



Southend Airport Joint Area Action Plan – Viability Statement

Prepared on behalf of

Rochford District Council & Southend Borough Council

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About DTZ

DTZ is a global leader in property services offering industry leading, end-to-end property solutions to occupiers, developers, property owners and investors around the world. With beginnings in 1784, DTZ's strength, stability and tenacity continue to sustain our growth. Serving many of the world's greatest companies today, DTZ's 47,000 people in 208 offices in 52 countries offer seamlessly integrated operations throughout Europe, the Middle East, Africa, Asia Pacific and the Americas. In the United Kingdom, we provide occupiers, developers and investors on a local, regional and international scale with industry leading property solutions.

1 Introduction

1.1 PURPOSE

- 1.1.1 This statement outlines the likely viability impact of the policies contained within the Southend Airport Joint Area Action Plan (JAAP). This is to help inform whether, taken together, the JAAP policies are likely to be materially onerous to future development within the JAAP area. In doing so, the statement details advice that DTZ has provided to Southend Borough Council (SBC) on the Southend Airport Business Park site (formerly the Saxon Business Park site), and then provides a view on the likely viability impact of the JAAP policies on the other sites within the JAAP area.

1.2 BACKGROUND

- 1.2.1 The JAAP area covers a number of potential development sites, including the Southend Airport Business Park site, Aviation Way Industrial Estate, Nestuda Way Business Park, and London Southend Airport. This statement covers all the sites within the JAAP area, but initially focuses on the Southend Airport Business Park / MedTech campus site, where specific viability work has been undertaken and which is anticipated to create up to 4,950 jobs. This site is primarily green-field, owned by Southend Borough Council and situated immediately to the west of Southend Airport in the district of Rochford.
- 1.2.2 In early 2013, DTZ was commissioned by SBC to undertake high level viability testing of an initial masterplan for the Southend Airport Business Park site. This identified a knowledge gap surrounding infrastructure costs and scope to value engineering the scheme. Following this, SBC commissioned Atkins to develop a new masterplan for the site and to investigate the resulting on-and off-site infrastructure costs, and DTZ to re-assess viability in an iterative process with developing the new masterplan. This resulting preferred masterplan option strongly informed the JAAP policies for the site in terms of the development areas, their use classes and the most appropriate phasing to minimise upfront costs.

1.3 DTZ'S EXPERIENCE

- 1.3.1 DTZ's development team advises land owners, developers and public authorities on property development across the whole development cycle from definition to delivery. We work on projects of different sizes, from complex urban regeneration schemes, through master plans to individual sites. We offer integrated development, planning, viability and economic skills. As a result, we provide independent, analytical advice on proposed development schemes and help our clients to identify market drivers, assess financial viability and economic impact and take into account future occupier requirements.

1.4 STATEMENT STRUCTURE

- 1.4.1 The remainder of this statement focuses on firstly summarising the work undertaken to determine the viability of the Airport Business Park site, followed by an analysis of the requirements imposed by the JAAP that could affect the viability of the other JAAP sites.

2 Indicative Viability of the Airport Business Park

2.1 INTRODUCTION

- 2.1.1 As stated above, DTZ has undertaken high level viability analysis of the Airport Business Park site through an iterative process in developing a preferred masterplan option. This then informed the JAAP policies to ensure the planning requirements provided the greatest chance of viability – most notably on phasing, development zones, the JAAP boundary and the relocation rugby club. This section sets out the results of this analysis.
- 2.1.2 Before discussing the viability further, it is important to remember that the work was undertaken in early-mid 2013, when the speed and strength of the UK economic recovery was still uncertain. Investor and developer activity is now increasing, though this is still carefully targeted to locations and projects with strong sponsorship, lower risk and a simplified route to delivery. While the analysis has taken a long term view of occupier requirements and costs, it should be noted that a growing UK economy will likely help viability by decreasing the investment risk, and increasing the speed and scale of occupation.

2.2 APPROACH TO VIABILITY

- 2.2.1 The viability testing has used a bespoke residual land value based Excel viability model. This makes assumptions on estimated receipts and the capital cost of providing infrastructure, services, enabling work, and constructing buildings. It assumes a fixed developer profit (as a percentage of cost), and phases inputs to incorporate the cost of finance. The output is the amount that the specific development scheme could afford to pay for the land. The model has assessed each phase individually and has assumed that the land for each phase would be purchased as required at the start of each phase (i.e. that each phase is standalone).
- 2.2.2 The financial modelling generates residual values for each development phase. An assessment is then required as to what value is required to ensure that the landowner brings this land forward for development. In making a judgement on this, we note the definition of financial viability in the RICS 'Financial Viability in Planning' guidance. We have included an appropriate developer financial return and taken account of planning obligations through the provision of off-site infrastructure to offset development impact. The interpretation of viability therefore comes down to determining an appropriate Site Value for the landowner.
- 2.2.3 The guidance states that this should equate to market value, such that this has regard to development plan policies and all other material planning considerations. In practice it may be quite hard to define what this is, due to a lack of transactions in current market conditions for strategic land. Where development occurs on greenfield land (as this site is), then it is relevant to assess viability by reference to agricultural land values. The VOA Property Market Report 2011 provides such values which are fairly consistent across the South East and generally do not exceed c. £20,000 per hectare. This is a relevant benchmark, though landowner expectation will typically be significantly higher.

2.3 MODELLING ASSUMPTIONS

2.3.1 In modelling the preferred masterplan option, a series of high level assumptions have been made. In interpreting the results of this, it should be realised that there is a degree of risk and uncertainty in attempting to predict future events and there remain many uncertainties. Consequently, the modelling results are intended to be indicative and to provide a high level view on the likely viability of the scheme envisaged for the site at this stage of planning. The results do not provide a guarantee of viability and are not definitive.

2.4 FLOORSPACE AND PHASING

2.4.1 The floorspace assumptions are set out in Figure 1 below, which have been compiled through the Masterplanning process and from information from SBC and from the 'Anglia Ruskin Medtech Campus Working Paper: Demand for Campus Developments' research (DTZ, April 2012). Phasing has been structured to minimise upfront infrastructure costs for the envisaged masterplan and to meet likely floorspace take-up levels.

Figure 1: Development Schedule

Use	Floorspace (Gross Internal)
Innovation Hub	4,900 sq m
MedTech offices	13,200 sq m
Business offices	31,200 sq m
Other B1 and ancillary B2	30,000 sq m
Total	79,300 sq m

2.4.2 The above development schedule covers Areas 1B and 2 in the JAAP but excludes Area 1A, which was not covered in the Masterplanning and viability exercise. This area could add an additional 20,000 sq m of floorspace. These totals together with 10,000 sq m at Nestuda Way Business Park and redevelopment at Aviation Way Industrial Estate equate to the 109,000 sq m of floorspace stated in the JAAP.

2.5 INCOME

2.5.1 Establishing likely rents and yields for a development that seeks to serve a specialist regional and national market, rather than the existing Southend office market, is difficult. The rental figures we have used are based on quality business park comparables in the region (using information in the Anglia Ruskin Medtech Campus paper), plus a £2 per sq ft premium to reflect the specialist MedTech accommodation provided and the destination brand that the campus seeks to establish. DTZ is currently undertaking further work for Southend Borough Council to test demand and identify and approach occupiers for the business park.

2.5.2 As set out in Figure 2, a yield of 7.0% has been applied to the MedTech uses and innovation centre, due to their industry-specific nature. A slightly higher yield of 7.5% has been applied for the general business uses to reflect the increased competition from other suitable premises that these units are likely to experience. Information on likely plot values has also been sourced from SBC. The yields used are lower than typically seen in the current Southend market, as we assume that the quality of the site has the ability to create its own market, competing with other business and science parks across the region. We have assumed a gross: net ratio of 85%, a void period of 6 months for the MedTech floorspace and 12 months for the business floorspace.

Figure 2: Revenue Assumptions

Use	Annual Rent (per sq m)	Yield
Innovation Hub	£215	7.0%
MedTech offices	£215	7.0%
Business offices	£183	7.5%

2.6 COSTS

2.6.1 The base build costs used in the modelling are set out in Figure 3 below. These are the BCIS Quarter 1 2013 new build tender price index figures, adjusted to Southend. They are based on a mean price per sq m of gross area and include £70 per sq m for car parking. Contingency costs have been included in the modelling – as 5% on top of the base build costs.

Figure 3: Base Build Costs

Development Type	Base Build Costs (£ per sq m)
Innovation Hub	£1,770
MedTech offices	£1,270
Business offices	£1,270

2.6.2 An allowance for external works (e.g. landscaping and parking) has been included within the infrastructure costs. Each item of required on-and off-site infrastructure has been considered as part of the costing exercise by Atkins and included in addition to the above costs. This includes relocating the rugby club. As each item affecting the development has been assessed, no allowance has been included for s106. We have used finance and performance assumptions, as set out below. We have not applied revenue or cost inflation, as the uncertainty of these predictions is only likely to cloud the underlying issues.

Figure 4: Finance and Performance Assumptions

Category		Assumption
Developer return (% profit on cost)		20%
Fees (including statutory & professional) - % of build costs		10%
Purchaser's Costs		5.8% of land value
Commercial Sales costs	Marketing	1.5% of capital value
	Agent	1.0% of capital value
	Legal	0.5% of capital value
Commercial Lettings costs	Agent & Marketing	10% of annual rent
	Legal	5% of annual rent
Finance rate on '-ve' balances (assume 100% debt funded)		6.5%

2.7 RESULTS

- 2.7.1 The viability modelling on the preferred option produces a gross development value of over £110m and a cumulative residual land value across all phases of c. £4.75m. This is significantly greater than existing use value of around £420,000 for the whole site. However, this is dependent on the exact phasing of land payments, as each phase has been treated individually and the initial phase does not produce a positive value (due to the upfront infrastructure costs). The results are not intended to give a firm view on whether a scheme is viable, but more a high level indication of whether or not it could be. Continual review of viability is therefore needed as the scheme progresses to further value engineer the phasing and timing of land payments.
- 2.7.2 The iterative nature of the masterplanning and viability testing process should feed into the JAAP policies, so that they are likely to reflect the best chance of site viability, rather than restricting or impeding it. The masterplan reflects the best phasing to minimise upfront infrastructure costs, which was predicated on the requirements of a likely future scheme. The JAAP requirements for providing public open space, internal roads, re-locating the rugby club, network upgrades and a new junction on Cherry Orchard Way reflect the masterplan, viability and infrastructure analysis. The JAAP policy to include supporting and ancillary uses to the business park also allows some flexibility to create a 'working destination' and would likely add to the viability.
- 2.7.3 The phasing of development is important in ensuring a viable scheme. The JAAP policies should be informed by the Masterplanning work to help determine the optimal phasing that minimises upfront infrastructure costs, along with requirements in relation to the rugby club. However, development phasing will ultimately be driven by a balance of infrastructure need, de-risking and occupier demand – which will all be determined by the exact make-up of the scheme. The phasing requirements and policies in the JAAP therefore need to be applied with sufficient flexibility to allow for this.
- 2.7.4 Other JAAP requirements (e.g. public transport, sustainability) represent development obligations that would typically be required for any comparable new development, so are unlikely to impose any additional burden compared to developments outside the JAAP area. One JAAP requirement that is likely to adversely affect viability is the 'no right turn' junction onto Cherry Orchard Way. Restricting quick and easy access to the strategic road network to the north in this way is likely to reduce the attractiveness of the site to certain occupiers and their staff, while adding no discernible economic or viability benefit to the site. It is also likely to unnecessarily increase pressure on the Rochford Business Park roundabout to the south by forcing all site traffic around it.

3 Indicative Viability of Remaining JAAP sites

3.1 INTRODUCTION

- 3.1.1 This section sets out an analysis of the requirements in the JAAP that could affect the viability of other sites within the area. These include Aviation Way Industrial Estate, Nestuda Way Business Park, Northern MRO, Southern MRO, and the various other developments at London Southend Airport.
- 3.1.2 The JAAP policies that are likely to have a material bearing on viability are:
- LS2: Development at London Southend Airport - the need to contribute to transport infrastructure and sustainable transport measures
 - MRO1, MRO2 & T1: Northern MRO and Extension, and Access – the need to provide a financial contribution to upgrade the Aviation Way junction and improvements to Aviation Way, and to contribute to new public open space
 - T4 & T5: Public Transport and Walking & Cycling – the need to contribute to quality bus services and its infrastructure, and to cycling infrastructure and facilities
 - T7: Network Capacity Infrastructure – the need to contribute to measures to improve affected junctions and their capacity at peak times
 - ENV7: Environmental Sustainability – the need for new developments to be BREEAM excellent
- 3.1.3 In the absence of viability analysis of schemes on each of these sites, the best way to demonstrate the likely impact of these policies is to compare the JAAP requirements with s106 conditions agreed and for recently implemented developments outside the JAAP area (in both Rochford and Southend). Schemes implemented over the last few years (and therefore viable during an economic recession) with similar s106 requirements to those in the JAAP would demonstrate that the JAAP policies are no more onerous than could be expected through s106 negotiations outside the JAAP area.

3.2 REQUIREMENTS FOR NON-JAAP SCHEMES

- 3.2.1 A selection of relevant s106 requirements for schemes in the local area over the last 5 years is set out below (using data from Rochford District Council and SBC).
- 3.2.2 Schemes in Rochford:
- Development of 21 houses (10/00436/FUL) – s106 included affordable housing, highways contribution on bus stops and shelter, and an £83,000 education contribution
 - Development of 176 houses (12/00381/FUL) – s106 included affordable housing, widening of road, mini roundabout, and public open space maintenance
 - Development of 600 residential units (10/00234/OUT) – s106 included £5.8m for education, £150,000 for road junction improvements, £330,000 for bus service improvements, a new roundabout and junction improvements, and £75,000 for other road improvements
 - Development of new air terminal and rail station at Southend Airport. All associated infrastructure included within the works, including parking, air quality, noise, night flight restrictions, transport plan and public transport provision.

- 3.2.3 Schemes in Southend (data includes financial contributions only):
- Development of vocational training college (07/01672/FULM) – s106 included £100,000 cycleway contribution, £67,000 for highways and £20,000 for public transport
 - Development of 216 flats and 64 bed hotel and retail / restaurant (13/00869/EXTM) – s106 included affordable housing, £125,000 for controlled parking zone, £196,000 education contribution, and £112,000 contribution to highways works
 - Extension of building to develop 98 flats (10/02012/EXTM) – s106 included affordable housing, £25,000 for bus infrastructure, £22,000 for education, and £33,000 public square contribution.
 - Redevelop part of college building for 119 flats (12/00825/EXTM) – s106 included affordable housing, transport contribution of £80,000, £44,000 for education, and £10,000 for a controlled parking zone.
- 3.2.4 The Southend examples above omit infrastructure items provided by the developer. These are likely to be those relating directly to the scheme i.e. access, utility and public space improvements. The requirements agreed for the development of the new air terminal are the same as those required in the JAAP – highlighting that these have occurred anyway without it.
- 3.2.5 The above examples show the s106 requirements and amounts agreed for developments outside the JAAP area as part of existing local planning policy. These are in line with those required in the JAAP i.e. improving highways and junctions, contributing to public space and providing sustainable transport provision. The main purpose of both the s106 agreements and the JAAP policies is to ensure site functionality (e.g. adequate access and infrastructure) and mitigate direct development impacts. The majority of these would be required anyway to ensure a development of any scale was successful and attractive to occupiers.
- 3.2.6 It is also worth noting that the above s106 agreements have all be agreed during an economic recession when house price and business park rental inflation has been restricted, and when viability has been seriously challenged on many developments. Given this, and the similarity between the JAAP policies and what planning policy (through s106 agreements) in both Rochford and Southend requires anyway, the JAAP requirements are unlikely to materially affect the viability of developments in the area.

4 Infrastructure Funding

- 4.1.1 It is useful to state here that Southend Borough Council and Rochford District Council are actively seeking funding through the Strategic Economic Plan (SEP) of the South East Local Enterprise Partnership (SELEP). The SEP forms the basis of the Local Growth Fund bid to Government and the subsequent “deal” which SELEP will negotiate.¹
- 4.1.2 The SELEP has identified twelve transport “growth corridors” in the Strategic Economic Plan. The TGSE Area has two corridors comprising the A13 and A127. The A127 corridor section of the SEP includes the investment in transport “ask” for the JAAP area. SEP Table 4.35 includes the following transport investment proposals supporting development within the JAAP area and other background growth:
- Local JAAP transport schemes investment and sustainable transport - £20.68m
 - A127 Corridor improvements in TGSE area (Southend and Essex) - £42.00m.
- 4.1.3 Non transport “asks” are included in SEP Table 4.36 comprising:
- Medtech Campus Innovation Centre and Business Support
 - Stobart “Studio School”
 - Business Park enabling works
 - Total ask - £8.75m
- 4.1.4 This statement has assessed viability without assuming any funding from the above sources. However, it should be noted that any such funding would improve viability by providing key upfront infrastructure provision to development areas and, in so doing, de-risking early development phases.

¹ <http://www.southeastlep.com/about-us/activities/262-developing-a-growth-strategy-and-prioritising-investment-in-the-south-east>

5 Conclusions on JAAP viability

- 5.1.1 The above analysis indicates that the current JAAP policies for the Airport Business Park site (including phasing, development zones, and infrastructure requirements) represent the best prospects for achieving site viability, as these are based on an iterative masterplanning and viability process that has sought to value engineer the site. The viability of this site will however need to be continually assessed along with the phasing of land payments as the scheme is developed further. One JAAP requirement that is likely to adversely affect viability is the 'no right turn' junction onto Cherry Orchard Way, as the cost of this does not result in any discernable benefit for future occupiers.
- 5.1.2 For the other identified sites within the JAAP area, there is close similarity between the JAAP policy requirements and what planning policy in both Rochford and Southend has recently required anyway through s106 agreements. For this reason, the JAAP requirements are unlikely to materially affect the viability of developments in the area compared with existing policy.
- 5.1.3 Overall therefore, based on the above analysis and subject to the comments regarding appropriate development phasing flexibility and the 'no right turn' junction onto Cherry Orchard Way, the Joint Area Action Plan and its policies are unlikely to materially impact the viability of development in the JAAP area.