High-Level Viability Study

Shapley Heath Garden Village

By

Turner Morum LLP

Private & Confidential

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Contents

1. BACKGROUND

1.1. Turner Morum was instructed jointly by Gallagher Estates Ltd ["Gallagher"] and Lightwood Strategic Limited ["Lightwood"] in August 2018 to provide high-level viability advice regarding the Shapley Heath Garden Village proposal.

1.2. Gallagher and Lightwood are each in control of significant areas of land within the new Area of Search [identified within Hart's emerging Local Plan] at Winchfield and Murrell Green.

1.3. It is envisaged that the land controlled by Gallagher and Lightwood could provide in the order of c.5,300 dwellings – Shapley Heath Garden Village – based upon a conservative dwelling density of 31 per hectare.

2. INSTRUCTIONS

2.1. The parties have jointly instructed Turner Morum to produce a high-level viability assessment to assess the viability of the development having regard to anticipated costs of Infrastructure, community facilities, S.106 and Planning Obligations etc., to test whether the emerging scheme is reasonably likely to be viable.

2.2. I have therefore constructed a bespoke viability model which assesses what could viably be delivered by a combined scheme of 5,300 units.

2.3. This report outlines the methodology and the inputs adopted within the viability study, as well as my high-level conclusions.

3. VIABILITY INPUTS AND METHODOLOGY

3.1. The bespoke residual development appraisal produces a Residual Land Value ["RLV"] which is then compared to an appropriate Benchmark Land Value ["BLV"]. If the RLV exceeds the BLV a surplus is generated and the scheme can be considered "Viable". If however the RLV is less than the adopted Benchmark Land Value, a deficit is produced and the scheme can be considered "Non-Viable".

3.2. It should be noted that the scheme is still at a largely conceptual stage and I have therefore had to make a number of assumptions based upon professional judgement, emerging policy and available evidence produced by Hart District Council ["HDC"] [in relation to Local Plan and CIL viability testing].

LAND AREAS

3.3. An indicative land budget has been provided by the parties with the combined site extending to a total of c. 1,047 gross acres [c. 424 gross hectares]. Aside from the proposed residential land use, the proposal includes extensive areas of green infrastructure/public open space, SANG land, employment land and care home land [although this list is not exhaustive] – a summary table is included below:

Gross Areas:	Ha	Acres
Residential:	171.9	424.9
Education:	18.4	45.5
Employment (including Care Village):	9.0	22.2
Local Centres:	5.1	12.6
Green Infrastructure and POS/Sport:	197.2	487.4
Potential additional SANG/GI:	22.0	54.2
TOTAL:	**423.6**	**1046.8**

N.B. It should be noted that the education land take above makes allowance for up to a 9 Form Entry Secondary School – part of "Future Proofing" the development.

HOUSING MIX AND REVENUES

3.4. Within my assessment I have adopted an indicative housing mix for the market units based upon the mix outlined in the Strategic Housing Market Assessment ["SHMA"] of November 2016.

3.5. The housing mix also reflects the policy level 40% affordable housing, split as to 35% Social Rent, 30% Affordable Rent and 35% intermediate housing [provided as Shared Ownership]. The mix of the affordable housing is based on HDC's emerging affordable housing guidance, and the unit sizes are in-line with National House Space Standards.

3.6. As can be expected of developments of this size – and as outlined above – a number of non-residential land uses [such as Employment and Local Centre] are included and they are reflected in the model by way of assumed serviced land receipts.

3.7. Market housing revenues are based on market research and experience of other current developments in the locality – the input assumption equates to an average of c. £370 per ft^2 of market housing

3.8. Estimated Affordable housing revenues are based on benchmark percentages of equivalent Market unit values ["OMV"]. I have adopted the same benchmark percentages adopted within HDC's local plan and CIL viability testing, namely 50% of equivalent OMV for Affordable Rented units and 70% of OMV for Shared Ownership units. I have then assumed a benchmark of 40% of equivalent OMV for the Social Rented units.

3.9. The above high-level revenue assumptions produce an indicative total scheme GDV of c. £1.68bn.

DEVELOPMENT COSTS

3.10. I have taken standard construction costs from the RICS Build Cost Information Service ["BCIS"] – as per the methodology adopted within HDC's local plan viability assessment – and then adjusted for location weighting, external works, a net to gross allowance [for flats only] and build cost contingency. The result is a "blended" average build cost of c. £152 per ft^2 [across both Flats and Houses]. The cost of garages has then been included separately.

3.11. I have also adopted a number of 'standard' industry benchmarks for the other inputs (most of which are also in-line with HDC's local plan viability assessment):

- Fees and marketing [3%];
- Affordable Housing transfer costs [0.5%];
- Professional fees [10%];
- Developer profit [20% for Market housing, 6% for Affordable and 15% for Non-Residential land uses].

3.12. Further allowances are made within the model for envisaged extra-over costs relating to design enhancements and building regulation requirements [such as under M4(2) – again this is as per the HDC local plan viability testing methodology].

3.13. The development costs embedded within the viability assessment are based upon advice received from other technical advisors, and total c. £164m. By way of summary, costs allowances have been made [land and buildings] for two 2 form entry primary schools, a 3 form entry primary school, and one 7 form entry secondary school [on land with capacity for an additional 2 forms of entry]. Allowances have also been made for the costs of on and off-site highway improvements, drainage & utilities, community facilities [including open space & SANGS], transportation & other obligations and what might be characterised as "normal" development costs [including an allowance for such costs as abnormal foundations.]

3.14. It should be noted again that at this point this scheme is currently in a conceptual phase and the costs included are best estimates at the time of writing – they should therefore be considered as subject to change.

3.15. Finance costs have been calculated – at a rate of 6.5% – using an annual cashflow, which reflects the housing trajectory anticipated by the parties as well as high-level assumptions on build-rates and infrastructure timings.

3.16. The benchmark land value adopted within my estimate is based on a rate-per-gross-acre of £125,000. Stamp duty land tax has been calculated on-top of this at prevailing rates, and an allowance for agents and legal fees [on sale] has also been included at 1.5%.

4. CONCLUSIONS

4.1. The outturn of this preliminary analysis can be summarised as follows:

Scenario Description	AH %	RLV	BLV	Surplus/Deficit	Viable/ Non-Viable?
5,300 Units	40%	£171,486,125	£139,346,672	£32,139,453	VIABLE

4.2. As can be observed from the above, at the baseline position, allowing for the landowner to receive a competitive return of £125,000 per gross acre, the scheme shows a surplus of c. **£32.1m**.

4.3. The above conclusion is based on the information on costs available at this point in time. What it demonstrates however is that should cost allowances need to increase [pursuant to further testing] it can reasonably be expected that there would be headroom to accommodate this.

OVERALL CONCLUSION

4.4. It is my opinion, in accordance with the analysis I have carried out, that the Shapley Heath Garden Village proposal, including significant infrastructure contributions, and the identified educational facilities could be viably delivered.

4.5. These present conclusions have been reached based upon the input evidence produced by the Developer consultant team and may therefore be subject to future change.

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