LAND AT WYKE OLIVER FARM AND OFF BUDMOUTH AVENUE

27 September 2023

1.0 Summary

The purpose of this note is to relay, formally, the result of our initial assessments of the greenfield sites at Wyke Oliver Farm and off Budmouth Avenue. The promoters of both of these sites, have suggested that they are willing to bear the cost of delivering 50% affordable housing – essentially as the price of inclusion in the plan – and we have been tasked with assessing this claim.

We are aware that the issue has already been considered in respect of a wider range of mostly "typical" sites in a 2022 study by 3 Dragons. Our analysis differs from theirs inasmuch as we are referring to two identified sites and also that we are looking at Weymouth in particular rather than "Dorset North and South – which was their smallest subdivision.

However, since our work is bound to be compared to theirs, we have tried to cross-refer to their work and explain where we have taken the same view and where we have diverged.

One major source of difference is our analysis of sales of comparable new build units amounting to 367 sales over several years. We make extensive reference to this dataset below.

Disclaimer: this report is intended to provide a basis for the evaluation of policy and specifically to consider the plausibility of delivering 50% affordable housing from these two greenfield site and, consequently, the desirability of allocating them as part of the neighbourhood plan. It does not constitute a valuation in the sense outlined in the RICS red book and should not be used as such or for any other purpose beyond that described above.

2.0 Benchmark Land Value

When we describe a site as "viable" what we mean is that the development of the land would generate sufficient value not only to cover development cost and a reasonable profit for the developer but also that the monies left over are sufficient to pay a land value, which will bring the land forward for development.

In order to do that, the Residual Land Value (i.e value minus development cost) must be greater than the "Benchmark Land Value". Typically, Benchmark Land Value is linked to the Existing Use Value of the land.

What we are therefore saying is that a "viable" development is one which increases the value of the land. Conversely, one which *de*creases the value of the land will not come forward and is therefore unviable.

The matter is a little more complex in the case of greenfield land (and especially greenbelt land), Agricultural values may be only £20,000-25,000/ha but it is unrealistic to expect a landowner to part with long held land to which they may have a long family connection, in return for a premium of only, say, 10% over that value.

Convention therefore holds that the viability of greenfield land is assessed against a Benchmark Land Value of 10 to 20 times agricultural value (i.e. £200,000 - £500,000/ha). That remains a wide range and the precise point that we use on that spectrum has significance. In some cases, we would apply the lower end of the range to the gross site area and, in others, we would apply the upper end to net developable area. And, in many cases, those two metrics would generate similar results. In this case, I am concerned about the use of an approach based on gross area because the relationship between net and gross site area is unusually low in the case of Wyke Oliver Farm in particular. I have therefore used 20 times agricultural value (i.e £400,000/ha in respect of net area) and agricultural value for the rest (i.e. £20,000/ha).

On that basis, the viability benchmarks for the two sites would be:

	Net Area	Value	Remainder	Value	Total BLV
Wyke Oliver	7ha	£2,800,000	25ha	£500,000	£3.3m
Budmouth Ave	9.5ha	£3,800,000	10.2ha	£204,000	£4.04m

I would admit candidly, that these are low – as we shall see, they reflect around 5% of GDV.

Whilst a low BLV is entirely appropriate in the case of greenfield (indeed greenbelt) land, it does make the assessment vulnerable to even modest changes to the assumptions about GDV and cost (both of which are much larger figures).

3.0 Unit Mix

We have been provided with capacities for both sites (250 Units in the case of Wyke Oliver Farm and 230 units in the case of the land off Budmouth Avenue).

The Council provides preferred unit mixes for both open market and affordable housing and we have had regard to these in devising a unit mix for our analysis.

The mix for open market housing is set out in the left-hand column of the table below. The resulting mixes for the two sites are set out in the next two columns. Finally, on the right, I have provided an estimate of the mix that we found in our aggregated sales data from the six completed developments under review. Whilst it can be seen that the mix is similar to the Council's policy mix overall, the individual developments varied considerably.

	Policy Mix	Wyke Oliver	Budmouth	Delivered
1 bed	4.1%	5	5	13%
2 bed	14.0%	18	16	24%
3 bed	35.5%	44	41	20%
4 bed	46.4%	58	53	43%
Total		125	115	

For a development of this type, we assume that all of the open market units are houses, with the exception of one bedroom units, which we assume to be bungalows.

As to the affordable housing mix, the Council has published two preferred mixes which were both published and consulted upon by 3Dragons. One suggests the range of unit sizes for all affordable homes and the other provides mixes by tenure (Rented and Intermediate). The two mixes are not entirely comparable. They are to be found on the left hand side of the table below.

We have interpreted those mixes into a profile which also takes account of the comments reported in 3Dragons' technical appendices dealing with consultation responses (e.g. a reticence about one bedroom intermediate units). We have also applied an element of our own experience. Our profile is set out on the right of the table.

	Dorset Policy (published)			BVA (implemented)		
	Affordable	Rented	Inter	Rented	Inter	Affordable
1 bed	5.0%	35%	20%	15%		9%
2 bed	40.0%	35%	40%	45%	65%	52%
3 bed	45.0%	25%	30%	38%	35%	37%
4 bed	5.0%	5%	10%	2%		1%

We have assumed that all of the affordable units are houses except the one beds, which we assume to be apartments.

4.0 Unit Sizes

For the purposes of modelling, we assumed that all affordable units were consistent with the Nationally Described Space Standards. That is generally our experience.

However, whilst open market units cannot be smaller than NDSS they can be far larger. Four and five bedroom units in particular can often be much larger.

In order to make a realistic assessment of unit sizes, we first sorted all of the comparable sales information we found by size and then inferred the number of bedrooms from the size range (e.g. units <60m^2 must have one bedroom and units <103m^2 are *likely* to have four bedrooms) We then took the average from each size range in order to inform the

sizes that we applied in our modelling. This exercise is primarily useful for determining the extent to which larger homes (4+ bedrooms) have typically exceeded the minimum in this area. The answer was slightly surprising. The average size of units large enough to have four bedrooms was 117m^2. That is notably less than we would expect to see based on our experience elsewhere. It is not uncommon to see the size of four bed houses in excess of 200m^2.

Our size mix was therefore:

	Open Market	Affordable
1 bed	60	50
2 bed	78	75
3 bed	98	93
4 bed	117	103

When combined with the mix we have adopted above, and the information supplied, on capacity and net developable area of the two sites, we are able to work out the coverage for each of the sites.

	Capacity	NDA (Ha)	Density (dph)	Coverage (sqft/acre)[1]
Wyke Oliver	250	7	36	14,150
Budmouth Ave	230	9.5	24	9,589

I would normally expect a greenfield site of this type to be developed at between 30 and 35 dph and I would expect coverage of 13,000 to 15,000sqft/ha. On that basis, Wyke Oliver Farm is at the upper end of the density range but, because of the smaller four beds that we are assuming, coverage is within normal expectations.

However, Budmouth Avenue is below normal density expectations and well below our expectation on coverage. We will say more about this in our conclusions, which touch on a sensitivity analysis.

5.0 Values

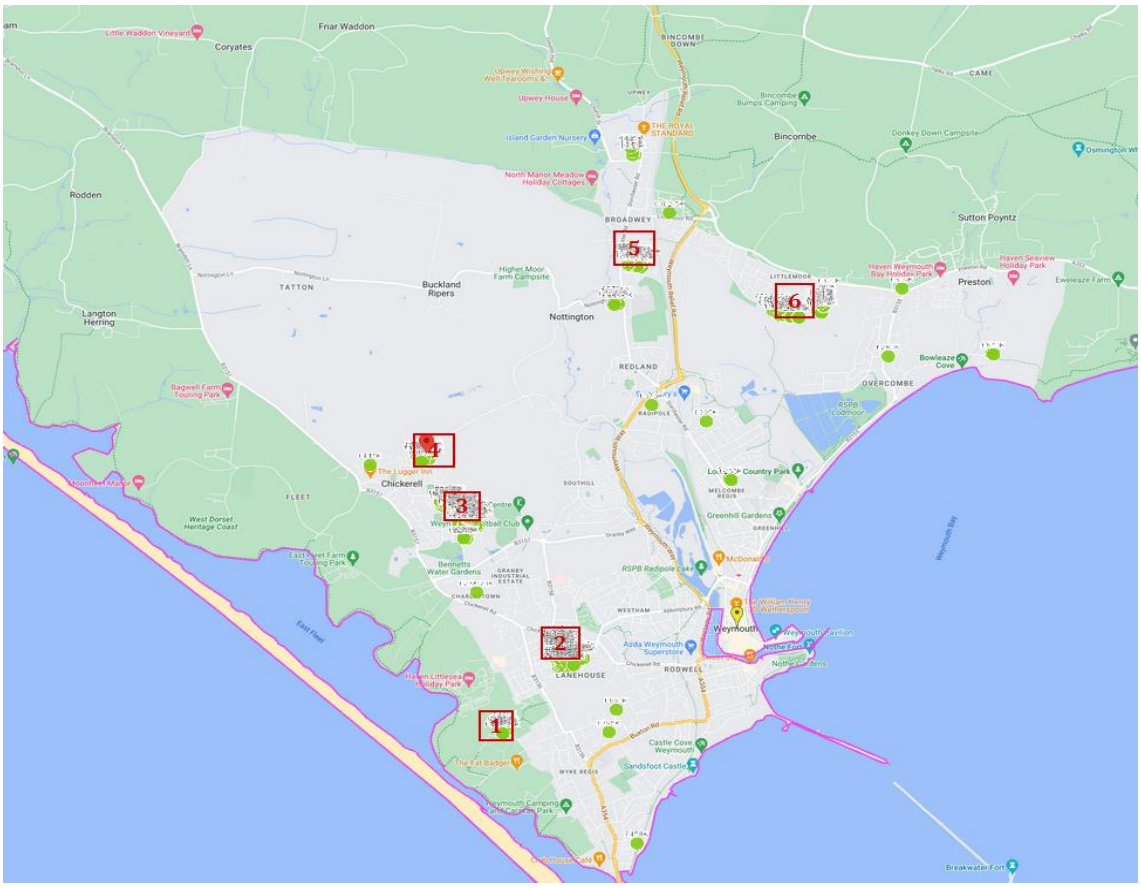
Our assessment of value arose directly from the array of comparable sales that we found across six sites. A map is shown overleaf.

However, it was notable that we were unable to find a statistically reliable number of comparables from after 2020 and there were barely more than a handful of sales recorded from 2021 and 2022. Whether this reflects a genuine slow down (perhaps as a result of the pandemic) or simply an instance of the delays often encountered in logging new build

[1] I realise that all of the other figures are metric but coverage seems always to be stated in imperial units

sales with the Land Registry, we cannot say. The likelihood is that both factors were in play. It was however, necessary to rely heavily on much older data than we would normally wish to use.

To find our sample of 367 transactions, we had to go as far back as 2017. That necessitated uplifting sales to reflect the significant growth in the market since that time.



This analysis gives the following values/m² and spot values.

	£/m2	Size	Spot Value
1 bed bungalow	5,000	60	300,000
2 bed house	3,976	78	310,098
3 bed house	3,989	97	386,947
4 bed house	3,819	117	446,801

Having reviewed the rather smaller selection of new build properties currently offered to market, I am satisfied that these values are broadly representative. I also note that the most recent sales in our sample, from a development at Sea Clover Lane, achieved values well in excess of our assumed levels and often in excess of £5,000.m².

Our assumed receipts for affordable rented homes were drawn directly from the transfer values that 3 Dragons were advised by the RPs whom they consulted. In our experience, the values for one bed homes appear a little low and the value for four bed homes surprisingly strong but we have no reason to believe that they do not reflect local practice. Our assumed values for intermediate units are based on 68% of the open market value but they are capped at £250,000.

	Rented	Intermediate
1 bed flat	£86,000	
2 bed house	£125,000	£202,800
3 bed house	£165,000	£250,000
4 bed house	£232,000	

6.0 Construction Costs

Our estimates of base construction costs are drawn from BCIS data.

In their analysis, 3Dragons made the sensible point that sites of this type would likely be delivered by PLC or large regional housebuilders with the benefit of economies of scale that this would imply. On this basis, they considered it reasonable to employ the lower quartile rates from the published documents.

Whilst I concur in principle, I am also conscious of the rapid cost inflation over recent years and the assertion that BCIS has not always captured that inflation in a timely way. With that in mind, I have applied the median cost rather than LQ. I have also chosen not to discount to reflect the scale of the contract.

	£/m²
Bungalow	£1,676
House	£1,471
Apartment	£1,630

Our allowances are therefore much higher than the rates used by 3Dragons for sites of this size (£1,102/m²).

In respect of standard on-plot externals, we have allowed £160/m², which amounts to a little over 11% of the base cost.

We have also followed standard practice and made an allowance of 5% to cover contingencies.

7.0 Additional Developmental Costs

Beyond the standard cost of construction, there have been a number of further initiatives designed to address climate change and other concerns. These are being introduced through building regulations and are non-negotiable. Nor are they reflected in BCIS data.

There are a variety of cost estimates available from different sources. In the interest of consistency, we have adopted the suite of allowances set out by 3Dragons. In our view, some of the allowances may be on the low side, notably, the costs associated with the mitigation of phosphates and nitrogen. However, it is our experience that the cost of compliance with new standards typically falls over time as the techniques and technology required for compliance mature. Taken as a whole, we consider the set of allowances robust.

	Houses	Flats
Decarbonisation	£3,800	£2,090
Habitat Mitigation	£8,690	£8,003
Biodiversity Net Gain	£998	£998
Phosphates & Nitrogen	£2,200	£1,513
Total	£15,688	£12,604

8.0 Non-Construction Development Costs

In addition to the cost of construction, we make allowance for a series of other development costs

	Allowance	Notes
Stamp Duty	National rates	On acquisition of land
Land Agency	1%	Of land value
Legals on land	0.8%	Of land value
Professional Fees	8%	Of contract sum. Low end of range – reflecting nature of development and likely developer

Agency	2.5%	Of open market sales value. 1.5% for agency, 1% for marketing
Legals on sales	£1,200	Per open market unit
Finance	8%	Interest on negative balance. See notes on cashflow timing below
Open market profit	17.5%	Of value. Middle of published range
Affordable housing profit	6%	Of cost. Standard

For the benefit of clarity, we make the (unrealistic) assumption that the entire development, including land acquisition, is financed at a (rolled up) rate of 8%. In reality, of course, no bank would fund a project where the developer had no stake. In this sense, the allowance is generous. The assumption is also unrealistic inasmuch as the debt would almost certainly be structured in tranches – each subject to their own interest rate, arrangement and exit fees. Such arrangements are too diverse to capture and the convention is that we make this simplified (but slightly generous allowance).

The rate employed (8%) is significantly higher than would have been acceptable even quite recently. 3Dragons used 6% in their 2022 report.

We have assumed that, following a preconstruction phase of 3 months, construction takes 32 months. We presume that sales commence 12 months after construction and that they continue for six months after completion.

9.0 Planning Gain

The imposition of a 50% affordable housing requirement is, of course, the single most significant aspect of planning gain.

Beyond that, Dorset imposes a requirement that 20% of all homes are constructed to the M4 (2) wheelchair adaptable standard and that 5% of affordable homes are delivered to the M4 (3) wheelchair accessible standard (which is vastly more expensive).

We have also made allowance for the costs associated with EV charging – at around £900/unit.

From our reading of the maps, it appears that both sites fall outside the Fleet and Chesil environmental mitigation area. However, since the precise extent of the policy remains slightly unclear, we have retained the implied cost in both our appraisals for now (at £550 per dwelling).

Beyond that, the financial impact of policy costs is somewhat unclear.

The former Weymouth and Portland authority area has imposed a CIL of £90/m^2 on C3 accommodation (i.e. self-contained residential) since 2016. For applications determined in 2023, that cost has risen to £120.83/m^2. We have no reason to assume that this CIL has been placed in abeyance – although we are aware that Dorset Council is in the process of harmonising their approach to CIL across all the former authority areas now under their authority.

Nonetheless, we note that 3Dragons seem to have made no allowance for CIL in their study and they speak of the possibility that a CIL might be introduced in the future. Beyond that, their 2022 study applies a S106 cost of £13,000/unit to all sites. Should we assume that this should be applied in addition to or instead of CIL?

Current practice in this area is a mess (nationally). The entire premise of CIL was that it would roll-up all planning obligations towards infrastructure into a single, straightforward payment which was not subject to considerations of viability on a site-by-site basis. To encourage this practice, the government banned Local Planning Authorities from pooling contributions from any more than five sites.

In theory then, planning obligations should then have comprised CIL, affordable housing and only a small "rump" of site specific S106 and S278 obligations. In practice, the problem was that the funds raised by CIL were far too small to fund all the infrastructure sought through this mechanism and a structural deficit was created. This created a strong incentive to find ways to "double dip" – to impose S106 charges in addition to CIL – and thus to undermine the entire premise of CIL. In 2019, the Government recognised the untenable nature of the situation and abolished the pooling restrictions – but they did not follow the logic of this move through to its conclusion and simply abolish the CIL itself.

This leaves us in a confusing situation where it is not clear what infrastructure is to be funded from which source. In particular, it is not clear whether 3Dragons intended their allowance of £13,000/unit in "S106" costs to stand in for "S106 and whatever harmonised CIL that Dorset Council may adopt in future".

A call to the neighbourhood plans team has not yet allowed us to resolve the issue.

For now, we have adopted the maximal approach of £13,000 *plus* CIL which amounts to around £19,000 per unit in total (because CIL is not imposed on affordable housing).

This is a matter which I believe that Dorset Council is working hard to solve but at the lower tier of Neighbourhood Plan making, it may not be possible to achieve complete accuracy here. If Dorset significantly increases their ambition in respect of planning obligations (either through CIL or S106) our conclusions in respect of affordable housing may need to be revised.

10.0 Results

On the basis of the foregoing, we set up Residual Land Value (RLV) appraisals of the two Greenfield sites under consideration and compared the results to the Benchmark Land Values (BLV) discussed in Section 2. Where RLV exceeds BLV, the site may be deemed viable.

	Homes	BLV	RLV	Rating
Wyke Oliver	250	£3.3m	£3.58m	Viable
Budmouth Ave	230	£4.04m	£3.31m	Unviable

Our initial finding then is that Wyke Oliver Farm is viable, but Budmouth Avenue is not. One peculiarity of this outcome is that, because of its lower density, the Budmouth Avenue site, has fewer homes but a higher Benchmark Land Value.

This is immediately counter-intuitive and should provoke consideration. It returns us to the question of coverage, which we set out in Section 4.

As we noted then, whatever the mix of units and the density of the homes, as measured in dwellings/ha, we would expect developers to target between 13,000 and 14,000sqft of saleable residential floorspace per acre of development.

Whilst the density of Wyke Oliver farm is at the upper end of expectation, the relatively small mix of units that we found to be broadly characteristic of recent sales, means that the coverage would fall within expectations. We therefore consider that finding broadly robust.

However, the site at Budmouth Avenue is to be developed at just 24 dwellings per hectare – slightly below expectations. Two possibilities present themselves. Either this reflects a desire to see the site rather lightly developed or, more likely, the low density would facilitate a mix of units that were slightly larger than the one we applied to Wyke Oliver.

With that in mind and in view of the fact that the four bedroom homes we identified in our search of comparables were smaller than we had expected to find, we re-ran our model with the size of the average four bedroom house increased to 150m^2. We also turned down the value allowance slightly, to £3,700/m^2 for a spot value of £555,000. That is consistent with prices currently sought by CG Fry on their current development at Chesil Reach.

Even on that basis, coverage rises only to 10,400sqft/acre – this would still be quite a lightly developed development – but land value rises to £4.13m. Enough to render the site viable without any diminution of the affordable housing requirement of 50%.