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## **Langarth Garden Village: Financial Viability**

Summary of Proof of evidence of Anthony Lee BSc (Hons), MSc  
(Econ) MA (TP) PhD MRTPI MRICS

21 December 2023

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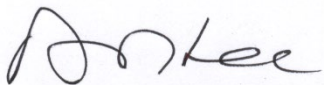
# 1 Qualifications and experience

- 1.1 I, Anthony David Lee BSc (Hons) MSc (Econ) MA (TP) PhD MRTPI MRICS confirm that:
- 1.2 I am a Senior Director and Head of UK Development Viability at BNP Paribas Real Estate, one of the UK's leading real estate consultancies with fifty regional offices in addition to its London offices.
- 1.3 I specialise in development viability focusing on its role in decision making on planning applications and for the purposes of testing emerging planning policies. I have advised a range of clients involved in development, including local planning authorities, developers, landowners and registered providers ('RPs') across England.
- 1.4 I have degrees in social policy and town planning, and a doctorate in housing policy.
- 1.5 I am a professional member of the Royal Institution of Chartered Surveyors ('RICS') and a professional member of the Royal Town Planning Institute. I am a RICS Registered Valuer. I specialise in the provision of appraisal and valuation advice in respect of residential and commercial development, with a particular focus on planning and viability.
- 1.6 I and my team are responsible for the delivery of appraisal and viability advice to local authorities, developers and landowners in connection with secured lending and viability assessments relating to Section 106 Agreements. I have advised over one hundred local authorities on Community Infrastructure Levy charging schedules and emerging Local Plan policies.
- 1.7 I was recently appointed as a single joint expert by Historic England, Tendring District Council and City & Country to advise on valuation matters relating to enabling development at St Osyth's Priory. I have provided expert valuation evidence at numerous planning inquiries and examinations in public including the Custom House Inquiry in 2022, the Bramshill Inquiry in December 2017; the Westferry Printworks Inquiry in August 2019; the Sandown Racecourse Inquiry in November 2020; and at the London Fire Brigade Headquarters call-in Inquiry in December 2020. I have also provided expert reports on secured lending valuations undertaken by other valuers, as well as expert determinations relating to valuation matters.

- 1.8 I was a member of the advisory panel drafting the Local Housing Delivery Group *'Viability Testing Local Plans: Advice for practitioners'* (June 2012). I was a member of the *'Developer Contributions Technical Expert Panel'* established by the (then) Ministry of Housing, Communities and Local Government to advise on the use of viability assessments in local plans and development management. This panel advised on the viability section of the 2019 Planning Practice Guidance. I am a member of the RICS Working Group responsible for drafting a third edition of the Guidance Note on *'Valuation of Land for Affordable Housing'*.

### **Declaration and Statement of Truth**

- 1.9 I confirm that I have made clear which facts and matters referred to in this proof of evidence are within my knowledge and which are not. Those that are within my knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 1.10 I confirm that I am not instructed under any conditional or success-based fee arrangement.
- 1.11 I confirm that my evidence complies with the requirements of RICS – Royal Institution of Chartered Surveyors, as set down in the RICS practice statement *'Surveyors acting as expert witnesses'*.



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## 2 Appraisal outputs and sensitivity testing

- 2.1 The appraisal methodology and the inputs to the appraisals are detailed in sections 5 and 6 of my proof of evidence. The cashflows are attached as Appendix 3 (Present Day appraisal) and Appendix 4 (Sensitivity analysis) in my proof of evidence.

### Base appraisal

- 2.2 The base appraisal (Appendix 3) is based on present day values and costs. In other words, it reflects current market conditions and assumes that these conditions do not vary over the 25 year development period. Although this is very conservative, it is helpful to understand the viability of the Proposed Development in today's terms.
- 2.3 The key inputs to the appraisal and the surplus generated are summarised in Table 7.3.1. The Proposed Development generates a surplus of circa £54 million, indicating that it is financially viable.

**Table 7.3.1: Base appraisal results**

Income	£ billion	Costs	£ billion	Surplus/ deficit (£ bn)
GDV	£1.27	Land cost	-£0.10	
		Plot costs and externals	-£0.69	
		Site infrastructure	-£0.11	
		Contingency	-£0.04	
		Fees	-£0.05	
		S106	-£0.04	
		Profit	-£0.20	
		Finance	-£0.02	
<b>Totals</b>	<b>£1.27</b>		<b>-£1.22</b>	<b>£0.05</b>

### Sensitivity analysis

- 2.4 In reality, it is likely that sales values and costs will change over the development period. To test the impact of changes to sales values and costs over the development period, I have undertaken a sensitivity analysis.
- 2.5 Firstly, there is likely to be a 'place making premium' as the development becomes more established and community and commercial facilities become operational. This will make the Development increasingly attractive to purchaser which will lead to potential value growth. Secondly, there will be the impact of general market

growth and inflation on costs.

2.6 I have varied key inputs as follows:

- private sales and first homes - growth rate of 2.5% per annum.
- Social Rented values – growth rate of 1% per annum.
- Shared ownership values – growth rate of 2.5% per annum.
- Land cost – inflation rate of 1% per annum.

2.7 I have also applied construction cost inflation of 2.5% per annum on baseline costs, infrastructure costs and Section 106 obligations.

2.8 The results are summarised in Table 7.8.1. The surplus increases from circa £54 million in the Base Appraisal to £222 million.

**Table 7.8.1: Sensitivity analysis**

Income	£ billion	Costs	£ billion	Surplus/ deficit (£ bn)
GDV	£1.78	Land cost	£0.11	
		Plot costs and externals	£0.87	
		Site infrastructure	£0.14	
		Contingency	£0.05	
		Fees	£0.06	
		S106	£0.05	
		Profit	£0.28	
		Finance	£0.01	
<b>Totals</b>	<b>£1.78</b>		<b>£1.56</b>	<b>£0.22</b>

2.9 The appraisal is structured to reflect the full affordable housing requirement of Policy 8. However, Policy 10 makes provision for varying the tenure mix and/or the quantum of affordable housing if viability on a development is challenged. Although my appraisals indicate that such changes will be unnecessary, I have tested the impact of a change in affordable housing to provide an indication of the impact this could have.

2.10 Varying the tenure mix of the affordable housing from 70% social rented and 30% shared ownership would increase the Present Day surplus from £54 million to £89 million, providing significant additional value should this be required to cover income shortfalls or cost overruns.

### 3 Summary and Conclusions

- 3.1 Inspectors considering CPOs are advised to consider the financial viability of the schemes which are to be brought forward on the sites that are to be subject to the orders.
- 3.2 The Site subject to the CPO benefits from planning permission (part outline and part detailed), the bulk of which will be residential units.
- 3.3 I have appraised the Proposed Development using a discounted cash flow appraisal model. This model comprises the GDV of the residential units and deducts the construction costs, external works costs, infrastructure costs, Section 106 costs, fees, disposal costs, finance costs, land costs and developer's profit. An output of zero or more indicates that the Proposed Development is financially viable, as the returns to landowners and the Developer are all incorporated into the model as development costs.
- 3.4 On a present day basis, reflecting today's sales values and construction costs, the appraisal generates a surplus of circa £54 million, indicating that the Proposed Development is financially viable.
- 3.5 I have also tested the viability of the Proposed Development incorporating growth in values (2.5% per annum on private residential and shared ownership housing and 1% on social rented housing) and increases in costs (2% per annum on construction, infrastructure and Section 106 obligations, and 1% per annum on land costs). This appraisal generates an increased surplus of £222 million.
- 3.6 Notwithstanding both the present day and growth appraisals demonstrating that the Proposed Development is viable, Local Plan Policy 10 provides flexibility for affordable housing tenure and quantum to be varied if viability issues emerge. As an example of the impact this could have, a change in tenure from 70% social rent and 30% shared ownership to 50% social rented and 50% shared ownership increases the present day surplus from £54 million to £89 million.
- 3.7 My appraisals demonstrate that the Proposed Development is clearly financially viable. I have seen the estimated costs of the land interests that are acquired by CPO and am satisfied that the Council will be able to meet all its statutory compensation liabilities.