

# **Memorandum of Understanding on viability related issues at Moreton Station/Redbridge**

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### Key areas of agreement

#### Policies H9 and H10

1. The combination of H4 (infrastructure requirements), H9, H10 and H11 as submitted for examination were of significant concern. The Council has proposed modifications to H9 and H10. The Council is proposing to
  - remove the requirement for 5% serviced self-build plots on allocated sites;
  - remove 10% single storey;
  - reduce the sheltered / age restricted housing units requirement to 10%, but
  - increase M4(2) to 20%.

H4 will also require a 65 unit extra care facility, instead of a 65 bed care home.

2. The Moreton Estate is supportive of these proposed modifications although note that the proposed policy changes have adversely affected residual land values at the Estate's site contrary to the objectives behind the policy change.
3. As volume housebuilders rarely develop specialist extra-care facilities, a notional allowance of £1M for the sale of land to a C2 extra care provider has been suggested by Moreton Estate for use within the viability appraisal. This figure is likely to be lower if Dorset Council is insistent that the proposed 65 extra care units are a C3 land use and attract an affordable housing contribution. However, in the absence of any other data the Dixon Searle Partnership (DSP) has adopted this figure in their latest appraisals including a 65 unit extra care facility.

#### Convenience store (H4)

4. As volume housebuilders rarely develop convenience stores, Tangent Surveyors on behalf of Moreton Estate has suggested that a notional allowance of £500k be included within the viability appraisal for the sale of land of a 350 square metre convenience store. DSP has adopted this figure in their latest appraisals including convenience retail provision.

#### Net developable land

5. Moreton Estate and DSP were in disagreement over the likely net developable area available at the site. Whilst this remains to be tested through the master planning process, DSP has updated their modelling to include the Tangent Surveyors (on behalf of Moreton Estate) figure for net developable area.

#### Build costs

6. There is broad agreement on the level of base build costs (housebuilding costs). However, views differ in some instances on the approach taken to using a specific BCIS category.
7. The cost of external works identified by Tangent Surveyors for the Moreton Estate is broadly in-line with the RICS allowance for site works and infrastructure costs of £23,000 per unit.

#### Assumed sales values

8. The developer assumptions for H4 have been revised, consistent with our meeting discussion.

### **Contingency and professional fees**

9. Dorset Council and DSP understood from the recent meetings that the Moreton Estate on the whole was able to accept the allowances originally used by DSP of 3% and 7% (for example in the context of envisaging how a scheme comes forward).
10. In the interests of further exploring viability using a higher proportion DSP has tested using a contingency at 5% and professional fees at 10%. This does not indicate agreement to set these as the appropriate rates.

### **Affordable housing profit**

11. Affordable housing profit levels is set at 6%

### **Infrastructure/Section 106 requirements**

12. The list of infrastructure/section 106 requirements as set out in DSP's EiP Viability Report is a best guess at this moment in time. These are likely to change as more detail is available at planning application stage, with any changes naturally affecting the viability of development.

### **Trajectories**

13. DSP latest sensitivity testing has been updated in line with the trajectories in the Memorandum of Understanding.

## **Areas of disagreement**

### **Benchmark land value**

14. The Moreton Estate raised concerns about the benchmark land value used by DSP and referred the Council and DSP to a recent Valuation Office Agency (VOA) decision on a site at Crossways which appeared to have a higher benchmark land value.
15. On further investigation DSP identified that the disparity was down to different approaches to benchmark land values. DSP use a 'blended' benchmark across the whole allocation site, whilst the DV applies different benchmarks for the different uses across the allocated site, with lower benchmarks being applied to other land-uses. DSP has re-calculated the DV range of benchmark land values to provide a blended one and has applied that to the latest appraisals, as the most recent local DV determined case. This is explained in more detail in the EiP stage viability report.
16. Moreton Estate does not agree with the blended approach adopted by DSP. Moreton Estate considers that individual land uses need individual valuations, as accepted by the DV.

### **Garages**

15. DSP did not include additional costs for garage provision assuming those costs to be recouped through the property values achieved. Moreton Estate considers that the sales values identified in the appraisal for 3 and 4 bedroomed properties will not be achieved without good quality garages. Moreton Estate's garage cost estimates are significantly higher than that of other developers: £12,000 against £7,000 for a single, and £25,000 for a double. DSP has included garage costs of £7,000 and £14,000 in their latest appraisals which the Estate disagrees with.

### **Profit margins**

17. DSP, in-line with the PPG, has tested 17.5% and 20% profit on market housing. Moreton Estate considers it unlikely that a volume housebuilder (and their funders) would be prepared

to develop a challenging site such as Moreton Station on the basis of a 17.5% profit level, and that the starting point for testing should be 20%.

### **Abnormals**

18. Moreton Estate has identified an additional cost for piling foundations on the made-up land in the quarry. DSP has included £2.4M for the purposes of testing.

### **Nitrogen neutrality**

19. DSP has included a figure of £300,000 in their viability appraisal towards ensuring that the development is nitrogen neutral. This figure is essentially the financial contribution that would be payable to the Council in lieu of an on-site solution. However, as part of discussions with Natural England concerning the impact of development on nearby Tadnoll Heath, the Estate has previously agreed to remove in perpetuity the maize crop on the Heathland Support Area, as this is a significant contributor to nitrogen. Understandably, the Estate is not willing to pay a financial contribution of £300,000 AND remove the maize crop as well (this would be double counting) so the Estate considers that a figure of £500,000 – which reflects the permanent loss of a maize crop on this site - should be used in the viability appraisal.
20. The Council considers that some income from the heathland support area may be achievable but this can only be determined once detailed management plan is produced.

### **Affordable housing percentage**

21. As confirmed by the updated DSP appraisal, Moreton Estate does not believe that it can meet the policy requirement of 40% in combination with the infrastructure requirements required by policies H4, H9, H10, EE3 and I1. Even 30% may be challenging should some of the assumptions underpinning the appraisal change between now and the point at which the site becomes available for development, including a fall in sales values, an increase in the cost of providing infrastructure or a rise in overall build costs.
22. The housing policies are flexible and there is likely to be capacity at planning application to negotiate around housing mix and tenure. It is also possible that Moreton Estate could become the registered provider for affordable housing on site. .