

**GERALDEVE****Summary Report of the Due Diligence Assessment of a Financial Viability Assessment (FVA)****On behalf of South Cambridgeshire District Council****Site: Land at Waterbeach New Town East, Cambridge****Applicant: RLW Estates Ltd**

29 October 2020

Introduction

1. Gerald Eve LLP has been instructed by South Cambridgeshire District Council ("SCDC"), to undertake a due diligence assessment of a Financial Viability Assessment ("FVA") and associated information in connection with a planning application for the proposed development of Waterbeach East ("the Site"), submitted on behalf of RLW Estates ("the Applicant").
2. Our instructions are to review the information provided and determine whether the Scheme provides the maximum reasonable level of affordable housing, in addition to Section 106 ("S106") contributions.
3. The outline planning application ("the Scheme") made to South Cambridgeshire District Council ("SCDC"), is for:

"Outline planning permission (with all matters reserved) for development of up to 4,500 dwellings, business, retail, community, leisure and sports uses; new primary and secondary schools and sixth form centre; public open spaces including parks and ecological areas; points of access, associated drainage and other infrastructure, groundworks, landscaping, and highways works".
4. Carter Jonas prepared a financial viability assessment ("FVA") on behalf of the Applicant which assessed the viability of the Scheme concluding in September 2019 that nil affordable housing could be provided. Following discussions with SCDC and Gerald Eve, Carter Jonas prepared an Addendum report dated February 2020 ("the Addendum"), which provided an update to the FVA and proposed affordable housing provision of 30%, alongside a Section 106 contributions ("S106") package totalling £88.35 million ("the Offer"). This was offered despite Carter Jonas concluding that this position was unviable.
5. This report summarises the findings of Gerald Eve's due diligence assessment of the Carter Jonas submissions and confirms our recommendation to SCDC to accept this Offer.
6. The Applicant has offered 30% affordable housing on the basis of the following tenure mix, which is the same as that agreed at the adjoining Waterbeach West site.
 - 30% Affordable Rent;
 - 30% Shared Ownership;
 - 20% Rent to Buy (at assumed 35% discount to open market value); and
 - 20% Discounted Market Sale (at assumed 20% discount to open market value).

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7. The above mix is however a departure from SCDC's Affordable Housing Policy within the Waterbeach New Town SPD, which is to provide 40% Affordable Housing on site with a tenure split of 30% Intermediate / 70% Social Rented.
8. The total S106 contributions comprise the following which we understand may be subject to further change due to ongoing discussions with SCDC. Should these figures change we reserve the right to amend our position accordingly:

Item	Contribution/cost
Education	£72,244,500
Community	£5,911,000
Refuse	£806,265
Other	£100,000
Highways	£3,412,000
Drainage	£4,852,000
Strategic Highways	£1,033,500
TOTAL	£88,359,265

Planning Policy and Guidance

9. In undertaking our review, we have had particular regard to viability guidance and policy including the following:
 - National Planning Policy Framework (NPPF) revised in July 2018 (as amended);
 - National Planning Guidance (Viability) 2019;
 - RICS Professional Statement: Financial Viability in Planning: Conduct and Reporting. (Effective September 2019); and
 - Other relevant best practice guidance.

Approach

10. Given the scale of the site, the Applicant has adopted a 'master developer' model for the Scheme, whereby the Applicant obtains outline planning permission and receives income from the sale of serviced land parcels following the installation of primary and associated infrastructure. This is often the approach for long, complex, strategic sites. We have adopted the same approach in our own analysis.

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11. The key revenues within the master developer model, residential and commercial land values, have been calculated by undertaking separate appraisals of these uses, which then feed into the master developer model.

Benchmark Land Value

12. The Applicant/Carter Jonas considers that an appropriate benchmark land value (BLV) should reflect £180,000 per acre based upon market evidence, although it has tested the Scheme at a reduced BLV of £70.91m, equating to £125,000 per acre.
13. In our opinion, there is a potential BLV range reflecting between £100,000 per acre and £150,000 per acre. Therefore, Carter Jonas' BLV of £125,000 per acre sits in the middle of this range. Given the nature and scale of the site, and having regard to National Planning Guidance, we consider it appropriate in this instance to adopt a BLV at the lower end of this range i.e. £100,000 per acre. Our adopted BLV is therefore £56.73 million.

Summary of Appraisal Assumptions

14. We consider that many of Carter Jonas' assumptions generally appear reasonable although we have differing opinions on some inputs and assumptions, and therefore end figures.
15. The table below compares the key assumptions and appraisal results for Gerald Eve's and Carter Jonas' appraisals. The figures are based upon a 30% affordable housing tenure scenario:

GDV	GE Assumptions	CJ Assumptions
Residential Land Sales (30% AH)	£470.25m (£2.09m per net acre)	£399.21m (£1.92m per net acre)
Employment Land Sales	£18.41m	£3.11m
Retail Land Sales	£4.76m	£1.29m
Total	£493.43m	£436.38m
Costs (present day)	GE Assumptions	CJ Assumptions
Infrastructure Costs	£162.28m	£162.28m
S106	£88.35m	£88.35m
Profit on Cost	20%	20%
Benchmark Land Value	£56.73m	£70.91m
Appraisal Results	GE Assumptions	CJ Assumptions
Residual Land Value (present day)	£57.11m	£14.97m
Surplus/Deficit	£0.38m	-£55.94m



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16. We consider that the Offer (30% affordable housing, S106 of £88.35m), is viable based on Gerald Eve's assumptions, with a small surplus of £0.38m against our BLV of £56.73m.
17. The Applicant considers the Offer to be unviable on the basis of Carter Jonas' assumptions with a deficit of -£55.94m against its opinion of BLV at £70.91m.
18. Despite the Applicant considering the Offer to be unviable, we understand it is prepared to proceed on this basis as a commercial decision.

Gerald Eve Review Conclusions

19. Gerald Eve's analysis results in a small surplus over our opinion of BLV. Therefore, we consider the Offer (30% affordable housing and £88.35m S106) to be financially viable.
20. Based upon Gerald Eve's analysis, the Scheme can afford what is being offered by the Applicant, but it cannot afford any further contributions on a present day basis as this would make the scheme unviable.
21. We have undertaken sensitivity testing which suggests the Scheme is likely to become more viable over the life of the development.
22. The Applicant's Offer includes a viability review mechanism, which we recommend is accepted in principle, subject to detailed drafting. The review mechanism should capture additional value arising from the development over time, e.g. if the developer's costs are actually lower, or the GDV improves.
23. We understand that the proposed reviews will be similar to those set out in the Waterbeach West S106 and will be undertaken on an 'open book' basis at key stages of the development. Actual costs and values will be adopted where known. Where these are not known, estimates will be used (for the remaining parts of the development). Where a surplus is identified, a 50/50 split is envisaged, shared between SCDC and the Applicant. SCDC's share will be used for additional on-site affordable housing, capped at the 40% policy level.