated that: *“viability assessments should not compromise sustainable development but should be used to ensure that policies are realistic and that the total cumulative cost of all relevant policies will not undermine the deliverability of the plan.”* (Paragraph: 002 Reference ID: 10-002-20190509).

The proposed CIL rate of £0 reflects the substantial S106 obligations placed on development at Cranbrook. At such a rate there is no scope for the CIL regime to enhance the viability credentials of development at Cranbrook, it is therefore essential that S106 obligations are justified and that the viability assessment of the plan is based on realistic assumptions and avoids a scenario whereby the cumulative costs undermine the delivery of the plan.

## Timings

It is set out in the Strategic Planning Committee of 18<sup>th</sup> February 2019 that the revised Charging Schedule would be submitted for Examination alongside the Cranbrook Plan and the Schedule will be adopted by the Council and brought into effect in 2020.

However, the Cranbrook Plan was submitted for Examination on the 2<sup>nd</sup> August 2019, i.e. before the consultation on the CIL Charging Schedule Revision commenced (21<sup>st</sup> August 2019). It is noted that within the current consultation document there is no reference or commitment to align the adoption of the Charging Schedule with the Examination and subsequent adoption of the Cranbrook Plan.

There are concerns and questions relating to the timing and implementation of the Charging Schedule and its relationship with the Cranbrook Plan. Specifically the potential for there to be a disconnect between the up-to-date (2019) Charging Schedule and development proposals at Cranbrook.

There should therefore be a review of the timings for the adoption and implementation of the revised Charging Schedule to ensure alignment with the progress of the Cranbrook Plan.

## Conclusions

The proposed CIL levy of £0 for Cranbrook is supported in principle as it acknowledges the extremely high infrastructure costs associated with delivering the planned expansion of Cranbrook. Critical to the ability of the Plan to deliver the levels of growth proposed is the need to ensure that the cumulative costs of all relevant policies do not render the plan undeliverable.

In setting out the assessment of viability, we support the acceptance within the Charging Schedule that development at Cranbrook cannot support CIL. However, in wider viability terms there are specific concerns relating to the assumptions used in the Three Dragons Viability Assessment.

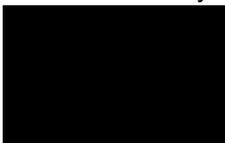
At a £0 rate it is the case that the proposed CIL Charging Schedule does not compound issues related to viability at Cranbrook and therefore the proposed rate is appropriate. The Examination of the Cranbrook Plan will consider the viability evidence and this will be addressed on behalf of our client through the Examination process.

As recognised in the Submission version of the Cranbrook Plan, Treasbeare Farm represents a suitable and sustainable location to support the expansion of Cranbrook. It is essential that the Cranbrook Plan, when read as whole, facilitates development and does not impose policy / financial burdens which will make the plan undeliverable.

On behalf of our client, I would like to express the willingness to continue to engage constructively with East Devon Council on this matter, both through the preparation of a Statement of Common Ground in respect of Treasbeare (CB3) but also in general terms to ensure that the Cranbrook Plan provides a sound and justified framework to support the expansion of Cranbrook.

Should you have any questions on the content of the representations set out above please do not hesitate to contact me directly.

Yours faithfully



**James Millard**  
**Associate Director**

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Enc. Boyer Representations on Three Dragons Viability Report



# Review of Three Dragons Viability Assessment

Treasbeare Farm, Cranbrook, East Devon

**Boyer**

Prepared on behalf of Derek and Jean Pyle | April 2019

## Report Control

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# 1. INTRODUCTION

- 1.1 East Devon District Council (the Council) are currently consulting upon the draft Cranbrook Plan for 4,170 dwellings and supporting facilities at Cranbrook. Expansion of Cranbrook is to be focussed on four areas, of which Treasbeare comprises one of these areas.
- 1.2 On behalf of the Council, the Cranbrook Plan has been assessed by viability consultancy, Three Dragons, to test the quantum and broad form of proposed development at Cranbrook, taking account of site-specific costs and values. This assessment is published as the CIL Review and Cranbrook DPD Viability Study (Three Dragons Study).
- 1.3 The output from this testing is to ascertain whether the proposed development including anticipated infrastructure is financially viable and the potential implications of proposed planning policy on the delivery of the masterplan over the coming years.
- 1.4 The Three Dragons Study for Cranbrook suggests that the development will be viable with a lower rate of affordable housing (15%) but will not be able to support a CIL. The current CIL Charging Schedule requires residential development in Cranbrook to provide £68 per sqm, prior to indexation. However, the Three Dragons output recommends that CIL is reduced to nil for development within the Cranbrook expansion area.
- 1.5 Boyer has been instructed by the current owners of the Treasbeare site to review the Three Dragons viability assessment to ensure the adopted values and costs are reasonable in the current property market and economic cycle.
- 1.6 Any discrepancies in the viability testing at this stage could potentially result in delays in releasing the land to house builders and the delivery of new homes and facilities within this area. It is important that the planning policies and planning obligations imposed by the masterplan and supporting planning policy do not adversely affect the overall financial viability of the proposed development.

## 2. CRANBROOK

2.1 The East Devon Local Plan 2013-2031 sets out current policy relating to Cranbrook. The town is part of a larger strategic development, referred to as 'East Devon's West End', which includes the Skypark, Exeter Airport, the freight terminal and further residential development.

2.2 At the date of the Three Dragons viability assessment (January 2019), 3,500 new homes have already been granted planning permission and 1,800 of these have been built. The Cranbrook Plan guides future growth, setting out how and where the homes, shops, business and community spaces to serve those people will go.

2.3 The Local Plan also details how the allocated expansion areas will be delivered (Strategy 12).

2.4 The Cranbrook Plan explains that:

*'Cranbrook is part of the NHS England Healthy New Towns programme. The (supporting) masterplan aims to establish a compact urban form where neighbourhood centres and facilities are within a short walk of the majority of homes. Mature trees and hedgerows shall form a landscape structure that is an integral part of the masterplan. Key destinations shall include neighbourhood centres, employment areas, parks and schools, rail stations and bus stops. Pedestrian and cycle routes to these destinations shall be attractive and highly legible.'*

2.5 The Cranbrook expansion area comprises four separate sites. These are Bluehayes, Treasbeare, Cobdens and Grange. Across these four sites, it is proposed to deliver 4,170 additional new homes as well as supporting infrastructure and local amenities and services.

2.6 It is proposed that the four areas will accommodate the following development:

- Bluehayes: 960 homes (977)
- Treasbeare: 915 homes (914)
- Cobdens: 1,495 homes (1,491)
- Grange: 800 homes (788)

2.7 We note that the above figures are taken from the latest Cranbrook Infrastructure Delivery Plan (February 2019) and vary slightly from the model tested by Three Dragons, the figures from which are shown in brackets.

2.8 The Cranbrook Plan is currently out for public consultation with responses due back by the 24<sup>th</sup> April 2019.

### 3. VIABILITY ASSESSMENTS

#### Viability and Plan Making

- 3.1 With regard to development plans, paragraph 34 of the National Planning Policy Framework (NPPF) states that:

*'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 In order to avoid undermining the delivery of the plan, national planning guidance recommends that development plans are viability tested to ensure proposed planning policies and developer contributions will not compromise future development. In particular, NPPG states that:

*"It is important to consider the specific circumstances of strategic sites. Plan makers can undertake site specific viability assessments for sites that are critical to delivering the strategic priorities of the plan"<sup>1</sup>.*

- 3.3 The Cranbrook expansion area is a strategic site and has therefore been subject to a greater level of viability testing by Three Dragons within the CIL Review and Cranbrook Plan DPD Viability Study (January 2019).

- 3.4 The NPPF makes it clear in paragraph 57 that:

*'Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. 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.'*

- 3.5 In view of this, it is important that any potential concerns over the financial viability of the proposed development are raised at this early stage to try to achieve suitable adjustments or at the very least make it clear at this stage that there are viability issues that will need to be addressed once a detailed scheme comes forward. A failure to raise this matter at the plan making stage could hinder viability negotiations later.

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<sup>1</sup> NPPG, Paragraph: 005 Reference ID: 10-005-20180724

## 4. VIABILITY REVIEW

- 4.1 We have reviewed the Three Dragons viability assessment for the Cranbrook expansion area and considered the inputs and assumptions adopted. Our observations and comments are set out below in relation to the key components of the overall appraisal.

### Key Appraisal Inputs

#### *Land Value*

- 4.2 The Three Dragons Study acknowledges that the previous CIL viability study in East Devon included a set of residential land value benchmarks that varied between £300,000 per hectare (£121,500 per acre) for strategic sites to £1,000,000 per hectare (£405,000 per acre) for smaller residential sites in higher value areas. There is further suggestion in the report, however, that during a Council workshop in July 2017, these values may have been too low, although no alternative values were suggested at the time.
- 4.3 Three Dragons has reported that it has conducted research into market land transactions in East Devon and the edge of Exeter. The land sales reported cover a broad spread of values, with the values per hectare both above and below the benchmarks referred to above. A review was also undertaken of land titles for development sites and this provided examples of values per hectare. The Three Dragons Study notes that - when considering land title evidence - it was common for land to be worth less than the above benchmarks. The majority of the values/transactions were above agricultural values of £19,750 per hectare (£8,000 per acre) but less than the benchmark of £300,000 per hectare (£121,500 per acre) for strategic sites.
- 4.4 We have not been able to identify which land transactions have been relied upon for comparable evidence but would be cautious of using values reported in land title certificates where this may fail to reflect the full detail of negotiated transactions and option agreements.
- 4.5 The land parcels forming the identified site for the Cranbrook expansion comprises mainly agricultural land with a mix of farm buildings, commercial property and pockets of existing dwellings. The Three Dragons appraisal has adopted an average land value of £200,000 per hectare (£81,000 per acre) which reflects an approximate multiple of 10 times the value of agricultural land<sup>2</sup>.
- 4.6 Based on HCA guidance from 2010 on “Transparent Assumptions” an allowance of 10 to 20 times agricultural value (existing use) is acceptable to reflect an alternative use (namely un-serviced residential development land).
- 4.7 This level of multiple reflects the intensification of use as well as a presumed lack of need for the farm owner to release the land for development. The land value adopted by Three Dragons is at the lower end of this range.

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<sup>2</sup> Savills Research, GB Farmland Values, Jan 2019, [https://www.savills.co.uk/research\\_articles/229130/273890-0/spotlight--the-farmland-market---january-2019](https://www.savills.co.uk/research_articles/229130/273890-0/spotlight--the-farmland-market---january-2019)

- 4.8 We are of the opinion there is scope to argue the case for an increased land value. Although the impact of core planning policy should be reflected in land values, including the requirement for affordable housing and contributions towards local infrastructure. We are of the opinion that a land value closer to £300,000 per hectare (£121,500 per acre) would be more appropriate for the purpose of a viability assessment that tests viability over a 13 year delivery programme, potentially longer if projected build-out rates are not achieved. This will reflect approximately 15 times current agricultural land values and therefore allows for a buffer where land values may increase over the next few years.

#### *Residential Sales Values*

- 4.9 Three Dragons has assessed sales values based on recorded sales of new homes between June 2014 and April 2018 and indexed the sale prices in line with the Land Registry house price index with dwelling areas extracted from EPC assessments. It is not clear in the Three Dragons Study what allowance is made for the effect of the Help to Buy factor in supporting house prices but with this initiative being phased out by the government in due course there is a risk sales and house prices will be adversely affected.
- 4.10 The Three Dragons Study adopts an average price for specified dwelling types, which we have reproduced in Table 1 (see shaded row). Table 1 also sets out a range of house prices currently being sought from house builders in Cranbrook.

*Table 1: Dwelling unit pricing*

Dwelling Value Estimates	1 bed flat	2 bed flat	2 bed terrace	3 bed terrace	4 bed terrace	3 bed semi	3 bed detached	4 bed detached	5 bed detached
Three Dragons	£144,000	£176,000	£202,000	£268,000	£332,000	£299,000	£309,000	£368,000	£471,000
Taylor Wimpey		£185,000*	£190,000 - £193,000	£255,000 - £257,000		£245,000 - £252,000		£297,000 - £378,000	
Persimmon			£190,000	£210,000 - £255,000		£225,000 - £250,000	£288,000		
Linden		£212,000*		£240,000	£288,000 - £310,000				

\* Coach house rather than flat.

- 4.11 Our review of current availability of new-build homes in the Cranbrook area finds that some unit types are not presently available. However, many of those that are being marketed by Taylor Wimpey, Persimmon and Linden are at a lower asking price than the average price adopted within the Three Dragons viability assessment.
- 4.12 In view of this, we are of the opinion that the Three Dragons sales values are too high based on the current market evidence. This issue should be raised in response to the current consultation as lower average values will negatively impact on the overall viability of the development and the maximum contributions towards infrastructure and affordable housing.

*Self-Build and Custom Build Plots*

- 4.13 It is assumed that 170 plots will be made available as self or custom build plots. The Three Dragons Study assumes that each plot will achieve an average value of £72,000, which would generate a capital receipt of £12,240,000.
- 4.14 We understand that these plot values have been estimated based on a residual valuation using sales values at 5% over general estate housing, build costs at 5% over median (BCIS), 10% professional fees, 3% marketing costs and a 15% developer return.
- 4.15 With regard to developer return, we are not certain whether this refers to return to the developer in providing a serviced plot or an allowance for the self-builder to achieve an equity return of 15% on the completed unit. This should be clarified with the Council or Three Dragons.
- 4.16 For the purpose of this viability review we are of the opinion that the land values could be high where the same average sales values have been adopted within the specific appraisals, as referred to above. We would also question whether a self-builder return / equity return would be sufficient at 15% with 20% equity offering more affordable funding packages. This calculation should be re-reviewed before final figures are agreed.

*Affordable Housing Values*

- 4.17 The Three Dragons Study has estimated affordable housing transfer values in East Devon based on discussion with the Council’s Housing Enabler in November 2017 and a survey of local Registered Providers in January 2018. The values applied in the viability assessment are set out in Table 2.

*Table 2: Affordable housing transfer values - Cranbrook*

Affordable Housing Values	1 bed flat	2 bed flat	2 bed terrace	3 bed terrace	4 bed terrace
Affordable Rent	£90,000	£121,000	£146,000	£163,000	£186,000
Shared Ownership	N/A	N/A	£156,800	£184,600	N/A

- 4.18 The evidence base for these transfer values has not been published within the viability study although the viability study annexes contain some commentary on assumptions discussed at a viability workshop with the Council in July 2017. The values are assumed to be based on capitalising 80% of the LHA rent at a yield of 6%. Typically, we would estimate values for affordable rented homes based on the Local Housing Allowance cap for the local area to estimate gross revenue. Deductions would be made for management, repairs and maintenance costs with explicit assumptions on rental growth over a 35 year investment period.

- 4.19 We have run a high-level assessment to verify the Three Dragons assumptions. Our values are based on the current Local Housing Allowance for this region of East Devon and assume that rents are capped at this level for each house type. A deduction on gross rent of 25% has been assumed to cover management, maintenance, repairs and rental voids/bad debts. It is assumed that annual rents increase by 1% above CPI (CPI assumed to average at 2% pa). The net rental income has been capitalised at 6% per annum.
- 4.20 The output from these calculations are highly sensitive to changes in the assumptions adopted and make no allowance for any housing grant or investment of capital reserves by a Registered Provider. In view of this, we estimate that these unit types could achieve the following values:
- 1 bed flat: £97,000
  - 2 bed flat: £118,000
  - 2 bed terrace: £118,000
  - 3 bed terrace: £137,000
  - 4 bed terrace: £182,000
- 4.21 With the exception of the 2 and 3 bedroom terraces, the value estimates are similar although this is important given that this is the most popular form of housing on Cranbrook. As such, we question the transfer values for the 2 and 3 bedroom terraced homes and that there is need to include/retain scope to negotiate value inputs into future viability assessments.
- 4.22 With regard to the shared ownership units, we would assume that a proportion of the equity will be acquired by the purchaser with a remaining equity retained by the Registered Provider and rented to the purchaser at no more than 2.75% pa of the value of the retained equity. Initial equity sales can range from 25% to 75%, although in this location it might be assumed that between 25% and 40% of the equity could initially be acquired by the purchaser. This assumes average salaries in this area are £24,000 pa and a mortgage of three times salary could be obtained.
- 4.23 We have run a high-level assessment to verify the Three Dragons assumptions and would comment that, in our opinion, these unit types could achieve the following values:
- 2 bed terrace: £129,000
  - 3 bed terrace: £152,000
- 4.24 These values are significantly lower than the values adopted by Three Dragons, which we note reflect values of between 69% and 78% of their assumed market values. The values calculated by Boyer reflect approximately 60% to 68% of the assumed market values, which we believe reflects a more realistic position in the current market.
- 4.25 Given this, we question the transfer values for the 2 and 3 bedroom terraced homes and that there is need to include/retain scope to negotiate value inputs into future viability assessments.

#### *Unit Mix, Sizes and Tenure Split*

- 4.26 The Three Dragons Study provides a range of unit mix scenarios depending on the proposed number of dwellings per hectare. It is noted however that the appraisals for the Cranbrook expansion area are based on approximately 40 dwellings per hectare. It is questionable whether this density is deliverable in this area and would suggest that development of the preferred house types would deliver a density closer to 35 dwellings per hectare.
- 4.27 Based on the proposed 40 dph dwelling mix, it is understood this comprises the following (see table 4.1 in Three Dragons Study):
- 2 bed flat: 5%
  - 2 bed terrace: 15%
  - 3 bed terrace: 20%
  - 4 bed terrace: 20%
  - 3 bed semi: 20%
  - 3 bed detached: 10%
  - 4 bed detached: 10%
- 4.28 We note that the Three Dragons appraisal assumes there are no one bedroom flats. This may be considered unusual in a development of over 4,000 new dwellings and may limit purchase opportunities for first-time buyers unable to meet affordability criteria for larger homes. To cater for a wide range of residents we would also suggest that the opportunity for bungalows is included in the mix of unit types. These would appeal to older residents and those with disabilities.
- 4.29 For the purpose of this consultation, additional cost/value implications of including a range of one bedroom homes should be considered.

#### *Non-Residential Values*

- 4.30 We note the Three Dragons Study does not provide explicit land value data relating to non-residential properties. Employment land is included at £800,000 per hectare (£323,900 per acre) for 9.5ha of employment and mixed-use land totalling £7,600,000 and the capital receipt anticipated to be received on a 50/50 split in years five and seven.
- 4.31 It is understood that the employment uses will likely comprise a mix of studio units, small business space units and premises suitable for small and start-up businesses. As such, the cost of development could be greater than average on a £/sqm basis with output values potentially limited. As such, land values could be adversely impacted.
- 4.32 The Three Dragons annexes does include a series of appraisals for office, industrial, retail, hotel and care home developments although these typically find employment land uses (office and industrial) to be financially unviable. As such, we are of the opinion that the land values attributed for the employment sites are too high and would request clarity as to how a value of £800,000 per hectare has been derived.

- 4.33 In addition, a receipt of £825,000 for gypsy and traveller plots is assumed to be received on a 50/50 split in years six and 13. These values are supported by evidence of marketing particulars for small traveller sites and individual plots across a wider regional area. However, we would question whether these values could be achieved in the quantum proposed at Cranbrook. We would also seek clarification on the assumptions adopted by Three Dragons with regard to the impact on sale values for private sale homes in the adjoining area. In such circumstances there is potential for sales values and sales rates to decline and this should be reflected in the Three Dragons Study.

#### *Build Costs*

- 4.34 The build costs within the Three Dragons Study for the Cranbrook masterplan has been prepared by Ward William Associates (WWA). We note that some cost items have been revised because of subsequent changes in assumptions and input from the Council.
- 4.35 The construction cost for housing has been based on the BCIS lower quartile cost rates and have been rebased to East Devon prices, as at September 2018. This assumes “volume and regional house builders can comfortably operate within the BCIS lower quartile cost figures, especially given that they are likely to achieve significant economies of scale in the purchase of materials and the use of labour”. We note that as at April 2019, BCIS shows lower quartile build costs for houses and apartments having increased by around 2.5% on average. As such, we would recommend these costs are reviewed further.
- 4.36 The main assumptions in the Three Dragons Study suggest that an additional 10% to 15% of cost is included to cover external works and contingency. Although the WWA cost report does refer to a contingency of 2% on Housing, 5% on Provisional Allowances or Contributions and 10% generally<sup>3</sup>. It is our view that a contingency of 5% applied to all build costs would be reasonable at the current stage in the delivery of the proposed Cranbrook expansion area.
- 4.37 In addition, reference to contractors overheads and profit states this is applied at 7.5% with the exception of the developer deliverables in respect of housing<sup>4</sup>.
- 4.38 For the purpose of this viability review, our review on build costs is TBC following receipt of DLA/Hallam input. However, at present we are of the opinion that with base build costs based on the lower quartile of BCIS rates, there needs to be a sufficient allowance for any external and site costs, abnormal costs and any contingencies for unforeseen delays and resulting costs.
- 4.39 As referred to above, it is estimated that total infrastructure costs to be met across all four areas will reflect £27,145 per proposed dwelling. We are of the opinion this cost is excessive in the current market for development in this location and will negatively affect the delivery of the current proposals. For the reason set out below:

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<sup>3</sup> WWA, Feasibility Estimate (Revision 3) Proposed Mixed Use Development, Cranbrook, Devon – Assumptions / Notes (w)

<sup>4</sup> WWA, Feasibility Estimate (Revision 3) Proposed Mixed Use Development, Cranbrook, Devon – Assumptions / Notes (v)

- i) The infrastructure costs reflect around 25-35% on top of base construction costs for an average house type. This is in addition to external costs.
- ii) With build costs forecast to rise, developers will need to identify other cost savings which could affect general design and build quality.
- iii) There may be a requirement to renegotiate S106 and affordable housing provision where wider development costs rise over the development programme.
- iv) With the requirement to manage costs and cashflow more carefully, build-out rates could be reduced thereby failing to meet housing need targets.

#### *Professional Fees*

- 4.40 The Three Dragons Study applies a rate of 6% of development costs to reflect professional fees, with various exceptions and variances explained in the viability report.
- 4.41 Typically viability appraisals can adopt a range of professional fees. A rate of 6% of build costs would be towards the lower end of the range and would assume the site is to be developed by a volume house builder with tried and tested house type designs and can benefit from economies of scale. Despite this, we believe that certain complexities remain and abnormal infrastructure issues will need to be resolved. As such, we are of the opinion professional fees could exceed this rate and would recommend that a rate of between 7.00% and 7.50% is applied.

#### *Marketing Costs*

- 4.42 The Three Dragons Study applies a rate of 3% to cover marketing costs. We would consider this to be a reasonable allowance to cover production of marketing materials, preparation of a website and general advertising costs throughout the full development programme.

#### *Agents and Legal Fees*

- 4.43 The Three Dragons Study applies a rate of 1.75% to cover agent and legal fees. We would consider this to be reasonable based on a potential split of 1.25% for agents and 0.5% for legal fees.

#### *Finance Costs*

- 4.44 The Three Dragons Study applies a rate of 6% pa to cover finance costs. This is considered to be in line with funding available for established developers and volume house builders. However, consideration should be given to the need to deliver certain infrastructure up-front and the additional risk this presents. We also note that there is no separate allowance for arrangement fees, exit fees and monitoring costs. In view of this, we would recommend that finance costs should be included at 6.25% pa.

*Development Programme and Phasing*

- 4.45 The Three Dragons model has applied a housing delivery trajectory provided by the Council. For Treasbeare, this assumes:
- 12 homes in 2021/22
  - 100 homes in 2022/23
  - 150 homes per year for years 2023-2028
  - 48 homes in 2028/29, and
  - 4 homes in 2029/30.
- 4.46 In total, this assumes 914 homes delivered between now and 2031.
- 4.47 With build-out rates typically in the order of 50 homes per year, unless the site is developed by a number of house builders these delivery rates may be optimistic. The potential impact of a longer build-out period would be reduced revenue and additional finance costs which would hinder financial viability.

*Developer Profit*

- 4.48 The Three Dragons Study has tested profit rates at 17.5% and 20% profit on GDV. A rate of 17.5% has been identified as the required maximum return to support the provision of 15% on-site affordable housing.
- 4.49 Where the required rate of return exceeds 17.5% it is understood that a lower level of affordable housing could be supported. However, with development at Cranbrook now underway and the area considered to be an established location for new homes, Three Dragons suggest the requirement for a profit rate at the higher end of the 15% to 20% range is not necessary. As such, they have recommended a return of 17.5% is adequate. We note that with regard to the affordable housing they have adopted a rate of 6% on build costs for developer return. While a reduced rate to account for reduced risk is usual, we would typically expect to see a return of between 6% and 10% on GDV.
- 4.50 With regard to selection of profit rate, we would question whether the level of risk has dissipated significantly as the market continues to be affected by projections of slowing economic growth, increasing build costs and lethargic buyer sentiment, therefore, we suggest that Developer's profit should be set at 20%. We are aware that in the current market, with added market uncertainty and risk of economic slowdown, developers are targeting returns in excess of 20%.

*Treasbeare Farm: Site Specific Costs*

- 4.51 The Three Dragons Study adopts S106 contributions based on the East Devon Infrastructure Delivery Plan, provided in October 2018. However, a review of the council evidence base reveals that the latest Cranbrook Infrastructure Delivery Plan (CIDP) was published in February 2019 and this supersedes the Local Plan's IDP in respect of development within and resulting from the Cranbrook Plan Area.

4.52 The CIDP recognises that where specific infrastructure is identified across the four separate expansion sites there is potential for some sites to bear a disproportionate level of cost. However, to ensure delivery of site-specific infrastructure at a time when it is required to support the site development, it will be the responsibility of the developer to deliver. However, to address the burden of a disproportionately high site-specific infrastructure cost, Policy CB6 has been adopted to seek to equalise the cost of delivering all infrastructure for the Cranbrook expansion area across the four separate sites. This is to be achieved by developers of sites with lower levels of on-site infrastructure paying a greater proportion for non-specific infrastructure (or common infrastructure) that benefits the whole of the Cranbrook expansion area.

4.53 The worked example included in the CIDP calculates that total infrastructure costs will be split between the four expansion sites and equate to £27,145 per proposed dwelling. The total cost for Treasbeare is estimated to be in the order of £24,837,401.

4.54 Based on this proposed arrangement to sharing the cost of infrastructure it will be important to understand the cost of delivering the site-specific infrastructure at Treasbeare.

4.55 Within the CIDP, the site-specific infrastructure costs for Treasbeare have been estimated to be:

• Primary school (420 places):	£7,200,000
• Sports pitches:	£1,295,000
• Pavilion and changing rooms:	£670,000
• Tennis courts (4):	£370,000
• Engine testing bay:	£1,200,000
• Upgrade of London Road:	£450,000 (additional costs sought from other sites)
• New junctions on B3174:	£120,000 (additional costs sought from other sites)
• Bridge between Treasbeare:	£1,705,000
<b>Total:</b>	<b>£13,010,000</b>

4.56 *Education:* The CIDP outlines the need for two further primary schools to be built to meet forecast demand for school places in Cranbrook. This includes a 420 place school at Traesbeare (or Bluehayes subject to which sites commences development first) to be delivered between 2021 and 2025, and a 630 place school at Cobdens to be delivered between 2026 and 2031. The actual timing of delivery is to be determined although it is stated that at least one new primary school is needed before the 3,501<sup>st</sup> dwelling is occupied.

4.57 *Sports and recreation:* The CIDP outlines the need for 7.3 ha (18 acres) of sports pitches to be provided (inclusive of 2.14 ha from Phase 1 development). This is to be provided as two separate sports hubs between 2017 and 2031. This is included in the infrastructure cost plan at £1,295,000. However, updated costs stated in the same plan indicate a cost of £2,937,900. It is therefore not clear whether this updated cost is expected to be met by the developer(s) of the Treasbeare site.

- 4.58 In addition, pavilion and changing room facilities with car parking are required. This is included in the infrastructure cost plan at £670,000. However, updated costs stated in the same plan indicate a cost of £800,000. It is therefore not clear whether this updated cost is expected to be met by the developer(s) of the Treasbeare site.
- 4.59 In addition, four tennis courts are stated to be required. This is included in the infrastructure cost plan at £370,000. However, updated costs stated in the same plan indicate a cost of £410,000. It is therefore not clear whether this updated cost is expected to be met by the developer(s) of the Treasbeare site.
- 4.60 In this regard, our comments on Policy CB3 should be noted regarding the unfair burden or infrastructure (and costs) to be borne by Treasbeare Farm relative to the sports hub given the fact that it is meeting demand from existing development and other expansion areas (even when there potential for facilities to be located elsewhere).
- 4.61 *Engine testing bay:* The CIPD outlines the need for an engine testing bay at Exeter airport to aid noise mitigation measures for the Treasbeare site. This is to be provided between 2019 and 2025 at an estimated cost of £1,200,000. The cost estimate within the CIDP is understood to be provided by the Council although we are advised this may be closer to £1,500,000. This will form a site specific cost to be borne by the developer.
- 4.62 *Highways works:* The CIPD outlines the need for upgrades to London Road and the need for new junctions on the B3174 at a cost of £450,000 and £120,000 respectively, to be delivered between 2021 and 2031.
- 4.63 In addition a new footbridge and associated ramp access is proposed to link the Treasbeare and Bluehayes sites. The CIPD includes a cost of £1,705,000 for each site with the total cost estimated to be £3,410,000. This is a substantial sum for a footbridge and it is uncertain at the current time whether this updated cost is expected to be met in full by the developer(s) of the Treasbeare and Bluehayes site or whether a proportion of funding can be secured from wider S106 contributions.
- 4.64 In connection with all stated infrastructure costs, further information and evidence is required to justify how these costs have been estimated and what proportion is expected to be met by the developers of the sites.
- 4.65 With regard to CIL, while the current charging schedule indicates an indexed rate of £80.09 per sqm (January 2019), the Three Dragons viability Study suggests that for the Cranbrook expansion area, CIL would need to be set at zero to maintain viability.
- 4.66 While CIL may be set to zero (this will be subject to consultation and adoption of a revised CIL Charging Schedule), there will be a need for certain infrastructure to be delivered to support the proposed development which is presumed to be paid for by the developer either directly or via S106 payments.

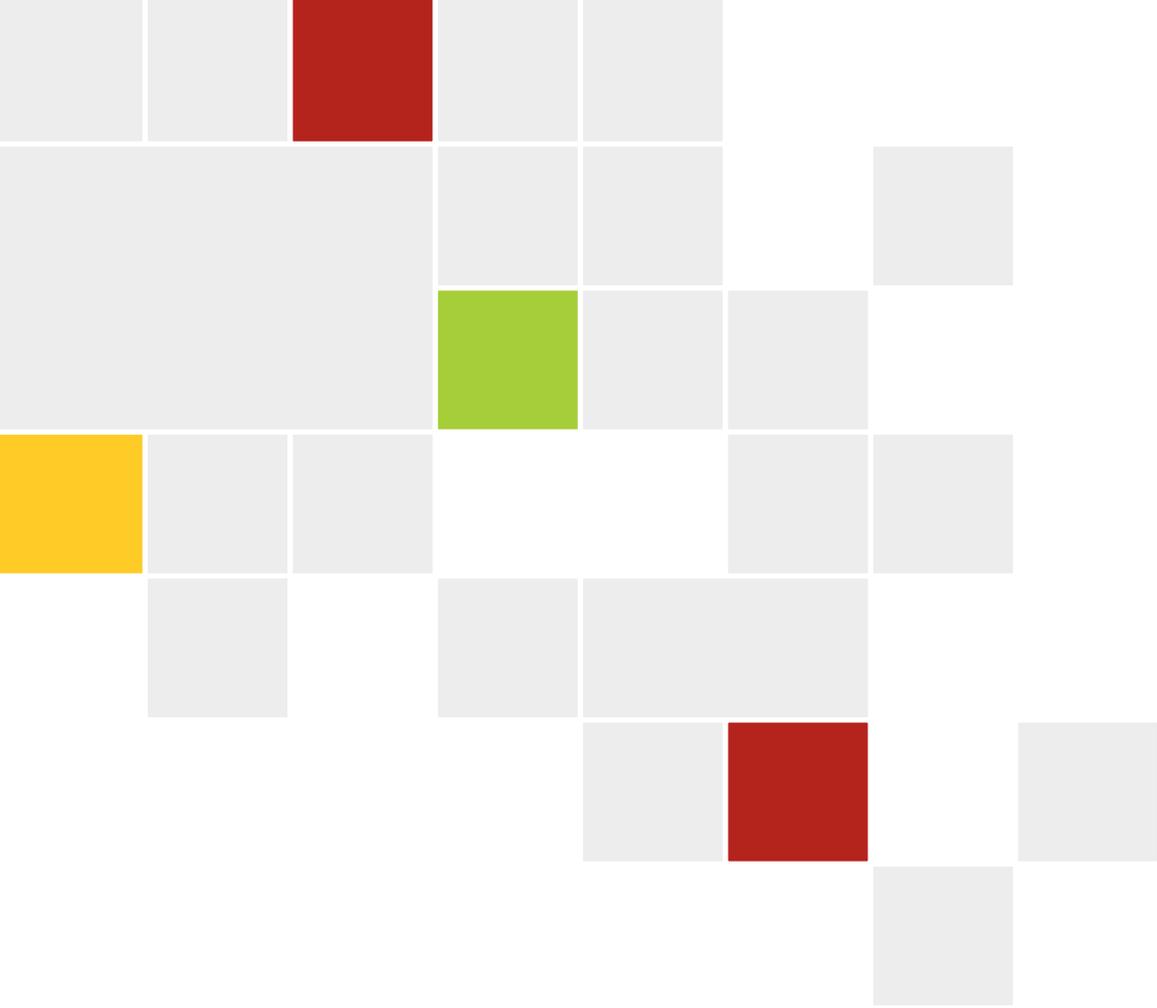
## 5. CONCLUSION

- 5.1 This review of the Three Dragons viability assessment for the Cranbrook Masterplan has sought to identify whether the inputs and assumptions adopted are considered reasonable and will facilitate the delivery of new homes and supporting infrastructure over the life of the Local Plan.
- 5.2 This has been a high-level review and with the complexity of delivering a new community with over 4,000 new homes there are going to be issues that will require greater clarification once further detail is known and designs are progressed. However, we set out below where we believe certain assumptions adopted by Three Dragons could lead to a discrepancy in the financial viability of current development proposals and impede the delivery of the Cranbrook expansion area.
- 5.3 *Land Values:* The Three Dragons Study adopts residential land values of £200,000 per hectare (£81,000 per acre), which is towards the bottom end of the range for multiples of value for agricultural land. The Three Dragons Study itself does refer to values of £300,000 per hectare (£121,500 per acre) for strategic land being accepted for land within the Exeter fringe area. As such, we are of the opinion the land values adopted by Three Dragons in its Cranbrook appraisal is too low. Further viability assessment work should take into account the specific nature of the land to be acquired and whether this will command a greater premium than 10 times average agricultural value.
- 5.4 With regard to the self-build and custom-build plots, we are of the opinion these may be too high within the Three Dragons Study where higher sales values have been adopted and potentially insufficient self-builder equity allowed for to ensure funding packages can be secured by self-builders.
- 5.5 *Private Sales Values:* Three Dragons has assessed sales values based on recorded sales of new homes between June 2014 and April 2018 and indexed the sale prices in line with the Land Registry house price index with dwelling areas extracted from EPC assessments. It is not clear in the Three Dragons Study what allowance is made for the effect of Help to Buy factor in supporting house prices but with this initiative being phased out by the government in due course there is a risk sales and house prices will be adversely affected.
- 5.6 In seeking to verify average house prices within the Cranbrook area we have researched the current asking prices for available new-build houses currently being marketed by Taylor Wimpey, Linden and Persimmon. Asking prices for specific house types have been found to be consistently lower than the values adopted by Three Dragons.
- 5.7 We are therefore of the opinion that average unit prices adopted in the Three Dragons Study are too high. This will cause a discrepancy in projected GDV with achievable values potentially lower than estimated by Three Dragons, resulting in an inferior project viability and developer return.

- 5.8 *Affordable Housing Values:* Our own assessment of affordable housing values, based on LHA caps, has found that certain values attributed to affordable homes by Three Dragons are over optimistic in the current market. Any discrepancy in the value anticipated from the affordable housing will have an overall negative impact on viability and cause difficulties in delivering projected affordable housing numbers in the future. We are therefore of the opinion these values should be reviewed and reduced.
- 5.9 *Unit Mix and Tenure:* The Three Dragons Study adopts a density of 40 dwellings per hectare (16 dpa). We are of the opinion this level of density is too high for Cranbrook and that a rate of 35 dwellings per hectare (14 dpa) is more realistic.
- 5.10 We are of the opinion that the broad mix of unit types is reasonable although there seems to be no provision for one bedroom homes which may be considered a more affordable product for first-time buyers.
- 5.11 *Non-Residential Values:* The Three Dragons Study adopts a land value of £800,000 per hectare (£323,900 per acre) for 9.5ha of employment and mixed-use land totalling £7,600,000. On the basis that new employment uses will comprise a high proportion of small studio uses aimed at growing and start-up businesses and these will require additional infrastructure, the land value for employment land seems high when compared with residential land. The higher cost of development and potentially lower output values will need to be reflected in land prices and will likely result in reduced land sale receipts for the master developer / house builder. As such, a value of £800,000 per hectare is believed to be too high.
- 5.12 In addition, a receipt of £825,000 is assumed for gypsy and traveller plots. Although the value for individual gypsy plots is well evidenced in the Three Dragons Annexes and we would question whether the values adopted in the appraisal for larger sites could be achieved and also the impact on private sale values of houses in close proximity.
- 5.13 *Build Costs:* The construction cost adopted by Three Dragons for housing has been based on the BCIS lower quartile cost rates and have been rebased to East Devon prices, as at September 2018. This assumes “volume and regional house builders can comfortably operate within the BCIS lower quartile cost figures, especially given that they are likely to achieve significant economies of scale in the purchase of materials and the use of labour”.
- 5.14 While we have not been able to seek verification by a cost consultant or quantity surveyor as to this assumption, we note that as at April 2019, lower quartile build costs for houses and apartments has increased by around 2.5%. As such, we would recommend these costs are reviewed further.

- 5.15 *S106 Contributions*: The costs referred to in this element comprise a mix of site-specific and broader infrastructure requirements and financial contributions. The costs set out in the Cranbrook Infrastructure Delivery Plan (February 2019) appear to reference some increase in overall elemental costs compared with the infrastructure costs utilised in the Three Dragons Study, although this will require clarification from the Council as well as the QS cost review. The amount of site-specific costs for the Treasbeare site is included at £13,010,000. The total infrastructure / S106 cost for Treasbeare is estimated to be in the order of £24,837,401 and reflects £27,145 per dwelling. We are of the opinion this average cost per dwelling is high and will impact negatively on the proposed deliverability of the Cranbrook Masterplan.
- 5.16 *Development Programme*: The Three Dragons Study adopts the Council's projected delivery programme of 914 homes in nine years for Treasbeare. This averages at 102 homes per year.
- 5.17 We typically adopt delivery rates of 50-60 homes per year. As such, we are of the opinion that 102 dwellings per year is an ambitious delivery programme. Should the programme need to be extended this will impact on cashflow and will result in greater finance costs as revenues assumed to off-set front-end land acquisition costs and infrastructure costs are delayed.
- 5.18 *Developer Profit*: The Three Dragons Study concludes that a developer return of 17.5% on GDV is an acceptable return for a developer. This figure is crucial to the Study as a higher level of return would substantially reduce the deliverable provision of affordable housing.
- 5.19 We would recommend however that a return of 20% on GDV is sought by developers to mitigate the risk associated with the delivery of the master plan proposal and the requirement for significant front-end infrastructure investment. We are aware that in the current market with added market uncertainty and risk of economic slowdown developers are targeting returns in excess of 20%.
- 5.20 In view of the above, we are of the opinion that there is a range of issues that will affect the financial viability of the development at Treasbeare that should be raised as part of the consultation on the Cranbrook Masterplan.
- 5.21 With discrepancies over private sales values, affordable housing transfer values, build costs, the need for certain infrastructure elements and profit rates we would recommend that the viability assessments are reviewed so that greater clarity can be achieved with regard to the ability for developers to meet the affordable housing and S106 contributions currently proposed.
- 5.22 In raising these issues now we would expect the Council to review the Three Dragons conclusions and consider whether certain S106 planning obligations should be reduced or additional funding sought from local or central sources to mitigate the extensive cost of delivering the necessary infrastructure.

- 5.23 A failure to raise these issues at plan making stage could lead to added delay and difficulties for the developer once it seeks to gain outline or detailed planning permission at the application stage. New national planning policy seeks to minimise the use of viability assessments at the decision making stage with the weight of any such evidence is to be determined by the decision maker at the time. As such, there is no certainty that the LPA will acknowledge viability issues where the original masterplan has been found to be deliverable and developers remained silent during the pre-adoption consultation process.



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