ANGLIA SQUARE, NORWICH – VIABILITY & DELIVERABILITY

PROOF ON BEHALF OF THE APPLICANT

NORWICH CITY COUNCIL REFERENCE – 18/00330/F

PINS REFERENCE – APP/G2625/V/19/3225505

DOCUMENT REFERENCE – WH3/1

1 Scope of this Proof of Evidence

1.1 To address viability and deliverability in relation to item (e) of the Secretary of State's letter of 21 March 2019 (CD 11.35).

1.2 This Proof of Evidence is specifically for the application scheme ('the Scheme'). The existing uses on the site are considered only in the context of how the vacant possession of assets and phasing impacts the scheme programme, phasing and viability.

1.3 To demonstrate that the Applicant's approach to development viability is consistent with the National Planning Policy Framework (NPPF) (CD1.1), Planning Practice Guidance (PPG) (CD1.3), Royal Institution of Chartered Surveyors (RICS) guidance (CD10.16), Financial Viability in Planning - Royal Institution of Chartered Surveyors: conduct and reporting (1st Edition, May 2019) (CD10.17) and Norwich Local Plan Policy (CD2.2 to CD2.4), noting that the approach has been accepted by two separate 'third party' viability reviews for the Scheme.

1.4 To justify inputs within the Scheme appraisal including but not limited to:

- Gross Development Value (GDV).
- Total Costs & Developer Returns.

1.5 To illustrate how the deliverability of the Scheme is achieved.

1.6 As per the Note of the Pre-Inquiry Meeting, this Proof of Evidence does not seek to repeat information which is already provided within other relevant documentation.

1.7 This Proof of Evidence is provided by Francis Truss, MRICS – Partner, Planning & Development, Carter Jonas who has expertise in:

- Viability analysis of regeneration schemes and Section 106 viability reviews.
- Reviewing the viability of multi-phase residential led schemes.
- Running development partnering competitions for mixed use Town Centre sites with cinemas. (See CV at Appendix 7)

1.8 Other appendices to this Proof are provided by:

- John Percy, MRICS – Partner, Development & Place, Cushman & Wakefield who has expertise in:
  - The delivery of town centre regeneration projects and the 'repositioning' of retail assets.
  - Development and Joint Venture agreements on town centre sites.
- Graham King - Group Systems Management Executive, Weston Homes who has experience from:
  - Joining Weston Homes in 1994 and being involved with all the commercial functions including estimating (both land feasibility and operational detailed) for all of that time.

- Being at managerial level for twenty-five years, with his entire building career in the housing development industry.
- Auditing all major construction projects for the Weston Homes Group and testing the validity of build costs pre-acquisition and pre-construction before monitoring the delivery of construction projects through to completion.

2 Documents Relied Upon by the Applicant:

2.1 180831 16-D009 Anglia Square Viability Report Amended FINAL (2).pdf and its appendices (referred to as the September 2018 Viability Report within this Proof of Evidence, (CD7.87)) including:

- Appendix 03 - Site Plan.pdf
- Appendix 08 - Gardiner & Theobald Cost Estimate Review.pdf

2.2 Item 3 from Norwich City Council planning applications committee - Application no 18/00330/F (Section 2 'Development Viability').

2.3 DVS Review of Development Viability Assessment – 9 November 2018 (CD9.4).

2.4 Guidance relied upon in the viability evidence:

- National Planning Policy Framework (2019) (CD1.1).
- Planning Practice Guidance on viability (last updated May 2019) (CD1.3).
- Financial Viability in Planning – Royal Institution of Chartered Surveyors (RICS) (GN 94/2012) (CD10.16).
- Financial Viability in Planning - Royal Institution of Chartered Surveyors: conduct and reporting (1st Edition, May 2019) (CD10.17).
- Norwich City Council (NCC) Local Plan Policy (CD2.2 to CD2.4).

3 Viability Appraisal Approach

3.1 This is not a formal Red Book valuation. This is a development appraisal (referred to as the Scheme appraisal in this document), reviewing the viability of the Scheme for the purposes of a planning inquiry. As such it has regard to and applies the specific guidance on such appraisals contained in the PPG (CD1.3).

3.2 This is a large inner city regeneration site. This restricts the number of developers with the appetite, skills and business model which could ensure that a viable and deliverable scheme could come forward – the analysis reflects this. Analysing any Scheme, especially one of this scale involves a degree of forecasting and the application of appropriate regeneration/ place making premiums based on experience and relevant expertise.

3.3 Inputs have been provided by those with expertise and experience in relation to:

- Build costs: Weston Homes (benchmarked against BCIS rates and cross checked by third parties).
- Retail and leisure strategy and values: Cushman & Wakefield.

3.4 The Scheme is subject to two specific elements of public sector support which enable it to be deliverable. Specifically:

- The £15.0 million (m) Housing Infrastructure Fund (HIF) grant allocation by central Government.
- The existence of a Community Infrastructure Levy (CIL) Exceptional Circumstances Relief policy **(**CD2.16).

3.5 The Scheme (through the September 2018 Viability Report (CD7.87)) has been subject to third party due diligence processes and reviews to enable it to advance to the stage that it has. These were undertaken by:

- The District Valuer Service (DVS) (on behalf of NCC Local Planning Authority) which evidenced that the Scheme is deliverable and produces at least the maximum reasonable quantum of affordable housing (CD9.4). The DVS also reviewed the viability of a slightly different scheme in 2017.
- Deloitte (on behalf of Homes England) which established the need and basis for granting £15.0m of HIF money to ensure the Scheme's deliverability. This review was focused on the deliverability of the Scheme, ensuring that Homes England would achieve its objective of enabling housing delivery of marginal schemes (blind to the mix of private/ affordable housing).

3.6 The Scheme appraisal (Appendix 4) has been undertaken (November 2019) to update Appendix 2 of the Viability Report (CD7.87) (September 2018 planning application submission) to reflect the current day position as required by the PPG (CD1.3). This Proof of Evidence thus updates the September 2018 Viability Report (CD7.87) but – as per the Note of the Pre-Inquiry Meeting - it does not seek to repeat information which is still valid from the September 2018 Viability Report (CD7.87).

4 Gross Development Value & Scheme Income

Private Residential

4.1 The September 2018 viability evidence (CD7.87) provides residential market commentary in relation to average values in local postcodes. This commentary remains valid.

4.2 I consider that the most appropriate and up to date approach to assessing the achievable values of the residential units is to consider comparable new build residential schemes in Norwich. Given the level of information available to me, the time horizons of the Scheme and that the mix and number of units within all blocks (other than block A and the Tower) is illustrative only, I consider it to be appropriate to apply an overall blended sales value to all units

4.3 The Scheme is however, a non-standard 'product' (with commercial uses alongside) and is of the scale which gives the ability to control the environment for residents and to achieve a premium to the market to reflect the non-standard nature of the product and the quality and scale of placemaking. This is particularly the case given that delivery of the Scheme is over 10 years with later phases of such schemes historically achieving greater values.

4.4 For the one bed units, the average asking price in Norwich City Centre [1] is £295 per square foot (psf) when assuming that the units have the same average size as within the proposed Scheme. This is from a sample of 30 properties and in calculating the average £ psf I have excluded the penthouse 'outlier' in the 'Wherry Road' scheme. Achieved prices will typically be lower than asking prices (circa 5% - often reflecting stamp duty/ buyers costs as an incentive) which reduces the average to £280 psf.

4.5 In relation to the two bed units, the average asking price in Norwich City Centre [2] is £303 psf when assuming that the units have the same average size as within the proposed Scheme. This is from a sample of 45 properties and in calculating the average £ psf I have excluded the 2 +£500,000 'outliers' (penthouses in the 'Wherry Road' scheme). Achieved prices will typically be lower than asking prices (circa 5% - often reflecting stamp duty/ buyers costs as an incentive) which reduces the average to £288 psf.

4.6 The Scheme appraisal (Appendix 4) utilises the following private values which reflects an overall blended value (for one and two bed flats) of just over £300 per square foot (psf). These are priced at a premium to existing average values in Norwich City Centre to account for the creation of a new quarter of the City with a mix of uses and strong sense of place. The average size of the 2 bed flats (area figures in brackets) is relatively high compared to market standards, which is a consideration for the average unit prices applied:

- £160,000 1 bed (555 sq ft).
- £250,000 2 beds (795 sq ft).
- £270,000 2 beds (Tower) (781 sq ft).

4.7 For 1 bed flats within the Scheme this equates to a value of £288 psf. Thus, the premium for the 1 bed units (above the average calculated in paragraph 4.4) is less than 3% which, given the quality of the environment, mix of uses, scale and phased delivery of the Scheme, I consider to be easily appropriate. This low level of uplift in part reflects the pace of sales assumed within the Scheme.

4.8 For 2 bed flats within the Scheme this equates to a value of £316 psf. Thus, the premium for the 2 bed units (above the average calculated from Rightmove) is 10% which, given the quality of the

[1] Rightmove, 20 November 2019, Norwich City Centre + ½ mile. Details in Appendix 6.

[2] Rightmove, 26 September 2019, Norwich City Centre + ½ mile. Details in Appendix 6.

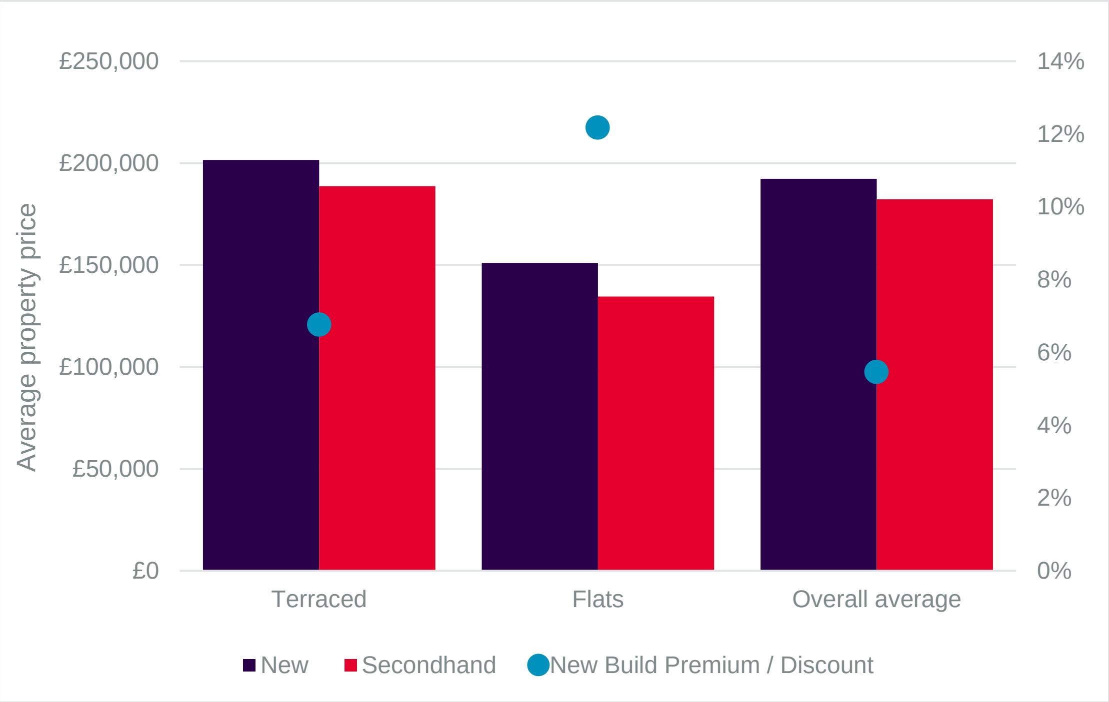
environment, mix of uses, scale and phased delivery of the Scheme I again consider to be appropriate.

4.9 This is a long term regeneration scheme. At this level of analysis, I do not consider that a unit by unit assessment of values is appropriate or proportionate. It would introduce a level of detail and spurious accuracy which is not applicable. The rates utilised are thus blended and it is likely that later phases of the Scheme will achieve higher values than earlier phases of the Scheme (when placemaking is established etc.). The rate within the Scheme appraisal (Appendix 4) has been input at these unit prices (i.e. not at a £ psf value) which means that the blocks with the largest units are comparatively the cheapest (e.g. Block J, Gildengate House).

4.10 Exploring and analysing how the new build sales market has behaved over the last few years helps develop a further understanding of the market demand for such units. While the new build market has experienced different fates across the country over the last few years, as some schemes in parts of the country have had to offer discounts (due to over-supply issues or popularity of more traditional homes), in many areas, including Norwich, this is actually quite rare. Most new build homes tend to sell at a premium over their second hand counterparts, reflecting a perennial demand for good quality, new and modern accommodation.

4.11 Figure 1 provides a visual breakdown of new build sales values versus second hand sales values from 2017 to the most recent 2019 data across the NR3 district. There were no new build sales of detached or semi-detached properties and therefore these are not represented. On an overall basis, new builds in NR3 attract a price premium of around 6% with new build flats selling for an average of 12% more than second hand flats in the same area.

4.12 Figure 1: New Build Premiums, NR3 (source: HM Land Registry, 2017-2019).



4.13 New builds in the wider ‘Eastern’ region have sold for an average 12% more than second hand homes and this is most stark across new build flats where the premium has been 35% (between January 2018 and October 2019).

4.14 According to HM Land Registry, average house prices in the NR3 postcode district (2019, year to date) are £188,933 – slightly less than the wider Norwich average of £202,208. Flats in the localised area of NR3 1 (the location of the Site) are actually more expensive than those in Norwich as a whole, by a margin of around 20%.

4.15 Taking a closer look at prices and price movements in the local NR3 postcode district, there has been a small and steady price growth across all types of stock over the last seven years. Most of this growth happened between 2014 and 2016 (similar to the wider district and region), when house prices grew by an average of 15%; in the last two years house prices have grown by around 9% which contrasts with 2% growth in both Norwich and the East of England since August 2017.

4.16 The NR3 postcode area achieves a premium (compared to wider Norwich values) for apartments and new build units achieve a significant premium over second hand units. The latest new build development in NR3 (see Appendix 6 for further details) was achieving around £253 psf this was back in 2017, and is not comparable in scale or the mix of uses within the Scheme. Taking this evidence into account along with the pricing of new build apartment schemes in Norwich City Centre, I consider that pricing of circa £300 psf is both realistic and achievable for a regeneration scheme with a mix of uses. There would be a range in pricing and the resultant £ psf dependant on location within the development, outside space and outlook.

<u>Affordable Residential</u>

4.17 The rates from the September 2018 Viability Report (CD7.87) have been retained based on the principle of the capital value of social rented units being 40% of the market value and the capital value of intermediate ownership units being at 60% of market value as illustrated in Figure 2. I consider this ratio (of affordable residential capital values to private capital values) to be reasonable based on my experience.

4.18 Figure 2: Affordable Residential Pricing

Type	Market Price	Social Rented Capital Values	Intermediate Ownership Capital Values
1 bed flat	£160,000	£64,000	£96,000
2 bed flat	£250,000	£100,000	£150,000
3 bed house	£325,000	£130,000	£195,000

<u>Residential Car Parking</u>

4.19 The capital value per space of £15,000 has been applied to 610 private residential car parking spaces whilst nil value has been applied to the 38 spaces dedicated to affordable housing occupiers.

<u>Residential Ground Rents</u>

4.20 Given the ongoing discussion and potential for Government restrictions on the application of ground rents to new residential schemes, the Scheme appraisal has been amended compared to the September 2018 Viability Report (CD7.87).

4.21 If this was a Red Book value assessment, ground rents would typically not be included as per the position agreed by a number of the major, RICS accredited valuers. However, this is not a Red Book assessment and given the lack of legislation at present, I consider that it is appropriate to include ground rents but only if a suitable capitalisation rate is applied (to reflect the risk of legislative change). A capitalisation rate of 10.0% has been applied within the Scheme appraisal (Appendix 4) which reduces the years purchase (and capital value) in comparison to the September 2018 Viability

Report (CD7.87). This is a more precautionary approach than the previous approach or consideration of the DVS (CD9.4).

4.22 In the scenario where ground rents cannot be charged, I would anticipate that the pricing of the apartments would re-calibrate (upwards) to reflect the lack of an ongoing ground rent obligation.

Residential Sales Phasing

4.23 I consider that an appropriate approach to sales rates (in aggregate) over this phased scheme is for 30% off plan sales (no income will be generated from the off plan sales until occupation) and then an average of 6 units per month over the aggregate sales programme. This is a high sales rate for Norwich but reflects the scale of the Scheme, its mix of uses and unique proposition within Norwich.

4.24 Within the appraisal, an explicit allowance of 30% presales has been made for Block A given that it is the first element of the Scheme to be brought forward. For other blocks, the sales phasing is based on weighting sales (on a linear basis) towards the initial sales period with no differentiation between the different unit types per block. Given the scale of the blocks being developed, a proportion of units can begin to be occupied prior to overall completion (not prior to 15 months from the commencement of the build programme on all blocks except Block J). Weston Homes (as per other developers of schemes of this type/ scale) would be careful to ensure that the pace/ trajectory of build matches – as closely as possible – the sales rate. The public realm works will be completed in Phase 1 to allow for this and cross Site permeability will be maintained through the construction period.

4.25 Affordable housing income is received in six equal tranches through the construction of the units until completion.

4.26 The need for market housing is highlighted in paragraph 204 of the 6 December 2018 NCC Committee Report (CD2.15) which states that:

This (the 2017 SHMAA) indicates that of the predicted need for market housing arising from the city council area (15,294 dwellings), approximately 36% is predicted to be for 1 and 2 bedroom properties (5511 dwellings). The proposed number of market dwellings (1089-1139) has the scope to meet approximately 20% of need for this size of dwelling in a single location. On the basis of this evidence there is a substantial future need for dwellings of the size proposed and the quantum potentially deliverable on this site would make a sizeable contribution to meeting this need.

Hotel

4.27 Weston Homes was in discussions with a potential occupier (a major national brand via a franchise agreement) of the hotel prior to the elongation of the planning process. The hotel is large (96,600 sq ft Gross Internal Area (GIA)) and – in the opinion of Carter Jonas' leasing agents – may need to be reduced in size to meet market demand and/ or split between two separate operators (which could be done as this is not an element subject to the detailed planning application). The design of the hotel element of the Scheme is sufficiently flexible to allow for different solutions which could include utilising some of the space for additional residential units (as the outline planning application allows for an additional 41 units) which – in the current market – would likely create greater value.

4.28 Carter Jonas is aware that both 'easy hotel' and 'Moxy' have requirements for Norwich. Carter Jonas is currently in the process of advising Travelodge on a site in the centre of Norwich and is also advising on hotels at the airport and in the city centre. The hotel is not forecast to be open until 2027 and the exact operator is to be determined.

4.29 Taking a typical layout for a budget hotel (e.g. Travelodge), the hotel within the Scheme allows for up to 300 rooms. However, budget operators typically look for a max of 100 rooms with franchise brands looking for circa 150 rooms including a restaurant/ bar and all corridors and back of house elements**.**

4.30 Most occupiers will offer a rent per key with budget hotels typically paying between £4,600 and £5,150 per room. For 3*-4* hotels a rent of between £5,150 and £10,000 is typical (depending on the occupier). Recent hotel leases (Travelodge) of which Carter Jonas is aware:

- Bury St Edmunds - £5,150 a room (80 rooms).
- Boston - £4,700 a room (56 rooms).
- Letchworth - £4,800 a room (73 rooms).
- Welwyn Garden City - £5,100 a room (78 rooms).

4.31 Based on the Scheme, I consider it prudent to apply a low rent per room (£4,400) and assume that – whilst the GIA could allow for up to 300 rooms - this is reduced by 25% (to 225 rooms) allowing for more generous room sizes/ ancillary facilities. 26 car parking spaces are provided to the hotel operator at no additional cost.

4.32 Carter Jonas' agents consider hotel yields for institutional 25 year leases to national operators in Norwich to be 5.0-6.5% depending on the tenant. Given the size of the hotel and the potentially different occupier options, I consider it prudent to utilise a yield towards the upper end of this range (6.25%). Hotel sales comparables for the East of England for the last three years are shown in Figure 3[3].

4.33 Figure 3: East of England Hotel Sales, November 2016- October 2019.

Star Rating	Sale Price	Sale Date	Property Name	Building (sq ft)	Value £ psf	Net Initial Yield %
3 Star	£24,425,000	17/05/2019	Travelodge Hotel	40,000	610.63	4.38
3 Star	£15,300,000	01/03/2019	Holiday Inn Southend	51,600	296.51	4.60
3 Star	£7,700,000	28/02/2019	Holiday Inn Luton South	70,000	110.00	4.50
2 Star	£5,125,000	08/01/2019	Travelodge Hemel Hempstead Hotel	21,765	235.47	4.46
3 Star	£14,100,000	13/11/2018	H2O Development - Premier Inn	28,000	503.57	4.25
2 Star	£12,250,000	01/10/2018	Travelodge	66,600	183.93	4.25
3 Star	£4,500,000	01/09/2018	Travelodge Bedford Hotel	17,199	261.64	4.50
4 Star	£48,300,000	17/10/2017	Hampton by Hilton	93,323	517.56	6.75
3 Star	£5,757,591	11/05/2017	Best Western	80,948	71.13	5.00
3 Star	£18,530,000	24/04/2017	Cambridge Belfry Hotel	185,823	99.72	6.10

[3] Sourced from CoStar – transactions have been excluded if price and NIY information is not available.

3 Star	£5,500,000	25/03/2017	Travelodge Haverhill Hotel	32,000	171.88	5.92
4 Star	£11,950,000	20/12/2016	Army & Navy	50,031	238.85	7.50

4.34 There is a range of sizes of hotels but only 2 with a Net Initial Yield (NIY) greater than 6.25%. The capital value per gross sq ft utilised within the Scheme appraisal is £154 which is lower than all but three of the comparables.

4.35 A 12 month rent free allowance has been allowed for in the Scheme appraisal.

Commercial Uses

4.36 See Appendix 1 for Cushman & Wakefield's review and assumptions that are utilised in the Scheme appraisal (Appendix 4).

4.37 As part of the Section 106 Agreement, 'non-core' commercial space located in the less prominent positions fronting Pitt Street, New Botolph Street and Edward Street is to be made available to small/ medium sized, local enterprises. A low retail rent of £9.75 psf has been applied to these units on this basis, with the units completed to a basic level. They are capitalised at the same rate as the other retail units in the Scheme (based on assumed high rates of occupancy) with tenants being offered 'easy terms' to enable quick occupation and there being no penalties for short term use. As it is anticipated that these tenants will need some assistance in commissioning their space, a 24 month rent package is allowed for to cover pre-letting tenant incentive and fit outs.

4.38 We have made the conservative assumption that no value/ income from the commercial units will be realised until all construction works are complete within the respective phase.

Housing Infrastructure Fund

4.39 The Scheme has been granted £15.0m of HIF money to close a viability gap. This money is required to be spent by March 2024. This fund is closed to applications and is the first major gap funding initiative from Homes England/ central Government since the Kickstart Housing Fund of 2008-2010.

4.40 HIF was allocated based on a competitive process where the Scheme had to show that it both required the funding and could be delivered. The Scheme was subject to due diligence by an independent consultant (Deloitte).

5 Development Costs & Developer Returns

Base Construction Cost

5.1 Weston Homes' base construction costs are sourced from an elemental build-up of materials which is costed along with the process and time required to complete an estimate. This developer specific model breakdown of costs and the methodology which produces it is – as the courts and information commission have accepted– extremely commercially sensitive and it is not possible to directly share this precise information.

5.2 The Weston Homes estimate of base construction costs totals **£196,800,000** which was entered into the appraisal at a marginally higher rate of **£197,375,000**[4] in the September 2018 Viability Report (CD7.87) (which - for consistency - has been retained in the Scheme appraisal in Appendix 4). The costs are determined on a block by block basis given the shared infrastructure between the commercial and residential elements.

5.3 For input into the Scheme appraisal, the costs have been apportioned per block (with blocks E&F and G,H&J respectively merged) to residential/ car parking and commercial (hotel, hotel car park, retail and cinema). This gives a blended £ psf cost for these uses per block (with a marginal deviation for some retail units to reflect the treatment of the mezzanine).

5.4 Gardiner & Theobald reviewed the Weston Homes base construction cost estimate against the RICS Building Cost Information Service (BCIS) and their own benchmarks in Appendix 8 of the September 2018 Viability Report (CD7.87). The DVS reviewed and accepted these costs in 2017 and 2018 (CD9.4) whilst Deloitte (as part of their due diligence on the HIF bid) reviewed the costs and specifically validated the methodology for the build process (by visiting and reviewing Weston Homes' warehouse and manufacturing facility).

5.5 Appendix 8 of the September 2018 Viability Report (CD7.87)compared Weston Homes' base construction costs to BCIS rates:

- For the residential space, the Weston Homes costs are all above the BCIS lower quartile benchmark rate but below the BCIS mean rate.
- For the commercial space, the Weston Homes costs for Blocks A and D are below the BCIS lower quartile benchmark rate and the Weston Homes costs for Blocks E&F and G,H&J are above the BCIS lower quartile rate but below the BCIS mean rate.
- The Weston Homes car park costs for Block A are above the BCIS lower quartile rate and lower than the BCIS mean rate. The WH (car park) costs for Blocks E&F and G, H & J are above the BCIS lower quartile rates and lower than the BCIS mean rate.

5.6 These relationships are not surprising and reflect the position of Weston Homes in the market overall and in particular its well-known ability to value engineer its costs base. Weston Homes' base construction cost illustrate what an organisation with a business model which is attuned to large scale, long term regeneration projects can deliver for this Scheme in a competitive market. These costs fall within the benchmark range from the BCIS and are applied within the Scheme appraisal (Appendix 4).

5.7 The process and basis for Weston Homes' build cost estimation is set out in Appendix 3 whilst Appendix 2 details its approach to the construction process. Part of this approach is that it does not

[4] Figures rounded to the nearest £25,000.

include an allowance for overheads and contractor's profits as it does not appoint a third-party contractor.

5.8 As a November 2019 comparison in relation to the base construction costs, the specific BCIS rates for +6 storey residential apartment schemes in Norwich are shown in Figure 4 and the costs for commercial (hotel, hotel car park, retail and cinema) and car parking uses are shown in Figure 5.

5.9 Figure 4: BCIS rates for +6 storey residential apartment schemes in Norwich (November 2019).

Results

› Rebased to Norwich (95; sample 39) Edit

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.
Last updated: 09-Nov-2019 00:41

Maximum age of results: Default period ▾

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
816. Flats (apartments)							
Generally (15)	1,443	729	1,204	1,367	1,627	4,878	942
1-2 storey (15)	1,377	840	1,178	1,312	1,515	2,517	227
3-5 storey (15)	1,420	729	1,190	1,359	1,613	3,088	624
6 storey or above (15)	1,773	1,071	1,460	1,651	1,888	4,878	88

5.10 Figure 5: BCIS rates for multi-storey car parks, shops, cinemas and hotels (November 2019) – no regional weighting[5].

£/m2 study

Description: Rate per m2 gross internal floor area for the building Cost including prelims.
Last updated: 23-Nov-2019 00:42
At 4Q2019 prices (based on a Tender Price Index of 335) and UK mean location (Location index 100).

Maximum age of results: Default period ▾

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest	
New build							
125. Car parks (Multi-storey) (15)	592	352	428	563	688	1,099	9
345. Shops							
Generally (30)	1,503	589	851	1,137	2,008	4,139	26
1-2 storey (30)	1,510	589	846	1,090	2,044	4,139	25
3-5 storey (30)	1,322	-	-	-	-	-	1
525. Cinemas (30)	1,678	-	-	-	-	-	1
852. Hotels (15)	2,085	1,199	1,737	1,993	2,454	3,108	20
Shell only							
345. Shops (15)	987	610	799	866	984	2,246	10
525. Cinemas (25)	1,032	938	-	-	-	1,126	2
852. Hotels (30)	447	-	-	-	-	-	1

5.11 To undertake a high level comparison with the Weston Homes base construction costs, I have used the median new build rate for the various uses. For Shops (i.e. retail) this means using the highest

[5] Given the small sample size for some of these uses, no geographical weighting is considered to be appropriate.

median figure available from the ‘General’ category; for the cinema I have taken the highest ‘shell only’ figure given that the cinema will be provided in this form to the operator. BCIS costs typically include Overheads & Profit and Preliminaries so the figures are not directly comparable; equally, the Weston Homes base construction costs include an allowance for demolition. To make this ‘gross’ BCIS cost comparable to the Weston Homes base construction costs, I have added demolition costs (pro-rated across the various uses) and taken out typical allowances of 10% for Overheads & Profit and 10% for Preliminaries.

5.12 Figure 6 illustrates that applying these rates to the relevant GIA leads to total base construction cost which is within 2.5% of Weston Homes’ figure (which is applied within the Scheme appraisal). This is not to say that the use of the BCIS median is more appropriate than Weston Homes’ base construction costs (and for a Scheme of this scale, there is likely to be economies of scale which reduces costs) but it illustrates that there is sufficient cost allowance within the Scheme appraisal to make it very close to the BCIS median. The retail units and cinema will be provided as ‘shell and core’ to occupiers which also has the potential to minimise the construction costs.

5.13 Figure 6: Comparison of Weston Homes based construction costs with the BCIS median.

	Total area		**Weston Homes base construction cost**	**BCIS median cost (£)**		**Total Comparable Cost using BCIS median**	
Use	Sq m	Sq ft	Totals	Per sq m	Per sq ft	'Gross'	Post adjustments
Residential	103,984	1,119,276	£133,880,698	1,651	153	£171,677,986	£144,464,146
Multi-storey car park	51,651	555,969	£42,266,469	563	52	£ 29,079,660	£24,790,004
Retail	14,062	151,367	£10,580,266	1,137	106	£15,989,026	£13,403,603
Hotel	9,910	106,670	£7,773,042	1,993	185	£19,750,584	£16,462,055
Cinema	2,753	29,632	£2,872,230	1,126	105	£3,099,772	£2,613,247
Total			**£197,372,705**			**£239,597,027**	**£201,733,081**

5.14 In relation to the elemental built up, Gardiner & Theobald observe that there is generally consistency in the proportion of the overall rates represented by the key elements of construction, although further examination would be useful in some areas.

Professional Fees

5.15 The professional fee allowance is stated as a % of construction costs and relates to the costs - from today – to deliver the Scheme. The Scheme is at an advanced stage given the 3 years of costs that have been incurred by Weston Homes in considering options for the site and undertaking preliminary investigations. If the Scheme obtains Outline Planning Permission (and Detailed Planning Permission for Phase 1) then Weston Homes will be in a position to commence with the Scheme quickly and with relatively limited professional costs given the ‘front loading’ of costs.

5.16 Taking these circumstances into account, I have applied a professional fee level of 8.0%. This is low for a mixed use, Town Centre scheme but I consider this to be reasonable based on the factors listed above and the economies of scale which can be generated for a scheme of such scale. To put this into context, this is an aggregate professional fee budget of £16m.

Preliminaries

5.17 Figure 7: BCIS preliminary percentage data (for the highest value project database).

Preliminary percentages (value over £6,700,000)

Year	Mean	Lower decile	Lower quartile	Median	Upper quartile	Upper decile	Proportion above zero	Sample size
2017	13.1	8.1	10.0	12.8	15.6	18.8	100.0%	44
2018	17.1	8.3	10.1	15.7	20.7	30.0	100.0%	36
2019	15.2	9.1	9.6	13.0	19.2	25.1	100.0%	14

5.18 BCIS preliminaries include some items which are included within Weston Homes' base build costs (e.g. scaffolding and cleaning). Removing these items from the 2019 BCIS mean (15%) in Figure 7, reduces the rate to 10%, which is also the broad lower quartile rate for 2017-2019. I consider that 10% is reasonable (this has been applied in the Scheme appraisal), in part supported by the layout of the Site and economies of scale presented.

Contingency

5.19 A rate of 3% is applied to build costs and preliminaries which reflects the level of design detail and cost certainty that the Scheme has reached.

Infrastructure Items

5.20 Consistent with the September 2018 Viability Report (CD7.87), the following items are not included within the base construction costs and are inputted separately into the Scheme appraisal (Appendix 4). The allowances have been estimated by Weston Homes (including a contingency allowance):

- Chapel Relocation £2.0m.
- Archaeology £2.0m.
- Decontamination £1.0m.

Section 106

5.21 A Section 106 allowance of £0.15m is made in the Scheme appraisal. I understand that the Heads of Terms of the Section 106 agreement have been agreed as part of the planning application process and the draft Section 106 agreement is in negotiation. This draft Section 106 agreement includes a Car Club Contribution of £115,000 and up to a maximum £62,500[6] Green Infrastructure Contribution (of which I have allowed circa 50%).

Public Realm

5.22 During the refinement of the Scheme over the last 12 months and discussions on the HIF allocation to the Scheme, two additional costs have been identified and included within the appraisal. These items

[6] This is payable if the whole Scheme is granted CIL Exceptional Circumstances Relief on a phased basis.

were not included within the September 2018 Viability Report (CD7.87). The allowances have been estimated by Weston Homes (including a contingency allowance):

- A costed allowance of £1,064,878 has been incorporated for off-site works to Edward Street, Magdalen Street and Pitt Street & St Crispin's Road.

- A costed allowance of £917,172 has been incorporated for on-site works to St George's Square and Anglia Square.

<u>Community Infrastructure Levy</u>

5.23 NCC has a CIL Exceptional Circumstances Relief policy (CD2.16). The adopted policy requires an application to demonstrate compliance with specified terms, which I consider would be satisfied by the Scheme in an application following grant of planning permission.

<u>Marketing and Disposal Costs</u>

5.24 The following rates are applied which are consistent with the September 2018 Viability Assessment (CD7.87) and my view of appropriate allowances:

- Commercial Marketing: 1.5% of the commercial capital value (excluding ground rents);

- Residential Marketing: 1.5% of the gross sales value of private and intermediate ownership units and residential car parking;

- Letting Agents: 10% of commercial income (excluding ground rents);

- Letting Legal Fee: 10% of commercial income (excluding ground rents);

- Sales Agent Fee: 1.0% of all commercial capital value and residential gross sales value (except on the affordable units but including residential car parking);

- Sales Legal Fee: 0.5% of all commercial capital value and residential gross sales value (except on the social rented units but including residential car parking);

- An £25,000 legal allowance associated with the relocation of the Chapel.

<u>Finance Costs</u>

5.25 A rate of 6.5% has been applied.

<u>Achieving Vacant Possession</u>

5.26 The developer and landowner's team have been working on a commercially sensitive phased vacant possession strategy to facilitate development at Anglia Square for a number of years, working towards a block date. As a result, no compensation is anticipated and therefore there are no costs for achieving vacant possession within the appraisal.

5.27 No interim income from the existing asset on the site is included within the Scheme appraisal (Appendix 4) as a conservative assumption; there will likely be continued income, most significantly from the car park.

<u>Developer Returns</u>

5.28 The output of the Scheme appraisal (Appendix 4) is a profit of £43m. This equates to 16.4% profit on cost, 14.7% on GDV and a 20.2% Internal Rate of Return (IRR). This represents a risk return on Development Costs and the market risk of residential sales and commercial leases and investments.

5.29 This is at the lower end of the returns generally that a developer would ordinarily accept to proceed with a mixed use development. The PPG (CD1.3) states that for the purposes of plan making 'an assumption of 15-20% of GDV is considered a suitable return to developers in order to establish the viability of plan policies'.

5.30 The viability is consistent with the level often found on multi-phased regeneration schemes which anticipate 'real growth' in values over time and the repositioning of a significant segment of a major city. Major development schemes often proceed at a lower level of initial profitability on the grounds that the prospects of long term growth are significant. Regard must also given to the overall quantum of profit achievable in this case and to the IRR of 20% plus which I would describe as "healthy".

5.31 This is a multi-phase project where the developer has the ability to manage delivery risk at different points in the programme.

5.32 The Scheme shows a very slight fall in the viability of the Scheme since the September 2018 Viability Assessment (CD7.87) (from 16% to 15% on GDV). This reflects:

- The softening in the retail/ leisure market over the last year along with a greater reflection of the risk posed by potential changes to ground rent legislation. This has reduced the Net Development Value slightly.

- I have allowed for additional costs which have been identified since the last assessment (additional on and off site public realm) and elongated the sales phasing of the early residential unit delivery to reflect the scale of the initial residential development.

- The increase in the HIF (from £12.2 to £15.0m), which is a beneficial movement.

5.33 Overall, bearing in mind that the Scheme has a profit level within the suggested range of the PPG (CD1.3), a relatively healthy IRR and reasonable potential to achieve long term growth as a non-standard Scheme addition to Norwich, I consider it to be deliverable (see below). The level of affordable housing which will be provided as part of the scheme is probably more than the reasonable maximum provision in policy terms in the sense that the usual benchmark returns are not quite reached. But the developer is very clear that it will proceed at these levels of returns and for the reasons set out above and below I am satisfied that this is a rational and appropriate decision.

6 Deliverability

6.1 The Scheme (as shown in Appendix 4) generates a profit on cost of 16.4% or 14.7% on GDV. This is a relatively low return to incentivise a typical developer to proceed.

6.2 However, the total level of profit, the 'vertically integrated' business model of Weston Homes (as set out in Appendix 3) and the ability of the landowner (Columbia Threadneedle) to take a long term view on repositioning its asset makes the Scheme deliverable. The long timescale of the Scheme, the ability to manage risk as it is brought forward and its IRR (20.2%) make the Scheme attractive.

6.3 Weston Homes has a track record of delivering major residential led schemes and has a very strong focus on cost management - estimating costs from first principles, costing up all items (rather than benchmarking) so that the risk allowance for design/ changes etc. is very limited.

6.4 As demonstrated by the reduction made in the values of the retail and leisure elements of the Scheme (since the September 2018 Viability Assessment (CD7.87)), this is a challenging time for owners – such as Columbia Threadneedle - of retail and leisure assets which reinforces the need to reposition these assets for long term sustainability. A comprehensive regeneration scheme which mixes retail, leisure and housing has the ability to do this.

6.5 Added to the ability of Weston Homes and Columbia Threadneedle to deliver the Scheme, Homes England and NCC have assisted in creating a funding and planning position which enables deliverability at this specific point in time:

- £15.0m of HIF money from Homes England. This fund is closed to applications and is the first gap funding initiative from Homes England/ central Government for circa 10 years. This funding is not normally available and must be spent by March 2024.
- The potential to receive CIL Exceptional Circumstances Relief. This illustrates the commitment of NCC to enabling a viable and deliverable scheme to come forward on sites such as this.

6.6 This Scheme reflects the need for a fundamental 'repositioning' of the current asset within a mixed use development. The commercial rents applied within the Scheme appraisal do not reflect a significant uplift on the existing rents on the Site and no 'real growth' is applied within the viability analysis.

6.7 Weston Homes is delivering residential sales at pace on current (100% apartments) medium/ large schemes - including some medium to high rise elements - at Bury St Edmunds, Peterborough, Maidstone and Dartford. Weston Homes is comfortable with an aggregate 2 units per week sales rate for Anglia Square and has regularly achieved this rate on recently/ nearly sold out schemes at Cambridge East Fields, Denham and Buntingford (with mixes of houses and flats).

6.8 For a regeneration scheme of this scale, I consider it reasonable that - based on successful placemaking and early phases - later phases of the Scheme could achieve a 'step change' in residential values. It is on this basis that Weston Homes and Columbia Threadneedle are committed to proceeding. Additional works have been identified since the September 2018 Viability Analysis (CD7.87) which will aid the creation of such an environment.

6.9 As well as the benefit to the landowner and developer (of 'real growth' which improves viability), the public sector will share in improvements in viability via the mechanisms in the Section 106 Agreement and CIL Exceptional Circumstances Policy (CD2.16). This means that financial returns over a hurdle rate will be converted into either additional affordable housing within the Scheme or CIL payments.

6.10 Assuming later phases of the Scheme[7] benefit from this stepped 'real' growth, a moderate increase of 10% applied to the private residential units (a rate that has been achieved on major regeneration

[7] To the 319 units in Block G and H plus the 68 units in Block J.

schemes in other cities) improves the profit within the Scheme to £50.3m (reflecting 19.2% on cost, 16.8% on GDV and an IRR of 21.7%).

7 Conclusions

7.1 The Scheme - alongside the public sector support highlighted – presents a credible and deliverable proposition to deliver a scheme on a difficult site as per paragraphs 600 and 601 of the Planning Application Committee Report. The Scheme is deliverable but does not exceed the reasonable target profit for a scheme of this nature as per paragraphs 596 and 597 of the Planning Application Committee Report. Since this report, the viability of the Scheme has been marginally reduced.

7.2 There are mechanisms in place (through the CIL Exceptional Circumstances Relief policy and future affordable housing viability reviews) to ensure that if the Scheme does achieve a greater level of profit – primarily through 'real' growth in residential values – this can be captured through greater affordable housing provision and/ or CIL contributions

7.3 Whilst the Scheme is deliverable, this has been a challenging process over a number of years for the current landowner and developer (and in the site's history as outlined in the Planning Application Committee Report). The public sector support (from Homes England and NCC) that enables the Scheme to come forward illustrates NCC's commitment to enabling a viable and deliverable scheme to come forward on this site. In the case of the HIF money, this support is time limited.

7.4 Proceeding with the Scheme is an informed decision by the landowner and the developer. Their reasons for taking this forward are clear and are also time limited:

- The landowner (Columbia Threadneedle): repositioning the retail asset to ensure it is sustainable and has the potential for income growth. The existing centre is coming to the end of its economic life with short term leases in place to enable redevelopment.
- The developer (Weston Homes): a focus on this region and the potential for long term value growth in Norwich from a Scheme with the scale to drive pricing. To date, Weston Homes has expended over £3.5m on the opportunity in an 'at risk' position, illustrating its belief in and commitment to the Scheme.