Financial Viability Assessment Executive Summary for
Firethorn Trust

LAND AT NORTH WEST BICESTER HOME FARM, LOWER FARM AND SGR2 CAVERSFIELD OXFORDSHIRE OX27

11th May 2022

Our Ref: AAMJ/20-00678

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1 INTRODUCTION

1.1 We have been instructed by Firethorn Trust (the applicant) to provide an Executive Summary for the Financial Viability Assessment of their proposed scheme at Land at North West Bicester. The proposal consists of:

> *"outline planning approval for the construction of up to 530 dwellings, including details of the site access arrangement."*

1.2 The proposed site forms part of the wider North West Bicester Eco-Town, which is captured in planning policy by Cherwell Local Plan Policy Bicester 1. Planning permission will only be granted for development at North West Bicester in accordance with a comprehensive masterplan for the whole area to be approved by the council as part of a North West Bicester Supplementary Planning Document (NWB SPD). The development description for the NWB Eco-Town is a new zero carbon mixed use development including 6,000 homes, employment uses, schools, green space and strategic infrastructure proposed across the 400 hectares identified.

1.3 True zero carbon (TZC), is a key requirement within the NWB SPD - one of a series of requirements/potential obligations on development within the North West Bicester site including affordable housing and Section 106 contributions.

1.4 Whilst the wider masterplan has been allocated for development in the adopted Local Plan, the delivery of the proposed site has been frustrated by viability issues, principally on the delivery of the Council's policy objectives of net carbon homes, the cost of the necessary infrastructure amongst other policy requirements such as 40% open space and affordable housing.

1.5 The purpose of this executive summary is to consider, in an open book format, the financial viability of the proposed scheme and the level of affordable housing and financial Section 106 contributions that can be supported whilst also delivering a True Zero Carbon (TZC) development.

1.6 The applicant is seeking to maximise the amount of affordable housing delivered on site subject to viability testing. However, if it is not viable for the development to deliver policy compliant levels of affordable housing and meet the requirements imposed by delivering a TZC scheme we will need to engage with CDC to identify its priorities in terms of affordable housing delivery against the TZC requirements.

1.7 In preparing this executive summary we have considered Cherwell Local Plan 2011-2031, North West Bicester SPD February 2016 and Developer Contributions SPD, February 2018.

1.8 The financial viability assessment (FVA) considers the total value of the completed scheme and the total cost of its delivery, using recognised residual appraisal software - Argus Developer. In accordance with standard viability methodology, the resulting residual land value is then compared with an appropriate benchmark value to determine the scheme's viability.

1.9 The advice set out in this executive summary is provided in the context of negotiating planning obligations and therefore in accordance with PS 1 of the RICS Valuation – Global Standards (November 2021) incorporating the IVSC International Valuation Standards (Red Book), the provisions of VPS 1 – 5 are not of mandatory application and accordingly this report should not be relied upon as a Red Book Valuation.

1.10 Specifically we would state:

- Our advice and opinions contained herein are given without liability, therefore falling outside the scope of the requirement of the RICS Valuation – Global Standards November 2019 Edition.

- We have not conducted a full survey, inspection and measurement nor undertaken all the necessary enquiries required in providing a Red Book Valuation.

1.11 In accordance with the RICS Financial Viability in planning: conduct and reporting (May 2019) (FVIP), in preparing this report we have acted with objectivity and impartially, without interference and with reference to all appropriate available sources of information. This report fully complies with the requirements set out in FVIP.

1.12 We have been provided with, and relied upon, the following key information:

- Planning Statement provided by Barton Wilmore.
- Affordable Housing Statement provided by Pioneer.
- Residential sales values provided by Green and Co estate agents.
- Cost plan provided by Gardiner and Theobald (G & T).

2 ASSUMPTIONS

2.1 In undertaking this report, unless otherwise specifically stated, we have made the following assumptions:

- We assume that the site is held freehold with vacant possession and free from all encumbrances such as onerous covenants, easements and rights of way.
- We assume that there are no items that could lead to adverse development costs such as contamination, adverse ground conditions, right of light issues or the designation of an area of archaeological significance.
- We understand that a small portion of the Site (in the eastern parcel) lies within the extents of Flood Zone 2 and Flood Zone 3 along the eastern boundary of the eastern parcel. We assume that the costs required to deal with flood prevention measures are accounted for within the cost plan.
- We have assumed planning permission will be granted for the development as described above.

2.2 If any of these assumptions prove to be incorrect they could have a significant impact on our conclusions.

3 EXECUTIVE SUMMARY

3.1 We have assessed the Residual Land Values (RLV) of the proposed scheme based on the following scenarios:

1. North West Bicester Traditional House Building Costs - no extra-over costs associated with Future Homes Standards or True Zero Carbon.

2. House Building Costs based on Future Homes Standard (FHS).

3. House Building Costs based on True Zero Carbon (TZC).

3.2 For the purpose of this FVA, we have assumed the following definitions.

NORTH WEST BICESTER TRADITIONAL HOUSE BUILDING

3.3 As a base position, we have assumed a scenario that the scheme is delivered in line with the specification requirements for North West Bicester Traditional House building standards. This assumes compliance with the Council's other policies of sustainability, healthier lifestyle, open space etc. and compliance with current Building Regulations requirements for overall carbon emissions and space heating energy demand.

3.4 This baseline position has been costed within G & T's cost estimate and we have assessed the scheme's ability to deliver affordable housing on the assumption that the scheme is delivered in line with traditional house building standards.

FUTURE HOMES STANDARD

3.5 The second scenario that we have assessed is the proposed residential homes are constructed to "the Future Homes Standard: Changes to Part L and Part F of the Building Regulations for new dwellings." The Future Homes Standard will require new build homes to be future-proofed with low carbon heating and world-leading levels of energy efficiency; it will be introduced by 2025. New homes built to the Future Homes Standard will have carbon dioxide emissions at least 75% lower than those build to current Building Regulations standards.

3.6 G & T's Cost Estimate includes for measures to satisfy the above definition of Future Homes Standard (plus photovoltaic (PV) panels). In order to achieve the Future Homes Standard, the space heating and domestic hot water (DHW) strategy for all house types is to be delivered by individual Air Source Heat Pumps (ASHP) for houses and smart night storage heating for the flats plus the inclusion of PV on the roof.

3.7 We have assessed the scheme's ability to deliver affordable housing on the assumption that the scheme is delivered to the FHS specification.

TRUE ZERO CARBON HOMES

3.8 The third scenario that we have assumed is where the proposed scheme is delivered in compliance with the definition of True Zero Carbon. Development Principle 2 of the SPD defines "true" zero carbon development – the central element of the Eco Town concept – as follows:

> *"over a year the net carbon dioxide emissions from all energy use (from both regulated and unregulated energy uses) within buildings on the eco-town development as a whole are zero or below."*

3.9 This definition assumes the exclusion of embodied carbon and emissions from transport but inclusion of all buildings – not just houses but also commercial and public sector buildings. For the avoidance of doubt, regulated energy use comes from space heating, hot water, fans and lighting whereas unregulated energy use comes from plug-in appliances and cooking.

3.10 As mentioned, G & T's cost estimate includes for measures to satisfy the above definition of FHS and in order to satisfy the definition of TZC Homes as defined at point 3.8, carbon offsetting contributions are necessary to supplement the additional design measures. The estimated contribution is excluded from G & T's costs estimate and therefore the carbon offset contributions need to be added to the 'all-in' build cost rate as advised in the cost estimate to determine the overall build cost rate to deliver TZC.

3.11 The applicant has instructed Stantec to calculate the Carbon offset contributions that would be required to realise TZC and we have added this to the 'all-in' build cost against which we have tested the scheme's ability to deliver affordable housing.

3.12 The alternative way that the scheme could seek to deliver on TZC is to upgrade the District Heating Network and the applicant has been engaging with SSE regarding a decarbonisation proposal of the existing DHN which involves removing the current gas supply and installing an industrial sized ground source heat pump. This is an alternative option that has not been assessed in this viability assessment, but the applicant is open to discussing this further with the Council as an alternative option.

3.13 On the basis of above, we have modelled the following affordable housing tenure scenarios:

Affordable Housing Scenarios
Affordable Housing – Mix of Affordable Rent (AR) & Shared Ownership (SO)
1. 30% AH (70% AR / 30% SO) – North West Bicester Traditional House Building Costs
2. 30% AH (70% AR / 30% SO) – Future Homes Standard Build Costs
3. 30% AH (70% AR / 30% SO) – True Zero Carbon House Build Costs
Affordable Housing – Mix of Social Rent (SR) & Shared Ownership (SO)
4. 30% AH (70% SR / 30% SO) – North West Bicester Traditional House Building Costs
5. 30% AH (70% SR / 30% SO) – Future Homes Standard Build Costs
6. 30% AH (70% SR / 30% SO) – True Zero Carbon House Build Costs
Affordable Housing – All Shared Ownership
7. 30% AH (100% SO) - North West Bicester Traditional House Building Costs
8. 30% AH (100% SO) – Future Homes Standard Build Costs
9. 30% AH (100% SO) – True Zero Carbon House Build Costs
No Affordable Housing – 100% Private Tenure
10. 100% Private Tenure - North West Bicester Traditional House Building Costs
11. 100% Private Tenure – Future Homes Standard Build Costs
12. 100% Private Tenure – True Zero Carbon House Build Costs

3.14 Specifically, we have established that the scheme delivering 30% affordable housing (70% AR / 30% SO) when adopting True Zero Carbon House Build Costs generates a Net Development Value (NDV) of £169.99 million. The total costs for delivering the scheme are £141.95 million. We have assumed a developer return of £28.03 million which equates to 17.17% return on GDV.

3.15 We calculate that the Existing Use Valuation (EUV) of the site is £0.67 million. We have applied a premium multiplier of 17.5. We have assumed a benchmark land value of £200,000 per acre which generates a benchmark land value of £11.8 million. The table below summarises the viability position.

Assumption	Adopted Amount
NET DEVELOPMENT VALUE	£169.99 million
DEVELOPMENT COSTS	£141.95 million
PROFIT	£28.03 million
APPROPRIATE BENCHMARK VALUE (Including Premium)	£11.8 million

3.16 When the residual land value of the proposed scheme delivering 30% affordable housing of is compared against the Benchmark land value of £11.8 million, this produces a deficit. Therefore we conclude that the proposed scheme cannot viably deliver 30% affordable housing (70% AR / 30% SO) when adopting True Zero Carbon House Build Costs.

3.17 When comparing the above residual land values with an appropriate Benchmark Land Value, we can confirm the following:

Affordable Housing Scenarios	
Affordable Housing – Mix of Affordable Rent (AR) & Shared Ownership (SO)	**Viable/Not Viable**
1. 30% AH (70% AR / 30% SO) – North West Bicester Traditional House Building Costs	Viable
2. 30% AH (70% AR / 30% SO) – Future Homes Standard Build Costs	Not Viable
3. 30% AH (70% AR / 30% SO) – True Zero Carbon House Build Costs	Not Viable
Affordable Housing – Mix of Social Rent (SR) & Shared Ownership (SO)	
4. 30% AH (70% SR / 30% SO) – North West Bicester Traditional House Building Costs	Not Viable
5. 30% AH (70% SR / 30% SO) – Future Homes Standard Build Costs	Not Viable
6. 30% AH (70% SR / 30% SO) – True Zero Carbon House Build Costs	Not Viable
Affordable Housing – All Shared Ownership	
7. 30% AH (100% SO) - North West Bicester Traditional House Building Costs	Viable
8. 30% AH (100% SO) – Future Homes Standard Build Costs	Not Viable
9. 30% AH (100% SO) – True Zero Carbon House Build Costs	Not Viable
No Affordable Housing – 100% Private Tenure	
10. 100% Private Tenure - North West Bicester Traditional House Building Costs	Viable
11. 100% Private Tenure – Future Homes Standard Build Costs	Not Viable
12. 100% Private Tenure – True Zero Carbon House Build Costs	Not Viable

3.18 We have established the scheme could deliver 30% affordable housing (70% AR / 30% SO) if it were constructed based on what we are calling 'North West Bicester Traditional House Building Costs'. These are house building costs that are fully compliant with current building regulations but do not incur the additional 'extra over' cost of meeting FHS or TZC.

3.19 The cost plan presents a 'layering' of the costs of delivering to FHS. This set outs clearly the additional costs that are required over and above 'traditional house building' costs in order to meet first, the Future Homes Standards and then additionally the cost of building to True Zero Carbon.

3.20 Our financial modelling demonstrates that it is the cost of building to FHS and then additionally to TZC requirements that is challenging to deliver and not the delivery of affordable housing. Subject to agreement with HLD on the viability inputs, the applicant seeks to engage with the CDC regarding flexibility with regard to FHS and TZC requirements.

3.21 In addition to the 'extra-over' cost of constructing the houses to meet FHS and then TZC there are also considerable s.106 and strategic infrastructure financial contributions that are having a material impact on the viability of the proposed scheme. As set out in the report, the total s106 contributions are currently very high in our experience of schemes of this size and nature and the strategic infrastructure contribution is still to be confirmed. If further information is provided to us in this regard we may need to amend our conclusions.

4 APPRAISAL INPUTS

4.1 We have adopted inputs that reflect cost and values as at the date of this report. There is a possibility that our assumptions may change in accordance with the market as the scheme evolves and further information comes to light. We set out below our assumptions in respect of these inputs with reference to the viability assessment that informed the plan. We also set out the proposed developer contributions and how this compares with policy requirements

CONTINGENCY

4.2 We have applied the following contingency allowances:

- Infrastructure costs: 10%
- House build costs: 5%

4.3 In Cherwell District Plan's viability testing (July 2017), a contingency of 5% of build cost is applied hence our adopted assumption for house build costs is in line with Cherwell's Local Plan Viability evidence base. We have applied a higher contingency allowance for infrastructure works to account for the uncertainty associated with infrastructure works for a scheme of this size and nature as advised by G & T.

PROFESSIONAL FEES

4.4 We have adopted professional fees at 8% which is considered reasonable for a scheme of this size and is in line with current industry practice for residential schemes of this scale and nature.

4.5 In Cherwell District Plan's viability testing (July 2017), professional fees are set at 10% of build costs whilst acknowledging that residential schemes often assume professional fees of 6-8%. Hence our adopted assumption is at the mid-range end of the assumptions detailed in Cherwell's Local Plan Viability evidence base.

SECTION 106 CONTRIBUTIONS

4.6 The table below summarises the s106 costs per unit, the basis of indexation, the indexed contribution per dwelling and the total s106 contribution per dwelling.

S106 Contribution	Basis of indexation	S106 contribution per dwelling (as sought by CDC/OCC)	Total s106 contribution
Health	CPIH from Q2 2017	£281.29	£149,084
Neighbourhood Police	CPIH from Q2 2017	£164.03	£86,936
Community Building Provision	CPIH from Q2 2017	£1,139.37	£603,864
Road Crossing to Caversfield Church*	Unindexed	£1	£1
Community Development Workers	CPIH from Q2 2017	£376.70	£199,648
Community Development Fund	CPIH from Q2 2017	£49.10	£26,023
Primary School	BCIS All-in TPI from 327	£11,163.28	£5,916,540
Secondary School	BCIS All-in TPI from 327	£7,805.38	£4,136,850
Special Education Needs	BCIS All-in TPI from 327	£558.26	£295,876
Sports pavilion contribution	CPIH from Q2 2017	£534.48	£283,275
Sports Pitches and Maintenance	CPIH from Q2 2017	£518.25	£274,673
Burial Ground	CPIH from Q2 2017	£10.91	£5,780
Community Management Organisation	CPIH from Q2 2017	£1,537.21	£814,722
Community Facility Maintenance	CPIH from Q2 2017	£427.23	£226,430
Waste	CPIH from Q2 2017	£106.90	£56,655
Bus Provision	CPIH Index from Q4 2020	£1,179.46	£625,114
Pedestrian/Cycle Infrastructure	PUB SEC Index from Dec 20	£707.56	£375,008
Right of Way Contribution	PUB SEC Index from July 21	£32.87	£17,419
Improvements to junction of Charlotte Avenue/B4100	PUB SEC Index from Dec 20	£84.79	£44,937
Improvements to junction of B4100/A4095	PUB SEC Index from Dec 20	£499.02	£264,478
Travel Monitoring Plan	CPIH Index from Dec 2020	£5.48	£2,903
Adoption of Unallocated Parking Bays	CPIH from Q2 2017	£1,029.93	£545,864
Local Road Improvements	CPIH from Q4 2020	£377.35	£199,995
Bicester Leisure Centre contribution	CPIH from Q2 2017	£534.48	£283,275
Biodiversity	CPIH from Q2 2017	£65.35	£34,637
Strategic Highway Contribution	Unindexed	£5882.35	£3,117,646
Library Services	CPIH from Q2 2017	£58.34	£30,919
Children's services	CPIH from Q2 2017	£8.68	£4,602
Village traffic calming	CPIH from Q2 2017	£62.34	£33,039
Secondary School land Contribution	CPIH from Q4 2020	£677.17	£358,901
Total		£35,878.53	£19,015,094

* The G & T cost estimate includes for delivery of a signalised pedestrian crossing to Caversfield Church totalling £195,000.

4.7 The confirms that our total adopted s106 costs is c. £19 million which equates to c. £35,900 per unit.

FINANCE

4.8 We have included finance costs at 7% inclusive of arrangement fees and a credit rate of 0.25%. This is in line with Cherwell District Plan's viability testing (July 2017) where a 7% finance cost is applied.

5 BENCHMARK LAND VALUE

5.1 The Viability Guidance Note attached to the 2019 NPPF confirms that a benchmark land value should be established on the basis of the existing use value (EUV) of the land. It defines EUV as the value of the land in its existing use together with the right to implement any development for which there are policy compliant extant planning consents, including realistic deemed consents, but without regard to alternative uses.

5.2 The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements.

5.3 The PPG at paragraph 16 details that the premium is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

5.4 The Financial Viability in Planning (FVIP) details that when providing benchmark land value we must report the current use value (CUV) referred to as EUV or first component in the PPG referred to above. For the Benchmark Land Value, we have relied upon the Existing Use Value plus premium approach as advocated by national planning guidance and FVIP.

5.5 As previously mentioned, the Site comprises two parcels of land, with a total area of 23.97 hectares / 59 acres, made up of an eastern and Western Parcel. The land is predominantly grassland with fields bounded by hedges with some large trees, woodland, and plantation. The land is classified as good to moderate value (primarily Grade 3b) under the Agricultural Land Classification system.

5.6 CDC's Affordable Housing Viability Study (March 2013) which forms part of the Local Plan, states that evidence suggests BLV's ranging between £200,000 and £240,000 per gross acre are appropriate for Greenfield sites.

5.7 In CDC's CIL Levy Viability Update (September 2016), for large greenfield sites providing 150+ units they state that the suitable benchmark land value rate is £375,000 per hectare which equates to £150,000 per acre. This is based on HCA draft guidance (2010), where benchmarks tend to be in the range of 10 to 20 times agricultural value. The CIL viability update note assumes an agricultural of £25,000 per hectare / £10,121 per acre based on RICS: Rural Land Market Survey H1 (2015) with a multiplier of 15 times agricultural land value.

5.8 In CDC's Local Plan Partial review – viability assessment (July 2017) a benchmark of £500,000 per hectare / £200,000 per acre gross is adopted for Core Development Sites for greenfield housing land.

5.9 We have reviewed agricultural land values in Bicester based on current market evidence and the table below details comparable sites that are currently being marketed in the locality.

Address	Description	Acres	Hectares	Price	Price per Acre
Marsh Gibbon, Bicester OX27 0AN	4 bedroom house with farm buildings and arable grass and permanent pasture.	129	52.36	£1,500,000	£11,627.91
Piddington, Bicester OX25 1QE	6 bedroom farmhouse with traditional farm buildings and modern livestock building	134	54.23	£2,200,000	£16,417.91
Water Stratford, Buckingham, MK18 5DR	Arable Land with small areas of woodland	244	98	£2,200,000	£9,016.39
Ardley Road, Middleton Stoney, Bicester, OX25	Residential farm with modern and traditional farm buildings and a mix of mainly arable land.	133	54	£2,750,000	£20,676.69

5.10 We have liaised with the agent marketing Ardley Road, located to the West of Bicester confirmed that the site is now under offer and that the arable land component of the deal equates to £13,500 per acre. Based on the description and location of the subject site, the agent recommended that agricultural land values would be between £10,000 and £12,000 per acre and the agent marketing the sites at Piddington and Ardley Road agreed with this assessment.

5.11 Cherwell's CIL Levy viability update note acknowledges that what a landowner may seek for its land is dependent upon its location, characteristics, type of uses, as well as personal circumstances relating to any deal that is done. The subject site is an edge of settlement greenfield site located on the edge of Bicester with high development potential given the site forms part of the wider North West Bicester SPD allocation. Therefore the premium to incentivise the landowner to release the land for development should be at the upper end of the range of 10 to 20 times of agricultural value.

5.12 The sensitivity table below details the impacts on the benchmark land value per acre depending on the agricultural land value and premium adopted.

Benchmark land value Sensitivity		Premium multiplier		
		x15	x17.5	x20
Agricultural land value per acre	£10,000	£150,000	£175,000	£200,000
	£11,000	£165,000	£192,500	£220,000
	£12,000	£180,000	£210,000	£240,000

5.13 This demonstrates that the appropriate rate per acre to adopt for the benchmark land value should be between £150,000 and £240,000 depending on the agricultural land value adopted and the premium multiplier.

5.14 Taking all of the above into consideration, we have assumed a benchmark land value of £200,000 per acre. When applied to the gross acreage of 59 acres, this generates a benchmark land value of £11.8 million which we have adopted.