

West of Bewbush

Examination in Public (EiP)

Further Clarification : Economic Viability

Infrastructure Savings, Economic Scenario & Build Rate

Introduction

1. This note has been prepared by Crest Nicholson Developments (CND), Crawley Borough Council and Horsham District Council (CBC/ HDC) to provide the Inspector with further clarity regarding the Economic Viability Appraisal (January 2009) submitted as part of the Examination into the West of Bewbush Joint Area Action Plan (JAAP).
2. At the Hearing Session of 28th January 2009 under Issue 6 CND / CBC / HDC advised the Inspector Mr David Vickery that in terms of completions the high and medium economic scenarios would see the scheme completed by 2018 (or by 2019 within acceptable PPS3 paragraph 64 parameters), should, either of these scenarios pertain over the duration of the JAAP.
3. Whilst the JAAP provides sufficient flexibility to respond to lower economic circumstances, economic forecasts need to be made using the market evidence available. It is notable in this regard that no body has forecast that a recovery would not take place until beyond 2018. Indeed most commentators predict a steady recovery from 2010/11, the anticipated start timing for this development. If there is any concern that market conditions might deteriorate beyond the evidence based parameters used in the viability appraisal, then it would be overly pessimistic to assume that those conditions would pertain throughout the JAAP plan period. A more likely outcome would be a combination of improving market conditions, leading in our estimation (in a medium scenario) to the completion of 85% of the development by 2018 (including affordable housing).
4. In adverse economic conditions and in accordance with the flexibilities available within the emerging JAAP, a number of infrastructure cost savings might be made including the non delivery of a railway station (£9m) and lower standards of sustainable construction within national minimum requirements (£9m). CND also considers that in these circumstances there is a strong chance that the money set aside for a Network Rail ransom (£5m) would not be needed. In these circumstances the Viability Appraisal would benefit from a saving of around £23m.
5. It is though important to highlight that the market evidence presently does not suggest a low economic scenario.

Confidence in the prediction of a Medium Scenario

6. This note is intended to reinforce the commentary of the Viability Appraisal by reaffirming that the available market evidence shows that a 'medium economic scenario' is likely over the lifetime of the plan to 2018. There is a possibility given the elasticity of the market that the situation will move toward the high scenario (given the underlying need for housing). The point has been made in the Viability Appraisal with regard the historic context at Maidenbower pointing to a strong recovery in build rates subsequent to a recession.

7. Table 1 demonstrates the 2008 prices outlined in the CND/ CBC/ HDC Viability Appraisal and the percentage decrease, against the 2007 prices within the URS study (July 2007) (CDHDCB38)

Table 1

Unit Type	URS 2007 figures (table 6.1 URS Study 2008)	Viability Appraisal 2008 Figures	Annual % decrease 2007-2008
1 bed (F)	160,923	128,333	21
2 Bed (F)	209,200	159,000	24
2 Bed (H)	249,120	182,500	23
3 Bed (H)	310,016	225,000	28
4 Bed (H)	376,448	330,000	13

8. Table 1 shows an average decrease of 21.8%. This compares to the worst forecast decrease between 2007-2008 prices at 16% (as outlined by the Savills report, September 2008, appended to the Viability Appraisal). An additional allowance of -5.8% reflects Crawley's below average position in the South East and any perceived 'Bewbush factor' on marketing prices.

9. CND / CBC / HDC noted that the Inspector outlined at the Hearing Session on Issue 6 that he was also looking to compare the Savills, September 2008 figures with others, notably from Knight Frank. Table 2 below then compares CND / CBC / HDC's adjustments and forecast of recovery against both the recent Knight Frank and Savills reports (Winter 2008/09).

Table 2

	2008 %decrease from 2007 prices	2009 %Decrease from 2008 prices	Crawley /Bewbush Factor (CND)	Total decrease with CND factor for sites location	Total %increase between 2010 & 2011	% decrease in house prices against 2007 prices in 2011
Knight Frank (2009 Table 1)	-12.9	-9.6	-5.8	-28.3	+8.9	-20
Savills (Dec 2008)	-16	-10	-5.8	-31.8	+19	-12.8
Crest Nicholson (MCC Report)	-21.8	-15	inc	-36.8	+14	-22.8

10. Table 2 confirms the appropriateness of the medium economic scenario outlined in the Viability Report and re-affirms the case made that sales prices will be 1% below the 2008 prices by the end 2012 (taking into account the average fall and subsequent recovery). Whilst the two reports have both costed the fall and recovery differently the % decrease from 2007 to 2011 taken as a whole is marginal (as shown in table 2 total decrease with CND factor for site location).
11. The mean average house price predictions between the two reports (Savills and Knight Frank) going forward from 2012/13 is 7.1%. This 7% is in line with the average price inflation according to the Halifax price in index since records began. The Viability Appraisal reflects this.
12. The medium scenario delivers 2500 dwellings by 2019. For clarification, the delivery figures outlined in the Viability Appraisal are based on sales rates rather than build completions. The two are interrelated. As such technically the build completions (from which LDF annual monitoring is based) will be up to 3 to 6 months ahead of the sales rate.
13. The Knight Frank report 2009, states that developers completions will reach 33% of the long run average at the end of 2008. This figure is wholly supported by CND / CBC / HDC. Knight Frank go on to add that by the second half of 2009 this will have increased to 60%, if this trend were to continue there would be a further two years to reach the 100% volume target (by 2011). Read in conjunction with the Viability Appraisal (Table 4), the predictions made by Knight Frank support the predictions on delivery made for the medium cycle.
14. In conclusion the Inspector should have further confidence with the figures and conclusions outlined by the Viability Appraisal.