Turner Morum
CHARTERED SURVEYORS

Gateshead & Newcastle CIL 2016: Callerton

Viability & Deliverability Review

By

Thomas Hegan MRICS

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1. BACKGROUND AND RELEVANT EXPERIENCE

1.1. My name is Thomas Hegan of Turner Morum Chartered Surveyors, 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2010 following the award, in 2005, of an Honours degree in Real Estate Valuation and Management from University of West England, Bristol.

1.2. In 2007 I joined the practice of Turner Morum Chartered Surveyors and was made a Partner in 2013. I am a specialist in the field of development site appraisals and associated subjects. A summary of recent experience is included as Appendix 7.

1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land. I am currently instructed by a substantial number of Local Authorities, Landowners, Developers, Receivers & Liquidators and have extensive experience in this field.

1.4. I am an Accredited Expert Witness and have previously provided Expert Valuation Evidence. I have successfully undertaken the Advanced Professional Award in providing Expert Witness Evidence & am also an RICS Registered Valuer.

1.5. I am instructed by Mr Stephen Litherland of Bellway Homes PLC ("Bellway") to review the viability assumptions of Newcastle City Council ("the Council") in their *Viability and Deliverability Report (February 2014) Annex Update February 2016* ("2016 Report") specifically focusing on the appraisals and assumptions for the sites allocated by the Council in its adopted local plan in Lower, Middle and Upper Callerton contained in Appendix 8 of the 2016 Report.

1.6. Bellway together with Northumberland Estates, The Quadrini Family, CEG Land Promotions and Taylor Wimpey have an interest in and are promoting the development of the area known as 'Callerton' which was allocated for the development of c. 3,000 new homes in the Newcastle/Gateshead Core Strategy 2015 (the entire Callerton allocation). The area known as 'Lower Callerton' is controlled by Bellway, the area known as 'Middle Callerton' is controlled by Bellway and CEG Land Promotions and the area known as 'Upper Callerton' is controlled by Northumberland Estate, the Quadrini Family and Taylor Wimpey. The landowners and developers are at different stages in the planning process however before planning permission can be granted Policy NN1 of the Core Strategy requires a comprehensive Masterplan to be approved by the Council. I understand that this Masterplan amongst other things needs to include an Infrastructure Delivery Framework associated with the delivery of the Infrastructure across the entire Callerton area.

1.7. Where I have found an area of disagreement with the Council's assumptions in relation to the 2016 Report or generally I have taken a positive approach in accordance with my instructions and where possible have sought to propose and justify alterations which could address the issues raised. The supporting evidence can be viewed in this Statement alongside the Appendices.

2. MECHANISM

2.1. In order to test the viability assumptions made by the Council in its 2016 Report and generally I have sought to replicate their appraisals for all the Callerton sites at 0% and 15% as per Appendix 8 of the 2016 Report. These appraisals calculate a Residual Land Value for the proposed development (excluding S106, infrastructure and CIL). This Residual Land Value is then deducted from the proposed Threshold Land Value (TLV) to leave the 'Headroom' which is the amount of residual funds left from the scheme to provide for CIL.

2.2. I should state at this stage that I believe this methodology to be somewhat flawed. The reason for this is that using the Council's approach there is no finance cost built into its calculation for the CIL, S106 and infrastructure costs as these are deducted from the RLV separately from the appraisal. As such, I believe this methodology arguably actually underplays the potential finance costs which will realistically be incurred by the scheme.

2.3. A summary table showing the Council's calculation can be found on page 40 of the 2016 Report – I have replicated this table on the Summary Tab of my appraisal analysis in my Appendix 1 showing side by side the key figures resulting from the Council's appraisal and also from my own appraisal analysis; this has been produced assuming a 15% on site affordable housing contribution as well as a 0% affordable housing contribution for completeness and reference.

2.4. All my residual appraisals have been produced using a bespoke Microsoft Excel format. A summary of my appraisal analysis is shown below:

- **Tab 1** – A residual appraisal replicating the assumptions of the Council for Lower Callerton assuming 800 dwellings and a 15% on site affordable contribution
- **Tab 2** - A residual replicating the scheme as above but with a 0% on site affordable contribution
- **Tab 3** – A residual replicating the assumptions of the Council for Middle Callerton assuming 1,000 dwellings and a 15% on site affordable contribution
- **Tab 4** - A residual replicating the scheme as above but with a 0% on site affordable contribution
- **Tab 5** – A residual replicating the assumptions of the Council for Upper Callerton assuming 1,200 dwellings and a 15% on site affordable contribution
- **Tab 6** - A residual replicating the scheme as above but with a 0% on site affordable contribution
- **Tab 7** – A whole site residual appraisal for the entire Callerton scheme (ie as allocated in the local plan), replicating the Council's assumptions at 15% affordable housing referring to the assumptions in Tabs 1, 3 and 5; this is effectively the cumulative position of the Lower, Middle and Upper Callerton Appraisals at 15% affordable.
- **Tab 8** – A whole site residual appraisal for the entire Callerton scheme, replicating the Council's assumptions at 0% affordable housing referring to the assumptions in Tabs 2, 4 and 6; this is effectively the cumulative position of the Lower, Middle and Upper Callerton Appraisals at 0% affordable
- **Tab 9** - A whole site residual appraisal for the entire Callerton scheme showing my viability assumptions at 15% affordable housing.
- **Tab 10** - A whole site residual appraisal for the entire Callerton scheme showing my viability assumptions at 0% affordable housing.

2.5. The key viability assumptions for the Council are set out below in sequential order as they appear within the residual appraisal. In doing so I also specify where I have adopted a different assumption to that of the Council.

3. APPRAISAL INPUTS

REVENUES

3.1. The Council's viability assumptions for the entire Callerton scheme are based on an average rate of £209 psf (£2,250 psm) applied to all market units. This is supported by some evidence from the Land Registry from 2007 – 2014 and some new build sales survey data contained in Appendix 4 of the 2016 report.

3.2. For the purpose of this assessment I have been provided with a sales report from Countrywide (see Appendix 2) outlining that their view is that revenues from this site will more likely achieve between £198 - £203 psf (c. £2,130 – £2m185 psm). For the purpose of this analysis I am prepared to adopt the Council's revenue assumptions although I do consider them to be somewhat optimistic. It should be noted that if one was to take a more realistic position on the market revenues this would reduce the GDV from the development scheme(s) which would subsequently have a negative impact on the schemes' ability viably to provide a CIL contribution.

3.3. Affordable housing revenues are benchmarked in the Council's assessment at c. 59% of OMV for a blended tenure. Although this is within an acceptable range for a viability appraisal generally I consider based on my experience that it is certainly towards the upper end of that acceptable range. Usually for a viability appraisal on a greenfield site one would benchmark affordable rent units at c. 45% of OMV and shared ownership units at c. 65% of OMV with a blended average of c. 55%.

3.4. It is also relevant to note that the assumption of 45% of OMV for the affordable rent values is somewhat optimistic following the 2015 Summer Budget, where the Government announced that they will be reducing Housing Association rents. This has had a consequential impact on reducing the affordable offers many Housing Associations can make and I have included a relevant extract below from the Summer Budget 2015:

"Alongside the freeze in working-age benefits, the government will reduce rents in social housing in England by 1% a year for 4 years, requiring Housing Associations and Local Authorities to deliver efficiency savings, making better use of the £13 billion annual subsidy they receive from the taxpayer. Rents in the social sector increased by 20% over the 3 years from 2010-11. This will allow social landlords to play their part in reducing the welfare bill. This will mean a 12% reduction in average rents by 2020-21 compared to current forecasts."[1]

3.5. The result of this is that many Housing Associations are advising they cannot stand by earlier offers they made over the last year prior to the Budget and are forced to making a reduced offer in order to account for the changes arising from the budget. As such, typically affordable rent values included at c. 45% of OMV can now clearly be treated as somewhat optimistic in the present climate as can a blended affordable average of 55%.

3.6. Again, for the purpose of this assessment I have sought, despite the issues raised, nevertheless to maintain an optimistic position and have not actually adjusted the revenue

[1] Summer Budget 2015 – URL: https://www.gov.uk/government/publications/summer-budget-2015/summer-budget-2015 - (Para 3.4.6)

assumptions to reflect these issues. It is clear however, if I were to do so this would impact negatively further on the viability of the scheme(s) in question.

COSTS

3.7. The Council have used BCIS data as the source for the build cost assumptions within their appraisals and have adopted a consistent build cost of £77.95 psf (£839 psm). This is applied to all the appraisals in their Appendix 8 of the 2016 Report except in respect of the Upper Callerton 0% model where, for some reason, the Council have adopted a lower build cost of £66.89 psf (£720 psm). There is no explanation provided as to this change and it runs contrary to the build costs adopted in the Upper Callerton 15% model; as such I would assume it is an error/miscalculation on their part. When corrected it amounts to c. £13.7m of additional cost in that appraisal scenario (without considering the additional finance costs/contingency/fees which would be incurred).

3.8. The BCIS data the Council have adopted are rebased to Q4 2014 and locationally weighted to 'Tyne and Wear' and can be viewed as Appendix 3 of their 2016 report. The build cost specification they have adopted is for 'Housing, mixed developments' which I would suggest is reasonable considering the scale of the Callerton development.

3.9. Rather than adopting the 'Median' build costs for all schemes the Council have sought to apply a 'tapering' system for the different profile areas within their jurisdiction. Therefore, in their analysis a 'High' profile area will incur a Median BCIS build cost whilst a 'Low' profile area will incur a Lower Quartile build cost. The difference between the 2 equates to c. £9 psf of additional cost (or c. £100 psm). All the sites in between this then incur a tapered build cost reducing from Median down to Lower Quartile as one moves from a High profile location to a High-Mid, Mid, Low-Mid and finally Low profile location.

3.10. As such the entire Callerton site, which is located in a 'Mid-High' profile area incurs a lower build cost than those sites located in 'High' profile area.

3.11. I consider firstly that this tapering approach is inaccurate and falsely reduces the costs to be incurred by this scheme and other 'Mid-High' profile schemes. The reason for this is that building a house on a greenfield site is going to be a largely similar cost regardless of the 'profile' of the location. Whilst the profile of a location will heavily influence the achievable revenues it does not impact on build costs in the same way. As such, building a house in a location described as 'Mid' and building one nearby in a location described as 'High' is likely to cost the same amount. Therefore for the purpose of my appraisal analysis I have sought to remove the tapering adjustment and just apply the median build cost for the Callerton scheme appraisal.

3.12. One can also observe that the Council have obtained data from BCIS from a 'default period' to inform their build cost assumptions. This option means that the BCIS data is sourced from samples from a 15 year period. When conducting a viability appraisal I would always look to use the option of a '5 year period' sample in BCIS – this ensures the cost assumptions one adopts in the appraisal are more likely to be up to date and relevant. It also means that they will be inclusive of the recent building regulation requirements and Code for Sustainable Home guidance. The issue with adopting the 'default period' is that this tends to underplay the build costs as it involves data from up 15 years ago when clearly build costs were significantly lower than what they are now. As Appendix 4 of this Statement I have extracted the 2 samples from BCIS assuming a 5 year period and a default period; a median cost from the 5 year data range shows as £1,009 psm (c. £94 psf) whilst for the default period this shows as £990 psm (c. £92 psf).

3.13. For a large urban extension such as Callerton this amendment to the build cost assumption to reflect the more accurate data available has a significant impact on the outturn cost assumptions within the appraisal. In order to accurately reflect the specifics of bringing the scheme forward in the current climate I have updated my appraisal to reflect the information available from the BCIS 5 year sample period.

3.14. As outlined above the Council have also applied a locational weighting to their build cost for Tyne and Wear which I have mirrored in my analysis. The summary table below illustrates the full build cost assumptions I have adopted for the purpose of my appraisal:

Build Cost	**£ psm**	**£ psf**	**Locational Weighting 0.87**	**Externals 10%**	**Contingency 5%**	**TOTAL**
Median Housing Mixed Developments	£1,009.00	£93.74	£81.81	£89.99	£94.49	**£94.49***

3.15. *On a per square metre basis the above final cost relates to c. £1,017 psm.

3.16. As per the locational weighting I have also adopted the assumptions of the Council in relation to an externals and contingency allowance of 10% and 5% respectively. Whilst arguably one could include a higher external allowance, these are both within the acceptable ranges I would adopt for a viability of this nature.

3.17. The table below provides a direct comparison of build costs within my appraisal and the Council's appraisals including the assumptions for externals and contingency:

Description	**Build Cost**	**10%**	**5%**
Council - 0%	£73.52	£80.88	**£84.92**
Council - 15%	£77.95	£85.74	**£90.03**
TM	£81.81	£89.99	**£94.49**

3.18. One can observe that as a result of the above amendments I have included a build cost of c. £94.49 psf (£1,017 psm) in my appraisal whilst the Council's build cost assumptions are at the lower c. £90 psf/£969 psm rate (and c. £85 psf/£914 psm where the Upper Callerton 0% appraisal included the lower rate).

3.19. In addition to the contingency allowance the Council have also assumed a 5% allowance for abnormals – this equates to a cost of c. £3,798 per dwelling. In my experience for large strategic sites such as this the abnormal costs involved are likely be considerable higher than this although for the purpose of this assessment I am prepared to maintain the assumption adopted by the Council.

3.20. The Council have allowed an additional cost of £500 per dwelling for NHBC and EPC – I have assumed that these are to reflect the required sustainability criteria for this scheme and it is not something I have sought to amend. I believe these are intended to align with Policies CS16 & CS17 of the Core Strategy. As mentioned I have not adjusted these inputs although if Bellway were required to deliver specific sustainability measures, not included in BCIS, I would need to review the specific cost per dwelling impact.

3.21. The Council have assumed a 10% technical fees allowance which I would suggest is a fairly standard assumption for a scheme of this nature. It should be noted, however, that in the Council's analysis their allowance of 10% externals and 5% contingency is included separately from BCIS. This has a consequential impact on the technical fees allowance of 10% which is calculated only against the standard build costs (i.e. not including contingency or externals). Since the Council's standard build costs do not include externals and contingency this is falsely underplaying the costs involved in bringing a scheme forward. I believe it is worth noting that on another appraisal within the 2016 report for a site in Ryton the 10% fees have been calculated to include the externals and contingency. I believe there is clearly an issue of consistency in approach on this point in the 2016 report.

3.22. The externals and contingency allowance are recommended adjustments by BCIS and reflect the costs associated with building a housing plot including standard plot servicing and infrastructure costs. As such, these are legitimate elements of the build costs as they are costs to be incurred by the developer and will be subject of technical fees. This is an approach I have consistently adopted in multiple viability appraisals and is very rarely an area of contention.

3.23. The full cashflow assumptions of the Council are not contained in their 2016 report although I can observe that they have assumed a 6.5% rate on debit and a 1.5% rate on credit. Without viewing their cashflow timings and assumptions I am unable to comment in too much detail about the finance costs other than that when considered as a % of development costs (c. 7.8%) it falls within the acceptable range for a viability of this nature (between 5% - 10%). As such for the purposes of my appraisal analysis I have simply updated the finance to reflect 7.8% of development costs in line with the Council's finance cost assumption.

3.24. Developer profit levels have been included at 20% of GDV for market housing and 6% of GDV for affordable housing. These assumptions are fairly standard within viability appraisals and as such I have maintained them for my analysis.

4. THRESHOLD LAND VALUE

4.1. Once the above revenues and costs are deducted from each other one arrives at a Residual Land Value (RLV) for the development scheme. In this analysis this is effectively the value of the development site excluding costs for infrastructure, S106, CIL. In order to determine if the scheme can viably make a CIL contribution one needs to deduct the specific infrastructure and S106 costs but also to deduct the sites Threshold Land Value (TLV).

4.2. The TLV included by the Council equates to £480k per net hectare or c. £195k per net acre. This figure is arrived at through evidence contained in Appendix 5 of the 2016 report. For Newcastle this contains 5 comparable transactions. However when analysing these comparables it is clear that for a site such as Callerton they are not truly comparable and therefore I believe could justifiably be discounted.

4.3. Focusing specifically on Sites 1, 3 and 4 in the Council's comparable schedule these are agricultural sites reflected in their agricultural land values of c. £11k and £3k per acre. I note that for site 1 the Council state that the land has 'PP for residential' although it also comments that the site is a former pit with the 'majority greenspace/SUDS'. Even site 4 (described as 'farm house and curtilage') which has a higher land value per acre only does so because it was a sale of 0.085 hectares of land and as such is not comparable with the strategic Callerton site. Sites such as these are not comparable to an allocated urban extension site which will deliver 3,000 dwellings as they simply do represent the value of residential development land.

4.4. I have been provided by Bellway with a supporting schedule of comparable land transactions in the local area (see Appendix 3). You will observe from this schedule that clearly land values are in excess of the level of comparables outlined by the Council in their Appendix 5. The average land value per acre seems to equate to c. £300k - £400k per net acre (with even the Council themselves selling a site at £225k per net acre in 2013).

4.5. I do acknowledge that the Council in page 26 of their 2016 report do apply a 'contingency' buffer of 50% to ensure viability is not compromised. Although I appreciate the addition of the 50% buffer I am of the view that the starting point for the TLV is too low, and as such although the buffer inflates the TLV it still does not necessarily bring it in line with the comparables I have included in this submission as per Appendix 3.

4.6. By definition the <u>threshold</u> land value is the <u>absolutely minimum</u> that a landowner requires in order to be 'enticed' to sell for development. If this threshold value is not reached – the landowner does not sell and the scheme is not delivered. The TLV is essentially the 'line in the sand'.

4.7. The Harman report (Viability Testing Local Plans) effectively considers this point, stating:

"*Given the clear emphasis on deliverability within the NPPF, Local Plan policies should not be predicated on the assumption that the development upon which the plan relies will come forward at the 'margins of viability'".*

I consider the suggestion that the hypothetical landowners should be forced to accept a TLV below what actual comparable transaction data suggests is simply inaccurate and does not reflect the appropriate approach.

4.8. The Harman Report also states (in reference to Threshold Land Values for strategic greenfield sites – see Appendix 5 Page 30):

"It is widely recognised that this approach can be less straight forward for nonurban sites or urban extensions, where land owners are rarely forced or distressed sellers, and generally take a much longer term view over the merits or otherwise of disposing of their asset.

This is particularly the case in relation to large greenfield sites where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations."

4.9. I believe that the above evidence clarifies the point that the TLV should be included at a level which would realistically see this site released for development. In further support of this, it should be noted that when considering what TLV to attribute to a site in an appraisal analysis such as this, the National Planning Policy Framework (paragraph 173) states that you have to ensure that you '*provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable'.* I believe it could be argued that including the TLV at c. £195k per acre could place some doubt on the scheme being deliverable.

4.10. I therefore consider that it is justifiable to include a higher TLV in my analysis which would serve to reduce the surplus left-over for any CIL contribution. However, in order to narrow the scope of disagreement and facilitate a simpler discussion, I have maintained as noted earlier the Council's TLV assumption for the purpose of this exercise.

5. SENSITIVITY ANALYSIS AND SUMMARY CONCLUSION

5.1. In the Council's analysis once the TLV is deducted from the RLV this leaves a 'headroom' figure which one deducts specific S106 and infrastructure requirements in order see what is leftover to pay for CIL.

5.2. The S106 & Infrastructure costs the Council have assumed for this site total **c. £40.1m**. I have been provided with a full cost schedule for this site by Nathaniel Litchfield & Partners which covers all of the relevant infrastructure and S106 costs and this suggests a cost of **c. £67.7m** (see Appendix 6). I believe this is a crucial element of this analysis; whilst some of the viability assumptions can be considered as subjective within a certain acceptable range, the infrastructure and S106 costs are specific to this scheme and therefore I do not believe this is an area which can be disputed.

5.3. Furthermore, I believe the detail of the Council's £40.1m assumption can be found within their February 2016 CIL Background Paper Appendices (PO2) on page 29. One sees there a breakdown of the assumed S106 and infrastructure costs and it can also be noted in the column headings that these costs are based on 2013 information and as such can be considered as out of date.

5.4. The updated cost schedule confirmed by Bellway reflects the actual costs which will be incurred in bringing this scheme forward. When considering the CIL rate to apply for a scheme such as this, one has to be conscious of the high infrastructure costs required in order to make the site accessible and deliverable for development. In the Council's assumption of £40.1m I believe as such that the Council have failed to fully reflect the costs involved.

5.5. As a benchmarking exercise, one can consider the S106/infrastructure costs as a £ per dwelling in order to assess if the assumption is reasonable. Usually for strategic Greenfield sites, in my professional experience, I would expect infrastructure and S106 costs to be in excess of £20k per dwelling. The Council's current assumption is only c. £13k per dwellings whilst the updated Bellway cost is c. £23k per dwelling. Therefore, as a benchmarking exercise I believe the Bellway costs should be treated as reasonable and in line with other strategic sites.

5.6. It should be noted from the above that there are various areas of potential disagreement with the Council. In order however to facilitate discussions and limit the scope of disagreement I have only sought to adjust the following inputs in my appraisal:

- Updated BCIS to Median within the 5 year data period
- Amended the S106 & infrastructure to reflect the actual costs which will be incurred in delivering this site.

The result of the above amendments is illustrated in the summary table below:

Ref	Description	Council Analysis - 15%	TM Analysis - 15%	Council Analysis - 0%	TM Analysis - 0%
	Assumed Acres	267	267	267	267
	Assumed Ha	108	108	108	108
A	Residual Value	£119,750,727	£98,325,208	£148,072,622	£109,850,395
	Threshold Value per ha	£480,000	£480,000	£480,000	£480,000
B	Total Threshold Value	£51,840,000	£51,840,000	£51,840,000	£51,840,000
C	Headroom (A-B)	£67,910,727	£46,485,208	£96,232,622	£58,010,395
D	S106 plus estimated specific infrastructure	£40,093,449	**£54,900,000**	£40,093,449	**£67,600,000**
E	Headroom after s106 for CIL (D-E)	***£27,817,278***	***-£8,414,792***	***£56,139,173***	***-£9,589,605***

5.7. **Please note that the S106 & infrastructure assumption in my appraisal analysis is lower at 15% affordable because the £12.7m affordable contribution has been removed (as this is being provided on site).*

6. CONCLUSIONS

6.1. You will observe from the table above that through amending the BCIS build cost assumption of the Council and also updating the S106 and infrastructure inputs to reflect the actual costs involved with the scheme the 'headroom' position at both 0% and 15% has effectively been removed entirely.

6.2. It is also worth noting that this is without incorporating any of the other areas in the appraisal where I have outlined disagreement and concern above; many of these have been set out in previous representations by Nathaniel Litchfield & Partners on behalf of Bellway. This analysis simply furthers the position. For example, if I were to adopt a more realistic position in relation to market revenues supported by the evidence contained in Appendix 2, this would only serve to worsen the viability further. Adjusting the market revenues downwards would also have a further consequential impact on increasing the finance costs and decreasing the affordable revenues which are benchmarked as a % of OMV.

6.3. Furthermore, I believe the TLV could also be justifiably adjusted upwards as evidenced in Appendix 3. Again, if I were to increase this to a more realistic level I believe the deficit demonstrated in the summary table would be significantly larger.

6.4. As such, I am of the view that due to the high infrastructure costs involved with delivering this site it cannot viably contribute any CIL payments. To burden this site with a requirement for CIL contributions would have a significant negative impact on the viability.

This would have a consequential impact on delaying the delivery of the scheme which furthermore would then impact the Council's 5 year land supply position.

6.5. In order to ensure delivery of this scheme and subsequent maintenance of the 5 year land supply I believe my analysis demonstrates that the site should not have to make a CIL contribution.

6.6. I trust this provides a sufficient overview of what I consider to be the key points and conclusions in the Council's CIL viability study.

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Thomas Hegan MRICS

APPENDIX 1

CIL VIABILITY APPRAISAL ANALYSIS

Gateshead & Newcastle CIL 2016 P04
Merged Phases 1 2

CALLERTON ALLOCATION - SUMMARY

TABLE 1 - Council Appraisals - 15%

Ref	Description	Lower Callerton	Middle Callerton	Upper Callerton	Total	Comp w/ Tab 4.2.1 (40)
	Assumed Acres	71	89	107	267	
	Assumed Ha	29	36	43	108	
A	Residual Value	£32,202,474	£39,963,366	£47,584,887	£119,750,727	£120,023,640
	Threshold Value per ha	£480,000	£480,000	£480,000	£480,000	£480,000
B	Total Threshold Value	£13,824,000	£17,280,000	£20,736,000	£51,840,000	£51,840,000
C	Headroom (A-B)	£18,378,474	£22,683,366	£26,848,887	£67,910,727	£68,183,640
D	S106 plus estimated specific infrastructure	***£10,691,586.40***	***£13,364,483***	***£16,037,380***	£40,093,449	£40,093,449
E	Headroom after s106 for CIL (D-E)	***£7,686,888***	***£9,318,883***	***£10,811,507***	***£27,817,278***	£28,090,191

TABLE 2 - Council Appraisals - 0%

Ref	Description	Lower Callerton	Middle Callerton	Upper Callerton	Total
	Assumed Acres	71	89	107	267
	Assumed Ha	29	36	43	108
A	Residual Value	£36,208,912	£44,885,972	£66,977,738	£148,072,622
	Threshold Value per ha	£480,000	£480,000	£480,000	£480,000
B	Total Threshold Value	£13,824,000	£17,280,000	£20,736,000	£51,840,000
C	Headroom (A-B)	£22,384,912	£27,605,972	£46,241,738	£96,232,622
D	S106 plus estimated specific infrastructure	***£10,691,586***	***£13,364,483***	***£16,037,380***	£40,093,449
E	Headroom after s106 for CIL (D-E)	***£11,693,326***	***£14,241,489***	***£30,204,358***	***£56,139,173***

TABLE 3 - Comparison Table - WHOLE SITE Council Appraisal v TM Appraisals

Ref	Description	Council Analysis - 15%	TM Analysis - 15%	Council Analysis - 0%	TM Analysis - 0%
	Assumed Acres	267	267	267	267
	Assumed Ha	108	108	108	108
A	Residual Value	£119,750,727	£98,325,208	£148,072,622	£109,850,395
	Threshold Value per ha	£480,000	£480,000	£480,000	£480,000
B	Total Threshold Value	£51,840,000	£51,840,000	£51,840,000	£51,840,000
C	Headroom (A-B)	£67,910,727	£46,485,208	£96,232,622	£58,010,395
D	S106 plus estimated specific infrastructure	£40,093,449	**£54,900,000**	£40,093,449	**£67,600,000**
E	Headroom after s106 for CIL (D-E)	***£27,817,278***	***-£8,414,792***	***£56,139,173***	***-£9,589,605***

Gateshead & Newcastle CIL 2016 P04

Lower Callerton
Summary Appraisal for Merged Phases 1 2

15% Affordable Model **Tab 1**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	96	70	753	6,720	72,333	£157,500	£2,250	£209.03	£15,120,000	
3 bed private	264	84	904	22,176	238,700	£189,000	£2,250	£209.03	£49,896,000	
4 bed private	320	121	1,302	38,720	416,778	£272,250	£2,250	£209.03	£87,120,000	
15%										
2 bed affordable	64	70	753	4,480	48,222	£92,531	£1,322	£122.81	£5,922,000	59%
3 bed affordable	56	84	904	4,704	50,633	£111,038	£1,322	£122.81	£6,218,100	59%
TOTAL REVENUE	**800**	**96**	**1,033**	**76,800**	**826,668**	**£205,345.13**	**£2,139**	**£198.72**	**£164,276,100**	
COSTS										
Acquisition Costs										
Residualised Price							£32,202,474			
SDLT						4%	£1,366,683			
Agent Fee						1%	£341,670.82			
Legal Fee						0.75%	£256,253	**£34,167,082**	£34,167,082	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				6,720	72,333	£839.00	£77.95	£5,638,080		
3 bed private				22,176	238,700	£839.00	£77.95	£18,605,664		
4 bed private				38,720	416,778	£839.00	£77.95	£32,486,080		
2 bed affordable				4,480	48,222	£839.00	£77.95	£3,758,720		
3 bed affordable				4,704	50,633	£839.00	£77.95	£3,946,656		
				76,800	**826,668**		**£77.95**	**£64,435,200**	£64,435,200	
Contingency					**of total build*	5%	£3,221,760			
Abnormals					**of market housing build*	5%	£2,836,491			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£385,269	**£6,443,520**	£6,443,520	**£8,054**
Other Construction Costs										
Externals						10%	£5,672,982			
					Units	**£/unit**				
NHBC				**per unit of market housing*	680	£500	£340,000			
EPC				**per unit of market housing*	680	£500	£340,000			
Externals						10%	£770,538			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	120	£500	£60,000			***£/dwelling***
EPC				**per unit of affordable housing*	120	£500	£60,000	**£7,243,520**	£7,243,520	**£9,054**
Professional Fees										
Other professional						10%	£5,672,982			
Other professional						10%	£770,538	**£6,443,520**	£6,443,520	
Disposal Fees										
Sales Agent Fee						3.50%	£5,749,664			
					Units	**£/unit**				
Sales Legal Fee					800	£600	£480,000	**£6,229,664**	£6,229,664	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£8,157,989	**6.5%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£98,953,413**	**5.0%**
Profit				Market	20%	£30,427,200				
				Affordable	6%	£728,406		£31,155,606	£31,155,606	
TOTAL COSTS (including Profit)									**£130,109,019**	
Performance Measures										
Profit on cost %		23.95%								
Profit on GDV %		18.97%								

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Lower Callerton
Summary Appraisal for Merged Phases 1 2

0% Affordable Model **Tab 2**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	160	70	753	11,200	120,556	£157,500	£2,250	£209.03	£25,200,000	
3 bed private	320	84	904	26,880	289,334	£189,000	£2,250	£209.03	£60,480,000	
4 bed private	320	121	1,302	38,720	416,778	£272,250	£2,250	£209.03	£87,120,000	
0%										
2 bed affordable	0	0	0	0	0	£92,531	£0	£0.00	£0	59%
3 bed affordable	0	0	0	0	0	£111,038	£0	£0.00	£0	59%
TOTAL REVENUE	**800**	**96**	**1,033**	**76,800**	**826,668**	**£216,000.00**	**£2,250**	**£209.03**	**£172,800,000**	
COSTS										
Acquisition Costs										
Residualised Price							£36,208,912			
SDLT						4%	£1,536,718			
Agent Fee						1%	£384,179			
Legal Fee						0.75%	£288,135	**£38,417,944**	£38,417,944	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				11,200	120,556	£839.00	£77.95	£9,396,800		
3 bed private				26,880	289,334	£839.00	£77.95	£22,552,320		
4 bed private				38,720	416,778	£839.00	£77.95	£32,486,080		
2 bed affordable				0	0	£839.00	£77.95	£0		
3 bed affordable				0	0	£839.00	£77.95	£0		
				76,800	**826,668**		**£77.95**	**£64,435,200**	£64,435,200	
Contingency					**of total build*	5%	£3,221,760			
Abnormals					**of market housing build*	5%	£3,221,760			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£0	**£6,443,520**	£6,443,520	**£8,054**
Other Construction Costs										
Externals						10%	£6,443,520			
					Units	**£/unit**				
NHBC				**per unit of market housing*	800	£500	£400,000			
EPC				**per unit of market housing*	800	£500	£400,000			
Externals						10%	£0			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	0	£500	£0			***£/dwelling***
EPC				**per unit of affordable housing*	0	£500	£0	**£7,243,520**	£7,243,520	**£9,054**
Professional Fees										
Other professional						10%	£6,443,520			
Other professional						10%	£0	**£6,443,520**	£6,443,520	
Disposal Fees										
Sales Agent Fee						3.50%	£6,048,000			
					Units	**£/unit**				
Sales Legal Fee					800	£600	£480,000	**£6,528,000**	£6,528,000	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£8,728,296	**6.7%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£99,822,056**	**5.1%**
Profit				Market	20%	£34,560,000				
				Affordable	6%	£0		£34,560,000	£34,560,000	
TOTAL COSTS (including Profit)									**£134,382,056**	
Performance Measures										
Profit on cost %		25.72%								
Profit on GDV %		20.00%								

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Middle Callerton
Summary Appraisal for Merged Phases 1 2

15% Affordable Model **Tab 3**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	120	70	753	8,400	90,417	£157,500	£2,250	£209.03	£18,900,000	
3 bed private	330	84	904	27,720	298,375	£189,000	£2,250	£209.03	£62,370,000	
4 bed private	400	121	1,302	48,400	520,973	£272,250	£2,250	£209.03	£108,900,000	
15%										
2 bed affordable	80	70	753	5,600	60,278	£92,531	£1,322	£122.81	£7,402,500	59%
3 bed affordable	70	84	904	5,880	63,292	£111,038	£1,322	£122.81	£7,772,625	59%
TOTAL REVENUE	**1000**	**96**	**1,033**	**96,000**	**1,033,334**	**£205,345.13**	**£2,139**	**£198.72**	**£205,345,125**	
COSTS										
Acquisition Costs										
Residualised Price							£39,963,366			
SDLT						4%	£1,696,058			
Agent Fee						1%	£424,014			
Legal Fee						0.75%	£318,011	**£42,401,449**	£42,401,449	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				8,400	90,417	£839.00	£77.95	£7,047,600		
3 bed private				27,720	298,375	£839.00	£77.95	£23,257,080		
4 bed private				48,400	520,973	£839.00	£77.95	£40,607,600		
2 bed affordable				5,600	60,278	£839.00	£77.95	£4,698,400		
3 bed affordable				5,880	63,292	£839.00	£77.95	£4,933,320		
				96,000	**1,033,334**		**£77.95**	**£80,544,000**	£80,544,000	
Contingency					**of total build*	5%	£4,027,200			
Abnormals					**of market housing build*	5%	£3,545,614			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£481,586	**£8,054,400**	£8,054,400	**£8,054**
Other Construction Costs										
Externals						10%	£7,091,228			
					Units	**£/unit**				
NHBC				**per unit of market housing*	850	£500	£425,000			
EPC				**per unit of market housing*	850	£500	£425,000			
Externals						10%	£963,172			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	150	£500	£75,000			***£/dwelling***
EPC				**per unit of affordable housing*	150	£500	£75,000	**£9,054,400**	£9,054,400	**£9,054**
Professional Fees										
Other professional						10%	£7,091,228			
Other professional						10%	£963,172	**£8,054,400**	£8,054,400	
Disposal Fees										
Sales Agent Fee						3.50%	£7,187,079			
					Units	**£/unit**				
Sales Legal Fee					1000	£600	£600,000	**£7,787,079**	£7,787,079	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£10,504,889	**6.7%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£123,999,168**	**5.1%**
Profit				Market	20%	£38,034,000				
				Affordable	6%	£910,508		£38,944,508	£38,944,508	
TOTAL COSTS (including Profit)									**£162,943,676**	
Performance Measures										
Profit on cost %		23.90%								
Profit on GDV %		18.97%								

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Middle Callerton
Summary Appraisal for Merged Phases 1 2

0% Affordable Model Tab 4

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	**200**	70	753	**14,000**	150,695	£157,500	£2,250	£209.03	£31,500,000	
3 bed private	**400**	84	904	**33,600**	361,667	£189,000	£2,250	£209.03	£75,600,000	
4 bed private	**400**	121	1,302	**48,400**	520,973	£272,250	£2,250	£209.03	£108,900,000	
0%										
2 bed affordable	**0**	0	0	**0**	0	£92,531	£0	£0.00	£0	59%
3 bed affordable	**0**	0	0	**0**	0	£111,038	£0	£0.00	£0	59%
TOTAL REVENUE	**1000**	**96**	**1,033**	**96,000**	**1,033,334**	**£216,000.00**	**£2,250**	**£209.03**	**£216,000,000**	
COSTS										
Acquisition Costs										
Residualised Price							£44,885,972			
SDLT						4%	£1,904,975			
Agent Fee						1%	£476,244			
Legal Fee						0.75%	£357,183	**£47,624,373**	£47,624,373	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				14,000	150,695	£839.00	£77.95	£11,746,000		
3 bed private				33,600	361,667	£839.00	£77.95	£28,190,400		
4 bed private				48,400	520,973	£839.00	£77.95	£40,607,600		
2 bed affordable				0	0	£839.00	£77.95	£0		
3 bed affordable				0	0	£839.00	£77.95	£0		
				96,000	**1,033,334**		**£77.95**	**£80,544,000**	£80,544,000	
Contingency					**of total build*	5%	£4,027,200			
Abnormals					**of market housing build*	5%	£4,027,200			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£0	**£8,054,400**	£8,054,400	**£8,054**
Other Construction Costs										
Externals						10%	£8,054,400			
					Units	**£/unit**				
NHBC				**per unit of market housing*	1000	£500	£500,000			
EPC				**per unit of market housing*	1000	£500	£500,000			
Externals						10%	£0			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	0	£500	£0			***£/dwelling***
EPC				**per unit of affordable housing*	0	£500	£0	**£9,054,400**	£9,054,400	**£9,054**
Professional Fees										
Other professional						10%	£8,054,400			
Other professional						10%	£0	**£8,054,400**	£8,054,400	
Disposal Fees										
Sales Agent Fee						3.50%	£7,560,000			
					Units	**£/unit**				
Sales Legal Fee					1000	£600	£600,000	**£8,160,000**	£8,160,000	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£11,308,427	**7.0%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£125,175,627**	**5.2%**
Profit				Market	20%	£43,200,000				
				Affordable	6%	£0		£43,200,000	£43,200,000	
TOTAL COSTS (including Profit)									**£168,375,627**	
Performance Measures										
Profit on cost %		25.66%								
Profit on GDV %		20.00%								

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Upper Callerton
Summary Appraisal for Merged Phases 1 2

15% Affordable Model **Tab 5**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	**144**	70	753	**10,080**	108,500	£157,500	£2,250	£209.03	£22,680,000	
3 bed private	**396**	84	904	**33,264**	358,050	£189,000	£2,250	£209.03	£74,844,000	
4 bed private	**480**	121	1,302	**58,080**	625,167	£272,250	£2,250	£209.03	£130,680,000	
15%										
2 bed affordable	**96**	70	753	**6,720**	72,333	£92,531	£1,322	£122.81	£8,883,000	59%
3 bed affordable	**84**	84	904	**7,056**	75,950	£111,038	£1,322	£122.81	£9,327,150	59%
TOTAL REVENUE	**1200**	**96**	**1,033**	**115,200**	**1,240,001**	**£205,345.13**	**£2,139**	**£198.72**	**£246,414,150**	
COSTS										
Acquisition Costs										
Residualised Price							£47,584,887			
SDLT						4%	£2,019,518			
Agent Fee						1%	£504,879			
Legal Fee						0.75%	£378,660	**£50,487,944**	£50,487,944	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				10,080	108,500	£839.00	£77.95	£8,457,120		
3 bed private				33,264	358,050	£839.00	£77.95	£27,908,496		
4 bed private				58,080	625,167	£839.00	£77.95	£48,729,120		
2 bed affordable				6,720	72,333	£839.00	£77.95	£5,638,080		
3 bed affordable				7,056	75,950	£839.00	£77.95	£5,919,984		
				115,200	**1,240,001**		**£77.95**	**£96,652,800**	£96,652,800	
Contingency					**of total build*	5%	£4,832,640			
Abnormals					**of market housing build*	5%	£4,254,737			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£577,903	**£9,665,280**	£9,665,280	**£8,054**
Other Construction Costs										
Externals						10%	£8,509,474			
					Units	**£/unit**				
NHBC				**per unit of market housing*	1020	£500	£510,000			
EPC				**per unit of market housing*	1020	£500	£510,000			
Externals						10%	£1,155,806			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	180	£500	£90,000			***£/dwelling***
EPC				**per unit of affordable housing*	180	£500	£90,000	**£10,865,280**	£10,865,280	**£9,054**
Professional Fees										
Other professional						10%	£8,509,474			
Other professional						10%	£1,155,806	**£9,665,280**	£9,665,280	
Disposal Fees										
Sales Agent Fee						3.50%	£8,624,495			
					Units	**£/unit**				
Sales Legal Fee					1200	£600	£720,000	**£9,344,495**	£9,344,495	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£12,999,662	**7.0%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£149,192,797**	**5.3%**
Profit				Market	20%	£45,640,800				
				Affordable	6%	£1,092,609		£46,733,409	£46,733,409	
TOTAL COSTS (including Profit)									**£195,926,206**	
Performance Measures										
Profit on cost %		23.85%								
Profit on GDV %		18.97%								

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Upper Callerton
Summary Appraisal for Merged Phases 1 2

0% Affordable Model **Tab 6**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	**240**	70	753	**16,800**	180,834	£157,500	£2,250	£209.03	£37,800,000	
3 bed private	**480**	84	904	**40,320**	434,000	£189,000	£2,250	£209.03	£90,720,000	
4 bed private	**480**	121	1,302	**58,080**	625,167	£272,250	£2,250	£209.03	£130,680,000	
0%										
2 bed affordable	**0**	0	0	**0**	0	£92,531	£0	£0.00	£0	59%
3 bed affordable	**0**	0	0	**0**	0	£111,038	£0	£0.00	£0	59%
TOTAL REVENUE	**1200**	**96**	**1,033**	**115,200**	**1,240,001**	**£216,000.00**	**£2,250**	**£209.03**	**£259,200,000**	
COSTS										
Acquisition Costs										
Residualised Price							£66,977,738			
SDLT						4%	£2,842,557			
Agent Fee						1%	£710,639			
Legal Fee						0.75%	£532,979	**£71,063,913**	£71,063,913	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				16,800	180,834	£720.00	£66.89	£12,096,000		
3 bed private				40,320	434,000	£720.00	£66.89	£29,030,400		
4 bed private				58,080	625,167	£720.00	£66.89	£41,817,600		
2 bed affordable				0	0	£720.00	£66.89	£0		
3 bed affordable				0	0	£720.00	£66.89	£0		
				115,200	**1,240,001**		**£66.89**	**£82,944,000**	£82,944,000	
Contingency					**of total build*	5%	£4,147,200			
Abnormals					**of market housing build*	5%	£4,147,200			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£0	**£8,294,400**	£8,294,400	**£6,912**
Other Construction Costs										
Externals						10%	£8,294,400			
					Units	**£/unit**				
NHBC				**per unit of market housing*	1200	£500	£600,000			
EPC				**per unit of market housing*	1200	£500	£600,000			
Externals						10%	£0			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	0	£500	£0			***£/dwelling***
EPC				**per unit of affordable housing*	0	£500	£0	**£9,494,400**	£9,494,400	**£7,912**
Professional Fees										
Other professional						10%	£8,294,400			
Other professional						10%	£0	**£8,294,400**	£8,294,400	
Disposal Fees										
Sales Agent Fee						3.50%	£9,072,000			
					Units	**£/unit**				
Sales Legal Fee					1200	£600	£720,000	**£9,792,000**	£9,792,000	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£17,476,887	**9.2%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£136,296,087**	**6.7%**
Profit				Market	20%	£51,840,000				
				Affordable	6%	£0		£51,840,000	£51,840,000	
TOTAL COSTS (including Profit)									**£188,136,087**	
Performance Measures										
Profit on cost %		27.55%								
Profit on GDV %		20.00%								

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Upper Callerton
Summary Appraisal for Merged Phases 1 2

15% Model - WHOLE SITE APPRAISAL **Tab 7**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	**360**	70	753	**25200**	271,250	£157,500	£2,250	£209.03	£56,700,000	
3 bed private	**990**	84	904	**83160**	895,126	£189,000	£2,250	£209.03	£187,110,000	
4 bed private	**1200**	121	1,302	**145200**	1,562,918	£272,250	£2,250	£209.03	£326,700,000	
15%										
2 bed affordable	**240**	70	753	**16800**	180,834	£92,531	£1,322	£122.81	£22,207,500	59%
3 bed affordable	**210**	84	904	**17640**	189,875	£111,038	£1,322	£122.81	£23,317,875	59%
TOTAL REVENUE	**3000**	**96**	**1,033**	**288,000**	**3,100,003**	**£205,345.13**	**£2,139**	**£198.72**	**£616,035,375**	
COSTS										
Acquisition Costs										
Residualised Price							£119,750,727			
SDLT						4%	£5,082,259			
Agent Fee						1%	£1,270,565			
Legal Fee						0.75%	£952,924	**£127,056,474**	£127,056,474	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				25,200	271,250	£839.00	£77.95	£21,142,800		
3 bed private				83,160	895,126	£839.00	£77.95	£69,771,240		
4 bed private				145,200	1,562,918	£839.00	£77.95	£121,822,800		
2 bed affordable				16,800	180,834	£839.00	£77.95	£14,095,200		
3 bed affordable				17,640	189,875	£839.00	£77.95	£14,799,960		
				288,000	**3,100,003**		**£77.95**	**£241,632,000**	£241,632,000	
Contingency					**of total build*	5%	£12,081,600			
Abnormals					**of market housing build*	5%	£10,636,842			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£1,444,758	**£24,163,200**	£24,163,200	**£8,054**
Other Construction Costs										
Externals						10%	£21,273,684			
					Units	**£/unit**				
NHBC				**per unit of market housing*	2550	£500	£1,275,000			
EPC				**per unit of market housing*	2550	£500	£1,275,000			
Externals						10%	£2,889,516			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	450	£500	£225,000			***£/dwelling***
EPC				**per unit of affordable housing*	450	£500	£225,000	**£27,163,200**	£27,163,200	**£9,054**
Professional Fees										
Other professional						10%	£21,273,684			
Other professional						10%	£2,889,516	**£24,163,200**	£24,163,200	
Disposal Fees										
Sales Agent Fee						3.50%	£21,561,238			
					Units	**£/unit**				
Sales Legal Fee					3000	£600	£1,800,000	**£23,361,238**	£23,361,238	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£31,662,540	**6.8%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£372,145,378**	**5.1%**
Profit				Market	20%	£114,102,000				
				Affordable	6%	£2,731,523		£116,833,523	£116,833,523	
TOTAL COSTS (including Profit)									**£488,978,901**	
Performance Measures										
Profit on cost %		23.89%								
Profit on GDV %		18.97%								

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Upper Callerton
Summary Appraisal for Merged Phases 1 2

0% Model - WHOLE SITE APPRAISAL **Tab 8**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	**600**	70	753	**42,000**	452,084	£157,500	£2,250	£209.03	£94,500,000	
3 bed private	**1200**	84	904	**100,800**	1,085,001	£189,000	£2,250	£209.03	£226,800,000	
4 bed private	**1200**	121	1,302	**145,200**	1,562,918	£272,250	£2,250	£209.03	£326,700,000	
0%										
2 bed affordable	**0**	0	0	**0**	0	£92,531	£0	£0.00	£0	59%
3 bed affordable	**0**	0	0	**0**	0	£111,038	£0	£0.00	£0	59%
TOTAL REVENUE	**3000**	**96**	**1,033**	**288,000**	**3,100,003**	**£216,000.00**	**£2,250**	**£209.03**	**£648,000,000**	
COSTS										
Acquisition Costs										
Residualised Price							£148,072,622			
SDLT						4%	£6,284,249			
Agent Fee						1%	£1,571,062			
Legal Fee						0.75%	£1,178,297	**£157,106,230**	£157,106,230	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				42,000	452,084	£791.40	£73.52	£33,238,800		
3 bed private				100,800	1,085,001	£791.40	£73.52	£79,773,120		
4 bed private				145,200	1,562,918	£791.40	£73.52	£114,911,280		
								£0		
2 bed affordable				0	0	£0.00	£0.00	£0		
3 bed affordable				0	0	£0.00	£0.00	£0		
				288,000	**3,100,003**		**£73.52**	**£227,923,200**	£227,923,200	
Contingency					**of total build*	5%	£11,396,160			
Abnormals					**of market housing build*	5%	£11,396,160			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£0	**£22,792,320**	£22,792,320	**£7,597**
Other Construction Costs										
Externals						10%	£22,792,320			
					Units	**£/unit**				
NHBC				**per unit of market housing*	3000	£500	£1,500,000			
EPC				**per unit of market housing*	3000	£500	£1,500,000			
Externals						10%	£0			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	0	£500	£0			***£/dwelling***
EPC				**per unit of affordable housing*	0	£500	£0	**£25,792,320**	£25,792,320	**£8,597**
Professional Fees										
Other professional						10%	£22,792,320			
Other professional						10%	£0	**£22,792,320**	£22,792,320	
Disposal Fees										
Sales Agent Fee						3.50%	£22,680,000			
					Units	**£/unit**				
Sales Legal Fee					3000	£600	£1,800,000	**£24,480,000**	£24,480,000	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£37,513,610	**7.8%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£361,293,770**	**5.8%**
Profit				Market	20%	£129,600,000				
				Affordable	6%	£0		£129,600,000	£129,600,000	
TOTAL COSTS (including Profit)									**£490,893,770**	
Performance Measures										
Profit on cost %		26.40%								
Profit on GDV %		20.00%								

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Upper Callerton
Summary Appraisal for Merged Phases 1 2

15% Model - WHOLE SITE APPRAISAL **Tab 9**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	**360**	70	753	**25200**	271,250	£157,500	£2,250	£209.03	£56,700,000	
3 bed private	**990**	84	904	**83160**	895,126	£189,000	£2,250	£209.03	£187,110,000	
4 bed private	**1200**	121	1,302	**145200**	1,562,918	£272,250	£2,250	£209.03	£326,700,000	
15%										
2 bed affordable	**240**	70	753	**16800**	180,834	£92,531	£1,322	£122.81	£22,207,500	59%
3 bed affordable	**210**	84	904	**17640**	189,875	£111,038	£1,322	£122.81	£23,317,875	59%
TOTAL REVENUE	**3000**	**96**	**1,033**	**288,000**	**3,100,003**	**£205,345.13**	**£2,139**	**£198.72**	**£616,035,375**	
COSTS										
Acquisition Costs										
Residualised Price							£98,325,208			
SDLT						4%	£4,172,953			
Agent Fee						1%	£1,043,238			
Legal Fee						0.75%	£782,429	**£104,323,828**	£104,323,828	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				25,200	271,250	**£1,017**	**£94.49**	£25,630,214		
3 bed private				83,160	895,126	**£1,017**	**£94.49**	£84,579,708		
4 bed private				145,200	1,562,918	**£1,017**	**£94.49**	£147,678,854		
2 bed affordable				16,800	180,834	**£1,017**	**£94.49**	£17,086,810		
3 bed affordable				17,640	189,875	**£1,017**	**£94.49**	£17,941,150		
				288,000	**3,100,003**		**£94.49**	**£292,916,736**	£292,916,736	
Contingency					**of total build*	**0%**	£0			
Abnormals					**of market housing build*	5%	£12,894,439			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£1,751,398	**£14,645,837**	£14,645,837	**£4,882**
Other Construction Costs										
Externals						**0%**	£0.00			
					Units	**£/unit**				
NHBC				**per unit of market housing*	2550	£500	£1,275,000			
EPC				**per unit of market housing*	2550	£500	£1,275,000			
Externals						**0%**	£0			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	450	£500	£225,000			***£/dwelling***
EPC				**per unit of affordable housing*	450	£500	£225,000	**£3,000,000**	£3,000,000	**£1,000**
Professional Fees										
Other professional						10%	£25,788,878			
Other professional						10%	£3,502,796	**£29,291,674**	£29,291,674	
Disposal Fees										
Sales Agent Fee						3.50%	£21,561,238			
					Units	**£/unit**				
Sales Legal Fee					3000	£600	£1,800,000	**£23,361,238**	£23,361,238	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£31,662,540	**6.8%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£394,878,025**	**5.1%**
Profit				Market	20%	£114,102,000				
				Affordable	6%	£2,731,523		£116,833,523	£116,833,523	
TOTAL COSTS (including Profit)									**£511,711,547**	
Performance Measures										
Profit on cost %		22.83%								
Profit on GDV %		18.97%								

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Upper Callerton
Summary Appraisal for Merged Phases 1 2

0% Model - WHOLE SITE APPRAISAL **Tab 10**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	**600**	70	753	**42,000**	452,084	£157,500	£2,250	£209.03	£94,500,000	
3 bed private	**1200**	84	904	**100,800**	1,085,001	£189,000	£2,250	£209.03	£226,800,000	
4 bed private	**1200**	121	1,302	**145,200**	1,562,918	£272,250	£2,250	£209.03	£326,700,000	
0%										
2 bed affordable	**0**	0	0	**0**	0	£92,531	£0	£0.00	£0	59%
3 bed affordable	**0**	0	0	**0**	0	£111,038	£0	£0.00	£0	59%
TOTAL REVENUE	**3000**	**96**	**1,033**	**288,000**	**3,100,003**	**£216,000.00**	**£2,250**	**£209.03**	**£648,000,000**	
COSTS										
Acquisition Costs										
Residualised Price							£109,850,395			
SDLT						4%	£4,662,086			
Agent Fee						1%	£1,165,521			
Legal Fee						0.75%	£874,141	**£116,552,144**	£116,552,144	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				42,000	452,084	**£1,017.07**	**£94.49**	£42,717,024		
3 bed private				100,800	1,085,001	**£1,017.07**	**£94.49**	£102,520,858		
4 bed private				145,200	1,562,918	**£1,017.07**	**£94.49**	£147,678,854		
2 bed affordable				0	0	**£0.00**	**£94.49**	£0		
3 bed affordable				0	0	**£0.00**	**£94.49**	£0		
				288,000	**3,100,003**		£94.49	**£292,916,736**	£292,916,736	
Contingency					**of total build*	**0%**	£0			
Abnormals					**of market housing build*	5%	£14,645,837			***£/dwelling***
Abnormals Allowance					**of affordable housing build*	5%	£0	**£14,645,837**	£14,645,837	**£4,882**
Other Construction Costs										
Externals						**0%**	£0			
					Units	**£/unit**				
NHBC				**per unit of market housing*	3000	£500	£1,500,000			
EPC				**per unit of market housing*	3000	£500	£1,500,000			
Externals						**0%**	£0			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	0	£500	£0			***£/dwelling***
EPC				**per unit of affordable housing*	0	£500	£0	**£3,000,000**	£3,000,000	**£1,000**
Professional Fees										
Other professional						10%	£29,291,674			
Other professional						10%	£0	**£29,291,674**	£29,291,674	
Disposal Fees										
Sales Agent Fee						3.50%	£22,680,000			
					Units	**£/unit**				
Sales Legal Fee					3000	£600	£1,800,000	**£24,480,000**	£24,480,000	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£37,513,610	**7.8%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£401,847,856**	**5.8%**
Profit				Market	20%	£129,600,000				
				Affordable	6%	£0		£129,600,000	£129,600,000	
TOTAL COSTS (including Profit)									**£531,447,856**	
Performance Measures										
Profit on cost %		24.39%								
Profit on GDV %		20.00%								

Turner Morum (tm)
CHARTERED SURVEYORS

Gateshead & Newcastle CIL 2016: Ryton Viability & Deliverability Review

By

Thomas Hegan MRICS

April 2016

32-33 Cowcross Street London EC1M 6DF • Tel: 020 7490 5505 • Fax: 020 7490 5504 • Web: www.tmllp.co.uk

Members: John Turner BSc(Hons) MRICS, Ian Charman FRICS FIRRV*, Andrew Smith FRICS, Charles Hill BSc(Hons) IRRV*, Thomas Hegan BSc(Hons) MRICS
Consultant: Martin Steiner MRICS *
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Turner Morum
CHARTERED SURVEYORS

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Appendix 2 – Market Revenues Supporting Evidence

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Appendix 4 – BCIS Data Evidence

Appendix 5 – Harman Report Extract

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1. BACKGROUND AND RELEVANT EXPERIENCE

1.1. My name is Thomas Hegan of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2010 following the award, in 2005, of an Honours degree in Real Estate Valuation and Management from University of West England, Bristol.

1.2. In 2007 I joined the practice of Turner Morum Chartered Surveyors and was made a Partner in 2013. I am a specialist in the field of development site appraisals and associated subjects. A summary of recent experience is included as Appendix 7.

1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land. I am currently instructed by a substantial number of Local Authorities, Landowners, Developers, Receivers & Liquidators and have extensive experience in this field.

1.4. I am an Accredited Expert Witness and have previously provided Expert Valuation Evidence. I have successfully undertaken the Advanced Professional Award in providing Expert Witness Evidence & am also an RICS Registered Valuer.

1.5. I was instructed by Ms Caroline Strugnell of Bellway Homes PLC ("Bellway") to review the viability assumptions of Gateshead Council ("the Council") in their *Viability and Deliverability Report (February 2014) Annex Update February 2016* ("2016 Report") specifically focusing on the appraisal and assumption for Ryton contained in Appendix 8 of the 2016 Report.

1.6. Where I have found an area of disagreement with the Council's assumption I have sought to justify any alteration I have made with supporting evidence which can be viewed in this Statement alongside the Appendices.

2. MECHANISM

2.1. In order to test the viability assumptions of the Council I have sought to replicate their appraisal for the Ryton assuming 15% affordable as per Appendix 8 of the 2016 Report. This calculation is for the whole of the Ryton site (550 units) although in reality Bellway will only be providing a portion of this (c. 350 units) – for the purpose of this analysis and in order to facilitate easy comparison with the Council's appraisal I have modelled my analysis on the basis of the whole site coming forward (550 units).

2.2. The appraisal calculates a Residual Land Value for the proposed development (excluding S106, infrastructure and CIL). This Residual Land Value is then deducted from the proposed Threshold Land Value (TLV) to leave the 'Headroom' which is the amount of residual funds left from the scheme to provide for CIL.

2.3. I should state at this stage that I believe this methodology to be somewhat flawed. The reason for this is that using the Council's calculation, there is no finance cost considered for the CIL, S106 and infrastructure costs as these are deducted from the RLV separately from the appraisal. As such, I believe this methodology arguably actually underplays the potential finance costs which will realistically be incurred by the scheme.

2.4. A summary table showing this calculation for the Council can be found on page 41 of the 2016 Report – I have replicated this table on the Summary Tab of my appraisal analysis in Appendix 1 showing side by side the key figures resulting from the Council's appraisal and also from my own appraisal analysis.

2.5. All my residual appraisals have been produced using a bespoke Microsoft Excel format. A summary of my appraisal analysis is shown below:

- **Tab 1** – A residual appraisal replicating the assumptions of the Council for Ryton assuming 550 dwellings and a 15% on site affordable contribution

- **Tab 2** - A residual replicating the scheme as above but with my adjusted viability assumptions included.

2.6. I will now run through the key viability assumptions for the Council in sequential order as they appear within the residual. I will specify where I have adopted a different assumption to that of the Council.

3. APPRAISAL INPUTS

REVENUES

3.1. The Council's viability assumptions for Ryton are based on an average rate of £209 psf (£2,250 psm) applied to all market units. This is supported by some evidence from the Land Registry from 2007 – 2014 and some new build sales survey data contained in Appendix 4 of the 2016 report.

3.2. For the purpose of this assessment I have been provided with a sales report from Countrywide (see Appendix 2) outlining that their view is that revenues from this site will more likely achieve c. £158 psf (c. £1,700 psm). Clearly there is a significant difference between this and the position the Council have adopted. I am advised by Bellway that that their internal estimates are slightly higher than the position proposed by Countrywide. This could be explained by the fact that the proposed scheme provides new build properties where there is a significant demand in this area having had a dearth of supply of new build units over recent years. For the purpose of this assessment, and in acknowledgement of the variance between Countrywide and the Council, I have adjusted the revenues in my appraisal for the market units to c. £180 psf (£1,938 psm). This incorporates the new build premium Bellway can expect to receive whilst also representing something of a mid-point between the positions of the Council/Countrywide.

3.3. Affordable housing revenues are benchmarked at c. 59% of OMV for a blended tenure. Although this is within an acceptable range for a viability appraisal I believe it is certainly towards the upper end of an acceptable range. Usually for a viability appraisal in a location such as this, one would benchmark affordable rent units at c. 45% of OMV and shared ownership units at c. 65% of OMV.

3.4. It could be argued that the assumption of 45% of OMV for the affordable rent values is somewhat optimistic following the 2015 Summer Budget, where the Government announced that they will be reducing Housing Association rents which has had a consequential impact on affordable offers which have been made – I have included an extract below from the Summer Budget 2015:

"Alongside the freeze in working-age benefits, the government will reduce rents in social housing in England by 1% a year for 4 years, requiring Housing Associations and Local Authorities to deliver efficiency savings, making better use of the £13 billion annual subsidy they receive from the taxpayer. Rents in the social sector increased by 20% over the 3 years from 2010-11. This will allow social landlords to play their part in reducing the welfare bill. This will mean a 12% reduction in average rents by 2020-21 compared to current forecasts."[1]

3.5. The result is that many Housing Associations are advising they cannot stand by their offers made around last year and will have to make a reduced offer in order to account for the changes arising from the budget. As such, typically affordable rent values included at c. 45% of OMV can now be considered as somewhat optimistic in the present climate as can a blended affordable average of 55%.

3.6. Again, for the purpose of this assessment I have sought to maintain an optimistic position and have not adjusted the revenue assumptions. If I were to do so I believe this would impact negatively on the viability of the scheme.

COSTS

3.7. The Council have used BCIS data as the source for the build cost assumptions within their appraisal and have adopted a consistent build cost of £77.95 psf (£839 psm). The BCIS data they have adopted is rebased to Q4 2014 and locationally weighted to 'Tyne and Wear' and can be viewed as Appendix 3 of their 2016 report. The build cost specification they have adopted is for 'Housing, mixed developments' which I would suggest is reasonable.

3.8. Rather than adopting the 'Median' build costs for this scheme the Council have sought to apply a 'tapering' system for the different profile areas within their jurisdiction. Therefore, in their analysis a 'High' profile area will incur a Median BCIS build cost whilst a 'Low' profile area will incur a Lower Quartile build cost. The difference between the 2 equates to c. £9 psf of additional cost (or c. £100 psm). All the sites in between this then incur a tapered build cost reducing from Median down to Lower Quartile as one moves from a High profile location to a High-Mid, Mid, Low-Mid and finally Low profile location.

3.9. As such the Ryton site, located in a 'Mid-High' profile area incurs a lower build cost than those sites located in 'High' profile area. I believe firstly that this tapering approach is inaccurate and falsely reduces the costs to be incurred by this scheme and other 'Mid-High' profile schemes. The reason for this is that building a house (i.e. the specific plot costs) on a site such as this is going to be a largely similar cost regardless of the 'profile' of the location. Whilst the profile of a location will heavily influence the achievable revenues it does not impact on standard build costs in the same way. As such, building a house in a location described as 'Mid' and building one nearby in a location described as 'High' is likely to cost the same amount. Therefore for the purpose of my appraisal analysis I have sought to remove the tapering adjustment and just apply the median build cost for the Ryton scheme appraisal.

3.10. One can also observe that the Council have obtained data from BCIS from a 'default period' to inform their build cost assumptions. This option means that the BCIS data is sourced

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[1] Summer Budget 2015 – URL: https://www.gov.uk/government/publications/summer-budget-2015/summer-budget-2015 - (Para 3.4.6)

from samples from a 15 year period. When conducting a viability appraisal I would always look to use the option of a '5 year period' sample in BCIS – this ensures the cost assumptions one adopts in the appraisal are more likely to be up to date and relevant. The issue with adopting the 'default period' is that this tends to underplay the build costs as it involves data from up 15 years ago when clearly build costs were significantly lower than what they are now. As Appendix 4 of this Statement I have extracted the 2 samples from BCIS assuming a 5 year period and a default period; a median cost from the 5 year data range shows as £1,009 psm (c. £94 psf) whilst for the default period this shows as £990 psm (c. £92 psf). In order to accurately reflect the specifics of bringing the scheme forward in the current climate I have updated my appraisal to reflect the information available from the BCIS 5 year sample period.

3.11. As outlined above the Council have also applied a locational weighting to their build cost for Tyne and Wear which I have mirrored in my analysis. The summary table below illustrates the full build cost assumptions I have adopted for the purpose of my appraisal:

Build Cost	£ psm	£ psf	Locational Weighting 0.87	Externals 10%	Contingency 5%	TOTAL
Median Housing Mixed Developments	£1,009.00	£93.74	£81.81	£89.99	£94.49	**£94.49***

3.12. *On a per square metre basis the above final cost relates to c. £1,017 psm.

3.13. As per the locational weighting I have also adopted the assumptions of the Council in relation to an externals and contingency allowance of 10% and 5% respectively. Whilst arguably one could include a higher external allowance, these are both within the acceptable ranges I would adopt for a viability of this nature.

3.14. The table below provides a direct comparison of build costs within my appraisal and the Council's appraisals including the assumptions for externals and contingency:

Derscription	Build Cost	10%	5%
Council - 15%	£77.95	£85.74	**£90.03**
TM	£81.81	£89.99	**£94.49**

3.15. One can observe that as a result of the above amendments I have included a build cost of c. £94.49 psf (£1,017 psm) in my appraisal whilst the Council's build cost assumptions are at the lower c. £90 psf rate (£969 psm).

3.16. In addition to the contingency allowance the Council have also assumed a 5% allowance for abnormals – this equates to a cost of c. £4k per dwelling (£2.2m in total). I am advised that this site, as with many of the sites in Gateshead, suffers from abnormal ground conditions and as such is likely to incur a fairly high level of abnormal costs in order to facilitate the delivery of the site. At Appendix 6 I have included a breakdown of the anticipated abnormal costs from this scheme (this also includes potential S106/CIL costs which would need to be removed).

3.17. A significant portion of the cost is derived from 'grouting' which I understand is effectively a process of pumping cement into the old underground mines in order to seal the gaps and stabilise the ground. Clearly this is an abnormal cost which would not be incurred on a greenfield site and as such this needs to be reflected in the Ryton appraisal. I believe much of Gateshead also suffers from similarly poor ground conditions due to the historic mining industry and as such it is likely a significant number of sites such as Ryton will incur high levels of abnormal costs.

3.18. For the purpose of this assessment I have taken the conservative position of maintaining the 5% of the build costs assumptions as per the Council although I believe that arguably this could justifiably be higher given the evidence provide in Appendix 6.

3.19. The Council have then allowed an additional cost of £500 per dwelling for NHBC and EPC – I have assumed that these are to reflect the required sustainability criteria for this scheme and it is not something I have sought to amend. I believe these are intended to align with Policies CS16 & CS17 of the Core Strategy. As mentioned I have not adjusted these inputs although if Bellway were required to deliver specific sustainability measures, not included in BCIS, I would need to review the specific cost per dwelling impact.

3.20. The Council have assumed a 10% technical fees allowance which I would suggest is a fairly standard assumption for a scheme of this nature. It should be noted, however, that in the Council's analysis their allowance of 10% externals is included separately from BCIS. This has a consequential impact on the technical fees allowance of 10% which is calculated only against the standard build costs, contingency and abnormals (i.e. not including externals). Since the Council's standard build costs do not include externals this is falsely underplaying the costs involved in bringing a scheme forward.

3.21. The externals and contingency allowance are recommended adjustments by BCIS and reflect the costs associated with building a housing plot including standard plot servicing and infrastructure costs. As such, these are legitimate elements of the build costs as they are costs to be incurred by the developer and will be subject of technical fees. This is an approach I have consistently adopted in multiple viability appraisals and is very rarely an area of contention.

3.22. The full cashflow assumptions of the Council are not contained in their 2016 report although I can observe that they have assumed a 6.5% rate on debit and a 1.5% rate on credit. Without viewing their cashflow timings and assumptions I cannot comment in too much detail about the finance costs other than that when considered as a % of development costs (c. 7.8%) it falls within the acceptable range for a viability of this nature (between 5% - 10%). As such for my appraisal analysis I have simply updated the finance to reflect 7.8% of development costs in line with the Council's finance cost assumption.

3.23. Developer profit levels have been included at 20% of GDV for market housing and 6% of GDV for affordable housing. These assumptions are fairly standard within viability appraisals and as such I have maintained them for my analysis.

4. THRESHOLD LAND VALUE

4.1. Once the above revenues and costs are deducted from each other one arrives at a Residual Land Value (RLV) for the development scheme. In this analysis this is effectively the value of the development site excluding costs for infrastructure, S106, CIL. In order to determine if the scheme can viably make a CIL contribution one needs to deduct the specific infrastructure and S106 costs but also to deduct the sites Threshold Land Value (TLV).

4.2. The TLV included by the Council equates to £480k per hectare or c. £195k per acre. This figure is arrived at through evidence contained in Appendix 5 of the 2016 report. For Gateshead this contains 7 comparable transactions. However when analysing these comparables it is arguable that for a site such as Ryton they are not truly comparable and therefore I believe could justifiably be discounted.

4.3. For example, in table 5.2 in Appendix 5 of the 2016 report, you can observe that comparable sites 2 and 3 are from transactions in 2006 – these are from 10 years ago now and as such must be considered as somewhat of date. This is even more apparent for sites 4, 5 and 7 which date back as far 2002.

4.4. I have been provided by Bellway with a supporting schedule of <u>recent</u> comparable land transactions in the region (see Appendix 3). You will observe from this schedule that clearly land values are in excess of the level of comparables outlined by the Council in their Appendix 5. The average land value per acre seems to equate to c. £300k - £400k per net acre (with even the Newcastle City Council themselves selling a site at £225k per net acre in 2013).

4.5. I do acknowledge that the Council in page 26 of their 2016 report do apply a 'contingency' buffer of 50% to ensure viability is not compromised. Although I appreciate the addition of the 50% buffer I am of the view that the starting point for the TLV is too low, and as such although the buffer inflates the TLV it still does not necessarily bring it in line with the comparables I have included in this submission as per Appendix 3.

4.6. By definition the <u>threshold</u> land value is the <u>absolutely minimum</u> that a landowner requires in order to be 'enticed' to sell for development. If this threshold value is not reached – the landowner does not sell and the scheme is not delivered. The TLV is essentially the 'line in the sand'.

4.7. The Harman report (Viability Testing Local Plans) effectively considers this point, stating:

"*Given the clear emphasis on deliverability within the NPPF, Local Plan policies should not be predicated on the assumption that the development upon which the plan relies will come forward at the 'margins of viability'".*

I feel the suggestion that the hypothetical landowners should be forced to accept a TLV below what actual comparable transaction data suggests is simply inaccurate.

4.8. The Harman Report also states (in reference to Threshold Land Values for strategic greenfield sites – see Appendix 5 Page 30):

"It is widely recognised that this approach can be less straight forward for nonurban sites or urban extensions, where land owners are rarely forced or distressed sellers, and generally take a much longer term view over the merits or otherwise of disposing of their asset.

This is particularly the case in relation to large greenfield sites where a prospective seller is potentially making a once in a lifetime decision over whether to sell an asset that may have been in the family, trust or institution's ownership for many generations."

4.9. I believe that the above evidence clarifies the point that the TLV should be included at a level which would realistically see this site released for development. In further support of this, it should be noted that when considering what TLV to attribute to a site in an appraisal analysis such as this, the National Planning Policy Framework (paragraph 173) states that you have to ensure that you '*provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable'.* I believe it could be argued that including the TLV at c. £195k per acre could place some doubt on the scheme being deliverable.

4.10. I therefore believe that I could justifiably include a higher TLV in my analysis which would serve to reduce the surplus left-over for any CIL contribution. However, in order to narrow the scope of disagreement and facilitate a simpler discussion, I have maintained the Council's TLV assumption for the purpose of this exercise.

5. SENSITIVITY ANALYSIS AND SUMMARY CONCLUSION

5.1. In the Council's analysis once the TLV is deducted from the RLV this leaves a 'headroom' figure which one deducts specific S106 and infrastructure requirements in order see what is leftover to pay for CIL.

5.2. The S106 & Infrastructure costs the Council have assumed for this site total **c. £2.111m**. It will be observed that in my appraisal analysis I have removed the S106 costs associated with this scheme entirely; this is following discussions with Bellway where it was felt the main components of this cost (i.e. the education and strategic highways contributions) would be absorbed within a CIL requirement. As such where the Council have assumed a deduction of £2.1m I have applied a **£0 deduction**

5.3. You will observe from the above that there are various areas of potential disagreement with the Council. In order to facilitate discussions and limit the scope of disagreement I have only sought to adjust the following inputs in my appraisal:

- Amended market revenues
- Updated BCIS to Median within the 5 year data period
- Removed S106 deduction due to the costs being incorporated within CIL

The result of the above amendments is illustrated in the summary table below:

Ref	Description	Council Analysis - 15%	TM Analysis - 15%
	Assumed Acres	44	44
	Assumed Ha	17.17	17.17
A	Residual Value	£20,765,818	£6,622,885
	Threshold Value per ha	£480,000	£480,000
B	Total Threshold Value	£8,241,600	£8,241,600
C	Headroom (A-B)	£12,524,218	-£1,618,715
D	S106 plus estimated specific infrastructure	**£2,111,000**	**£0**
E	Headroom after s106 for CIL (D-E)	***£10,413,218***	***-£1,618,715***

6. CONCLUSIONS

6.1. You will observe from the table above that through amending the market revenues, build and abnormal costs plus the assumed S106 assumptions of the Council the 'headroom' position has effectively been removed entirely.

6.2. It is also worth noting that this is without updating any of the other areas in the appraisal where I have outlined some disagreement above; many of these have been stated in previous representations by Barton Willmore on this issue and my analysis simply furthers this.

6.3. As such, I am of the view that specifically due to the lower market revenues and more accurate build costs involved with delivering this site it cannot viably contribute any CIL payments. To burden this site with a requirement for CIL contribution would have a significant negative impact on the viability. This would have a consequential impact on delaying the delivery of the scheme which furthermore could then impact the Council's 5 year land supply position.

6.4. I hope this provides a sufficient overview of what I consider to be the key points and conclusions in the Council's CIL viability study.

T Hegan

Thomas Hegan MRICS

APPENDIX 1

CIL VIABILITY APPRAISAL ANALYSIS

Gateshead & Newcastle CIL 2016 P04
Ryton Appraisal - Whole Site

SUMMARY

TABLE 1 - Comparison Table - Council Appraisal v TM Appraisals (550 units Whole Site)

Ref	Description	Council Analysis - 15%	TM Analysis - 15%
	Assumed Acres	44	44
	Assumed Ha	17.17	17.17
A	Residual Value	£20,765,818	£6,622,885
	Threshold Value per ha	£480,000	£480,000
B	Total Threshold Value	£8,241,600	£8,241,600
C	Headroom (A-B)	£12,524,218	-£1,618,715
D	S106 plus estimated specific infrastructure	**£2,111,000**	**£0**
E	Headroom after s106 for CIL (D-E)	***£10,413,218***	***-£1,618,715***

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Ryton
Summary Appraisal for Merged Phases 1 2

15% Affordable Model **Tab 1**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	66	70	753	4,620	49,729	£157,500	£2,250	£209.03	£10,395,000	
3 bed private	181	84	904	15,204	163,654	£189,000	£2,250	£209.03	£34,209,000	
4 bed private	220	121	1,302	26,620	286,535	£272,250	£2,250	£209.03	£59,895,000	
15%										
2 bed affordable	44	70	753	3,080	33,153	£92,531	£1,322	£122.81	£4,071,375	59%
3 bed affordable	39	84	904	3,276	35,263	£111,038	£1,322	£122.81	£4,330,463	59%
TOTAL REVENUE	**550**	**96**	**1,033**	**52,800**	**568,334**	**£205,274.25**	**£2,138.27**	**£198.65**	**£112,900,838**	
COSTS										
Acquisition Costs										
Residualised Price							£20,765,818			
SDLT						4%	£881,308			
Agent Fee						1%	£220,327			
Legal Fee						0.75%	£165,245	**£22,032,698**	£22,032,698	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				4,620	49,729	£839.00	£77.95	£3,876,180		
3 bed private				15,204	163,654	£839.00	£77.95	£12,756,156		
4 bed private				26,620	286,535	£839.00	£77.95	£22,334,180		
2 bed affordable				3,080	33,153	£839.00	£77.95	£2,584,120		
3 bed affordable				3,276	35,263	£839.00	£77.95	£2,748,564		
				52,800	**568,334**		**£77.95**	**£44,299,200**	£44,299,200	
Contingency					**of total build*	5%	£2,214,960			***£/dwelling***
Abnormals					**of market housing build*	5%	£2,214,960	**£4,429,920**	£4,429,920	**£8,054**
Other Construction Costs										
Externals						10%	£3,896,652			
					Units	**£/unit**				
NHBC				**per unit of market housing*	467	£500	£233,500			
EPC				**per unit of market housing*	467	£500	£233,500			
Externals						10%	£533,268			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	83	£500	£41,500			***£/dwelling***
EPC				**per unit of affordable housing*	83	£500	£41,500	**£4,979,920**	£4,979,920	**£9,054**
Professional Fees										
Other professional						10%	£4,429,920			
Other professional						10%	£442,992	**£4,872,912**	£4,872,912	
Disposal Fees										
Sales Agent Fee						3.50%	£3,951,529			
					Units	**£/unit**				
Sales Legal Fee					550	£600	£330,000	**£4,281,529**	£4,281,529	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£6,600,748	**7.8%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£69,464,229**	**5.8%**
Profit				Market	20%	£20,899,800				
				Affordable	6%	£504,110		£21,403,910	£21,403,910	
TOTAL COSTS (including Profit)									**£90,868,140**	
Performance Measures										
Profit on cost %		23.55%								
Profit on GDV %		18.96%								

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Ryton - TM Appraisal
Summary Appraisal for Merged Phases 1 2

15% Affordable Model **Tab 2**

Description	Units	Unit m²	Unit ft²	Total m²	Total ft²	Unit Value	£ psm	£ psf	GDV	AH % of OMV
2 bed private	66	70	753	4,620	49,729	£135,625	£1,938	£180.00	£8,951,259	
3 bed private	181	84	904	15,204	163,654	£162,750	£1,938	£180.00	£29,457,780	
4 bed private	220	121	1,302	26,620	286,535	£234,438	£1,938	£180.00	£51,576,303	
15%										
2 bed affordable	44	70	753	3,080	33,153	£79,680	£1,138	£105.75	£3,505,910	59%
3 bed affordable	39	84	904	3,276	35,263	£95,616	£1,138	£105.75	£3,729,013	59%
TOTAL REVENUE	**550**	**96**	**1,033**	**52,800**	**568,334**	**£176,764.12**	**£1,841.29**	**£171.06**	**£97,220,266**	
COSTS										
Acquisition Costs										
Residualised Price							£6,622,885			
SDLT						4%	£281,077			
Agent Fee						1%	£70,269			
Legal Fee						0.75%	£52,702	**£7,026,934**	£7,026,934	
Construction Costs				**Total m²**	**Total ft²**	**£ psm**	**£ psf**	**Totals**		
2 bed private				4,620	49,729	£1,017.07	£94.49	£4,698,873		
3 bed private				15,204	163,654	£1,017.07	£94.49	£15,463,563		
4 bed private				26,620	286,535	£1,017.07	£94.49	£27,074,457		
2 bed affordable				3,080	33,153	£1,017.07	£94.49	£3,132,582		
3 bed affordable				3,276	35,263	£1,017.07	£94.49	£3,331,928		
				52,800	**568,334**		**£94.49**	**£53,701,402**	£53,701,402	
Contingency					**of total build*	0%	£0			***£/dwelling***
Abnormals					**of market housing build*	**5%**	£2,685,070	**£2,685,070**	£2,685,070	**£4,882**
Other Construction Costs										
Externals						0%	£0			
					Units	**£/unit**				
NHBC				**per unit of market housing*	467	£500	£233,500			
EPC				**per unit of market housing*	467	£500	£233,500			
Externals						0%	£0			
					Units	**£/unit**				
NHBC				**per unit of affordable housing*	83	£500	£41,500			***£/dwelling***
EPC				**per unit of affordable housing*	83	£500	£41,500	**£550,000**	£550,000	**£1,000**
Professional Fees										
Other professional						10%	£5,370,140.16			
Other professional						10%	£268,507.01	£5,638,647	£5,638,647	
Disposal Fees										
Sales Agent Fee						3.50%	£3,402,709			
					Units	**£/unit**				
Sales Legal Fee					550	£600	£330,000	**£3,732,709**	£3,732,709	
Finance										
Debit @ 6.5% / Credit @ 1.5%										**% of cost**
Total Finance Cost									£5,454,340	**7.8%**
										% of GDV
TOTAL COSTS (excluding Profit)									**£71,762,168**	**5.8%**
Profit				Market	20%	£17,997,069				
				Affordable	6%	£434,095		£18,431,164	£18,431,164	
TOTAL COSTS (including Profit)									**£90,193,332**	
Performance Measures										
Profit on cost %		20.44%								
Profit on GDV %		18.96%								