The Wheat Quarter
Viability Executive Summary

Planning Application 6/2018/0171/MAJ

Iceni Projects Limited on behalf of
The Wheat Quarter Ltd and
Metropolitan Housing Trust

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1. EXECUTIVE SUMMARY

Purpose

1.1 This is an executive summary of the Viability Report submitted Iceni Projects were instructed by The Wheat Quarter Ltd and Metropolitan Housing Trust (MHT) who are the applicants for the development of the Wheat Quarter, Welwyn Garden City.

1.2 The Site is spilt between the area North of Hydeway and the area South of Hydeway. In this report they are referenced as the North Site, which contains Blocks 1 to 7 and the South Site which includes Blocks 8 to 13.

Site

1.3 The Site, lying to the east of the town centre is approximately 8.7 hectares (21.5 acres), dissected by Hydeway. It is in the process of being cleared and stabilised in anticipation of development taking place. The site is not publicly accessible prior to demolition, nor was the site publicly accessible as an industrial site.

1.4 The site contains a number of listed buildings, which will be retained. These buildings formed part of the production hall, grain house, grain silos and boiler house complex for the factory. The listed buildings will be refurbished and repurposed to form employment space, community facilities, art and display spaces which will become a focus of a food and beverage offer as well a destination for people. This heart of the scheme will contain the local shopping, public services, such as doctors surgeries, child care facilities and health and well being facilities for the new quarter.

1.5 The scheme is creating a new residential quarter that will reflect the qualities of Welwyn Garden City with an appropriate quality that will enhance the city centre with high quality public realm and public art, that are centred around the listed buildings.

1.6 Details of the proposals as set out in the planning application, 6/2018/0171/MAJOR. The appraised scheme includes the following:

North Site

- 811 residential dwellings including 114 extra care homes (Use Class C2), comprised of 466 - 1 Bed units,
  314 - 2 Bed units,
  31 – 3 Bed units.
- 494 sq m of health (Use Class D1),
- 494 sq m of community use (Use Class D1),
- 1,232 sq m of office (Use Class B1) and
- 646 sq. m of retail (Class A1/A2/A3/A4/A5);
- 5,096 sq m of flexible business floorspace (Use Class B1),
- 265 sq m Combined Heat and Power (Sui Generis),
- 2,494 sq m International Art Centre (Use Class D1),
- 1,226 sq m Gymnasium (Use Class D2),
- 1,576 sq m of restaurant/coffee shop/bar (Use Class A1/A3/A4/A5),
- 644 sq m Creche/Day Nursery
- 36 sq m Network Rail TOC Building

South Site

- 643 residential Units, including 229 Market for Sale Units, 258 Shared Ownership Units, 106 Affordable rent Units and 50 Social rent Units, comprised of

  239 - 1 Bed units
  340 - 2 Bed Units
  64 - 3 Bed Units

1.7 Full details, including plans, elevations and areas are set out in the planning application and Viability Report.

1.8 In the context of assessing the impact of policy and development while a Benchmark Land Value can be attributed to the site based on the potential uses, in its current physical state, its value is essentially determined as a cleared development site with planning consent. For the purposes of the appraisal, an assumed minimum sum of £2,000,000 has been utilised, while not representative of the Benchmark Land Value, to assist assessment of viability.

1.9 In assessing whether the proposed development meets the needs of development in this location from a viability perspective, regard has been had to the development proposal previously considered for the site, including the consented scheme for 850 residential units.

1.10 Planning Policy, as set out in the planning statement accompanying the planning application (6/2018/0171/MAJOR), has been considered in assessing the development parameters.

1.11 The scheme has 63.69% Market Housing, 7.84% Extra Care Living, and 28.47% Affordable as follows:

Tenure	Number of units	%
Market	697	63.69%
Extra Care	114	7.84%
Shared Ownership	258	17.74%
Affordable Rent	106	7.29%
Social Rent	50	3.44%
Total	**1,454**	**100.00%**

1.12 Metropolitan Housing Trust, the Registered Housing provider for the scheme, is a joint applicant to the scheme and has determined that the design, mix of tenure and unit type is suitable to support the objectives set out for their objectives of meeting housing need.

1.13 The core of the site will include a public square with extensive landscaping which recognises and responds to the landscape and public realm heritage of Welwyn Garden City and the setting for the Listed Buildings.

1.14 Significant Public Art has been designed as part of the scheme to generate points of interest and attract a new cohort of occupiers to Welwyn Garden City. It is envisaged the scheme design and quality will 'place make' for the eastern side of the town centre.

1.15 Apart from the heritage, landscape and proposed building the site has a number of abnormal and additional issues that inform the Viability.

1.16 The site has identified contamination issues. Reports carried out by Earth and Marine Environmental Consultant and Entran have informed the cost plan however final costs can only be determined as part of the construction process when ground is disturbed and tested.

1.17 While the site is in the process of being cleared, ground stability is not known at this time and may impact on individual structures.

1.18 In total the Cast Cost consultants for the scheme identifies £22.97 million of abnormals for the North Site and £4.15 million of abnormals for the South Site, a total of £27.12 million.

2. DEVELOPMENT VALUE

Comparable Sales Values

2.1 The Cost Plan assumes the display and public space will be fully fitted out for occupation. A rent of £5.00 psf has been budgeted for in relation to the gallery and display space which is capitalised at a rent of 6.5%. It is understood that an endowment will be put in place for the future maintenance of the buildings.

Commercial Elements

2.2 The assumptions used in the viability report Are based on assumptions these include:

Retail

2.3 Retail Space which will cover A1 to A5 uses within and is in Blocks 1, 2 and 5 and accounts for 2,262 sq m GIA and 1,918 sq m NIA. The location is off pitch for comparison good shopping, with the main comparison shopping being at the Howard Centre. Easy Access to the Howard Centre shops via the refurbished pedestrian rail bridge, with enhanced lift access, will assist in the vitality and viability of the shopping centre with a local convenience, food and beverage offer within the scheme acting as a supporting environment to the town centre offer. The consequences are the retail rents are discounted to the prime Howard Centre rents to the west of the railway.

2.4 Based on comparable evidence for retail rents a rental income of 456,000 per annum has been allowed for. On a yield of 6.00% this generates an investment value of £7.31 million.

Offices

2.5 Office Space (B1) within blocks 1 and 4 of the scheme and accounts for 4,328 sq m GIA and 3,627 sq m NIA. Based on comparable evidence the space generates a gross income of £683,000per annum, from a yield of between 6% and 6.5% this generates an investment value of £10.65 million.

Leisure/Entertainment

2.6 Gym Space is block 4 and accounts for 1,501 sq m GIA and 1,257 sq m NIA; addition Leisure/Entertainment space is located in Block 5 which relates to performance/gallery space and accounts for 1,475 sq m GIA and 1,253 sq m NIA.

2.7 Comparable evidence in relation to leisure rents and yields generates a rent of £169,129 per annum.

2.8 The Leisure Entertainment Space is assumed to generate income of £67,477 per annum.

2.9 The Gym and entertainment/Leisure space have been capitalised of a yield of £6.5% generating a gross capital Value of £3.64 million.

Creche

2.10 Creche Space is located in Block 4 and accounts for 606 sq m GIA and 507 sq m NIA.

2.11 Comparable evidence generates a gross income of £102,000 per annum. Based on a yield of 7.00% the income generates a gross capital value of £1.37 million.

Community, Health

2.12 Community Space and Healthcare space is located in Blocks 1 and 5 and accounts for 1,179 sq m GIA and 996 sq m NIA of the space. The rent allowed for is £53.282 per sq m (£5.00 per sq ft) accounting for an income of £53,590 per annum.

2.13 There is little comparable evidence to assess rents for community and health facilities. The available space generates a gross income of £683,000, which based on a yield of between 6 and 6.5%, generates an investment value of £10,649,000.

Car Parking

2.14 The scheme allows for 1,127 car parking spaces. c10% of these, 114 spaces, are assumed to be disabled bays. It is assumed that the disabled bays are non-chargeable and therefore do not generate a capital value. The capital contribution of 948 residential spaces, 35 public spaces and 30 Commercial spaces is £3.05 million.

Summary Commercial

2.15 In summary the Commercial elements in aggregate contribute the following:

Use Type	Capital Contribution
Retail	£7.31 million
Offices	£10.65 million
Leisure	£3.64 million

Creche	£1.37 million
Community	£0.82 million
Car Parking	£3.05 million
TOTAL	£26.84 million

Market Housing

North Site

2.16 The Market Housing on the North Site also includes 114 contains Extra Care Living units in Blocks 3 and 3b, which offer additional support services to age restricted occupiers. These Extra Care living units command a premium to market pricing of 10%.

2.17 The unit type split of the 811 units in the North Site is therefore as follows:

Table 2.1 Tenure and average Pricing North Site

	Extra Care		Market For Sale	
Unit Type	Number of Units	Average Prices	Number of Units	Average Prices
1 Bed	52	£328,187	414	£314,698
2 Bed	62	£410,121	252	£378,039
3 Bed	0		31	£478,611
Totals	114		697	

2.18 Based on the above averages the GDV of the Market and Extra Care Units on the North Site is £297,953,000

South Site

2.19 Blocks 8 and 13 are Market for Sale Housing and are delivered alongside the Affordable Tenures.

2.20 The Market for sale units for the Southern site are as follows:

	Number of Units	Market For Sale
1 Bed	88	£341,909
2 Bed	137	£390,532
3 Bed	4	£489,131

2.21 Based on the above averages the GDV of the Southern Site Market Housing is £53,547,000.

Summary of Market For Sale

2.22 The Gross Development Value of the Market for sale units is therefore £359,744,000

Affordable Units

2.23 The southern site contains the affordable housing provision and north site contains the commercial elements. MHT have determined that the affordable units will be valued as follows:

Table 2.2 Affordable Housing % Market Value

Tenure	% of Market Pricing
Shared Ownership	80%
Affordable Rent	50%
Social Rent	40%

2.24 These discounts have been applied to the market pricing for each unit, with the result being that the average prices by tenure on the South Site are as follows:

Table 2.3 South Site Affordable Unit Pricing by Type and Tenure

Unit Type	Shared Ownership	Affordable Rent	Social rent
	£	£	£
1 Bed	290,755	175,161	141,214
2 Bed	334,382	184,979	150,962
3 Bed	391,005	224,666	186,317

2.25 In summary the affordable housing is anticipated as contributing £112.24 million to the Gross Development Value of as follows:

Table 2.4 Affordable Housing GDV

Affordable Tenure	Gross Development Value
Intermediate Ownership	£83.22 million
Affordable Rent	£20.17 million
Social rent	£8.86 million
Total Affordable Housing GDV	**£112.24 million**

Residential Gross Development Value Summary

2.26 The Housing contributes the following to the scheme:

Table 2.5 Housing Gross Development Value

Tenure	Gross Development Value
Market Housing	£317.25 million
Extra Living Care	£42.49 million
Affordable Housing	£112.24 million
Total Housing GDV	£471.99 million

3. DEVELOPMENT COSTS

3.1 Construction Costs have been determined by Cast Consultancy which are reflected in the Viability Appraisal. The Cost Report identifies the following:

	North Site	South Site	Total
	£	£	£
Demolition and Soft Strip	3,857,280		3,857,280
Commercial Buildings	32,817,000		32,817,000
Residential Buildings	155,142,860	131,818,000	286,960,860
Land Scaping and External Works	18,950,000	14,285,000	33,235,000
Infrastructure	9,789,000	2,751,000	12,540,000
Site Abnormals	22,966,000	4,154,000	27,120,000
	243,522,140	153,008,000	396,530,140

3.2 The Cost plan allows for £12.5 million infrastructure cost with high quality external realm including roads of £33.24 million.

3.3 Blocks 4 and 5 are the listed buildings which together are 110,541 sq ft. The refurbishment of these elements is costed at £18.2 million and £8 million respectively, accounting for 80% of the commercial construction costs while representing 76% of commercial space but only 61% of the capital value, a total of £16.4 m of income.

In total the Cost plan cost in relation to the North Site and the South site totals £396,530,140 for both the North and South Sites.

Planning Obligations

3.4 Negotiations are taking place with between the Applicant and the Local Planning Authority. The Appraisal as presented includes an indicative allowance of £13.23 million.

Developers Other Costs

3.5 Iceni have included Construction Warranty Premium at 1.00% of the Construction Costs as part of the Developers contingency to cover Building warranties, professional fees and non-construction activities.

Design and Professional Fees

3.6 Iceni have allowed for 10% of Construction Costs for Professional Fees.

Marketing and Letting Fees

3.7 A marketing cost of 1.00% of sales values has been allowed for marketing the scheme an Allowance of 2.00% of Gross Development Value to cover agency and legal costs has been allowed for both the residential and commercial elements. This is compared the more usual 4% of sales values for agency, legal, marketing and to enable promotion of the scheme

Development programme

3.8 The programme of development is targeting delivery of the residential unit sales at a rate of 200-250 units per annum.

3.9 In order to achieve the higher sales rate a significant marketing campaign is envisaged that will publicise the quality of the proposed scheme at a regional and national level. It is envisaged this will attract new occupiers to Welwyn Garden City.

Borrowing and Funding Rates

3.10 An overall funding rate which is assumed inclusive of fees, of 6.5% has been allowed for, which is a competitive rate for project of this scale. It should be noted that Brexit uncertainty may result in increased interest rates as a result of a weakening UK Pound which in turn will increase borrowing costs.

Developers Return

3.11 Different elements of the scheme will attract different anticipated target levels of returns from different developers at different points in the market cycle. The table below sets out the target returns that would be anticipated for the

3.12 Based on a weighted average return by area by use for the proposed scheme a developer taking on the project risk would seek an aggregate return of 15.16% return on Gross Development Value (GDV) or 18.95% return on Gross Development Costs (GDC) is an appropriate return for a scheme of this scale.

3.13 This would generate a target return of £88.55 million and would imply a GDV of £584 million and a GDC of £467 million. The Scheme GDV is £498.8 million and the Scheme GDC is £521.6 million.

3.14 The scheme lower scheme GDV is a consequence of a number of factors:

- The significant level of affordable housing across multiple tenures
- Additional Costs of saving Iconic listed buildings which generate low revenue.

3.15 The GDV of the scheme (£498.8 million) would be £46.6 million higher if the scheme were purely Market Housing, which would have a GDV of £545.4 million.

3.16 With identified Abnormal Costs of £27.12 million related to the creation of this new residential quarter, and preservation of part of the historic fabric of the Shredded Wheat Factory, with the associated reduced income related to community and leisure uses the scheme generates a viability gap.

3.17 It should be note that a policy compliant scheme (i.e. with 30% affordable split 51% Social Rented and 49% Intermediate and Affordable rent) would reduce the GDV by a further £16m, further undermining viability.

3.18 The Viability Report and accompanying appraisals demonstrates that the Scheme based on the assumptions set out generates a negative return. And in that context cannot support an increased burden of policy compliant affordable housing represented by 30% Affordable, with 51% Social rented and 49% affordable in alternative ownerships.