

FAVERSHAM – REVIEW OF EMPLOYMENT SITES

Introduction

In accordance with our instructions, CBRE has conducted a number of high level appraisals to test the potential number of housing units needed to support development of commercial (employment) space in Faversham at two key sites.

The development appraisals undertaken, which underpin this exercise and our recommendations, are high level and strategic in nature. No site specific scheme drawings are available. Therefore, the assumptions adopted in the appraisals are intended to broadly reflect the likely mix of uses and unit types which may be envisaged to come forward on the sites. The appraisals are based on today's costs/today's values. Please note that these are not formal RCIS Red Book Valuations.

Sites

The two sites which are financially tested are:

- **Site A** – Land adjoining Western Link, Faversham (SW/091). This site totalling 7.98 hectares is identified to accommodate around 12,800 sq m of employment space and 100 residential units (according to the SHLAA information).
- **Site B** – Land at Lady Dane Farm, Love Lane, Faversham (SW/096). The total site area is 26.5 hectares. The baseline testing position is however that 5 hectares of employment land will initially be used (encompassing 20,000 sq m) together with 5 hectares allocated for 140 dwellings. There is additional land available for both employment and housing requirements if necessary.

For Site A the objective is to assess the number of residential units needed to support the given mix of employment uses. This assessment assumes the amount of land available is fixed, and therefore housing density may need to increase.

For Site B the objective is again to test the number of residential units to support a given mix of employment uses. In this assessment, it is assumed that the amount of land available for housing is potentially variable, and could increase to cross fund employment uses, if necessary. For Site B (SW/096) our appraisals test densities of 35 and 40 dwellings per hectare.

Approach

Separate appraisals were conducted for each site, with these split into employment uses and housing. Each appraisal generates a residual land value. This sum is what is potentially available to purchase the land.

The residual land value outputs are benchmarked against typical development land values for the area. From previous work in the borough, we understand that the tone of value in the area is in the order of £900,000 per hectare for residential development land.

Commercial land is considered to be around £600,000 per hectare. It is acknowledged however that it is challenging to confirm precise development land values which can then apply across all sites. Each site is unique, and will have differing cost and revenue

characteristics. Even so, the land cost assumptions are considered to be reasonable proxies for residential and commercial development land in the area.

There is a further factor that needs to be borne in mind. The current challenging economic conditions will be placing considerable downward pressure on the above quoted land values which in turn are likely to place upward pressures on the need for housing to support employment schemes. However, with the Council's Core Strategy looking to the longer term, care needs to be taken not to depress land values to the point that any conclusions are not relevant further into the plan period beyond current difficulties. The above values are therefore intended to act as a more robust proxy over the longer term.

Where under the employment use scenarios the residual land value is not sufficient to meet the potential cost of acquiring that land, then there is a need for cross funding to occur. The amount of residential needed to cross fund any deficit is then examined.

Key Appraisal Assumptions

The appraisal assumptions are summarised below. It should be noted that the values which are assumed for the housing development are reflective of those used in the SHLAA. A 30% affordable housing provision is included too. Again, this reflects the approach of the SHLAA.

In terms of the employment mix, we have been guided by information provided by the Council. This is described in the table below.

SOURCE	USE CLASS							TOTAL
	SOURCE	B1(A)	B1(B)	MIXED B1	B1(C)	B2	B8	
Site A	448	448	0	1,024	6,400	4,480	0	12,800
Site B	2,000	2,000	0	2,000	6,000	8,000	0	20,000

In addition to this there are a series of more detailed appraisal assumptions which underpin our analysis.

ITEM	RESIDENTIAL ASSUMPTION	EMPLOYMENT ASSUMPTION
Build Costs*	£85 psf	c.£45 - £110 psf
Land Purchase Price	£900,000 per Ha	£600,000 per Ha

Professional Fees	8%	10%
Legal (Letting Fees)	-	10%
Letting Agent (Letting Fees)	-	5%
Sales Agents	1%	1%
Sales Legal	0.5%	0.5%
Profit on Cost	20%	15%
Finance	6.5%	6.5%

*There could be the prospect of achieving lower residential unit build costs, given the size of development envisaged at the sites and the economies of scale that might be achieved. This would improve scheme viability.

Given the high level, strategic nature of the project:

- a high contingency at 10% of build cost is assumed.
- a spot cost of £500,000 is assumed for infrastructure requirements

S106 costs are set at £5,000 per unit. Build costs are drawn from the Building Cost Information Service (BCIS) and previous cost assumptions adopted in the Council's SHLAA.

USE	VALUE ASSUMPTION
Residential Values	c.£115 - £240 per sq ft
Office Rent / Yield	£11 per sq ft / 7.5%
Light Industrial & Workshop Rent / Yield	£8 per sq ft / 7.5%
General Industry / Distribution	£5-6 per sq ft / 7.0%

NB – a sales rate of 5 units per month is assumed for the residential. A 6 month rent free allowance is made for commercial space.

The yields adopted are on the expectation that new, good quality employment space will attract a better quality of tenant. They also have regard to the prospect of their value being realised when market conditions are favourable; a reasonable expectation, given the likely lengthy timescales involved in delivering the site.

Appraisal Results

Base case – Site A (SW/91). The table below describes the base situation, assuming that 5 ha of employment land is built out.

Cost of Development Land	Employment Residual Land Value	Land Cost & Deficit	No. of Resi Units required	Sensitivity (+10% house price rise)
£5.7m (5ha @ £600k + 3ha @ £900k)	-£1.4m	£7.1m	150	125

NB – At 150 units the residual land value generated by the housing is sufficient to cross fund the land acquisition for the whole scheme.

This table indicates that based on the assumptions adopted, then 150 units delivered on 3 ha of residential land would be sufficient to cross fund the employment space. It should however also be noted that an increase in house prices by 10% (all other things being equal) would reduce the amount of housing needed to around 125 units. Also, while not examined, a reduction in the affordable housing percentage would also reduce the number of dwellings needed to cross fund the employment uses.

Base case – Site B. In this scenario it is assumed that 5 ha of employment land is built out. Then, the amount of housing needed to cross fund the development is tested at 35 and 40 dwellings per hectare.

35 Dwellings per Hectare

Cost of Development Land	Employment Residual Land Value	Land Cost & Deficit	No. of Resi Units required	Sensitivity: 5% house price increase
£7.4m (5ha @ £600k + 4.88ha @ £900k)	-£1.7m	£9.1m	170	140

Under this scenario, 170 residential units are needed to bridge the financial gap based on a density of 35 dwellings per hectare (170 dwellings delivers a residual of c.£9.1m – sufficient to bridge the gap). The total land take under this scenario would be 9.9ha. If however, house prices increase by 5% then the housing needed falls to around 140 units.

40 Dwellings per Hectare

Cost of Development Land	Employment Residual Land Value	Land Cost & Deficit	No. of Resi Units required	Sensitivity: 5% house price increase

£6.4m (5ha @ £600k + 3.77ha @ £900k)	-£1.7m	£8.1m	145	115
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Under the 40 dwellings per hectare scenario, 145 residential units are needed to bridge the financial gap (145 dwellings delivers a residual of c.£8.1m – sufficient to bridge the gap). The total land take under this scenario would be 8.7ha. If however, house prices increase by 5% then the housing needed falls to around 115 units.

Reducing the affordable housing content would reduce the numbers of units needed too.

Conclusions and Recommendations

Based on the outputs of the viability modelling exercise, we conclude the following:

- For Site A (SW/91) we consider that an appropriate housing number range is 125-150 units, based on our assumptions used. Our view would be to promote development numbers toward the lower end of this range.
- For Site B (SW/96) we consider that an appropriate housing number range is 140 - 170 units based on a 35 dwellings per hectare allocation. If the density is increased to 40 units per hectare, then the range is 115 – 145 units, based on the assumptions used.

Above all, the strategic nature of this exercise must be recognised. Further certainty could be placed on these outputs, if more detailed and costed scheme proposals were prepared and analysed for assessment. It must also be recognised that changes to variables, such as the affordable housing content, house prices, construction costs and density would have a significant effect on the appraisal results. Nevertheless, the outputs generated provide a good guide to likely development needs to achieve the policy objectives.

It would also be expected that as part of the planning application process, the developer would submit an economic viability appraisal of the scheme to demonstrate the amount of housing needed to support a given mix of employment uses – this would particularly be the case where the number of units proposed is higher than expected. The viability appraisal would be prepared in light of more detailed drawings, information on mix, layout and other design issues together with associated costings. The developer would also be expected to provide information on their land acquisition costs for the site, given that this has a significant impact on the viability of the scheme.