



Report

# Options Report

## Land off Engine Lane, Nailsea

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**For and on behalf of GVA Grimley Ltd**

# 1. Introduction

- 1.1 Bilfinger GVA (BGVA) have been appointed by Nailsea Town Council (NTC) to provide advice in relation to the development potential and opportunity for housing associated with land owned by NTC off Engine Lane, Nailsea.
- 1.2 The land is situated adjoining the existing settlement to the west of the town and is currently agricultural land and sports pitches. We understand NTC own freehold approximately 13.9 acres as identified below.



- 1.3 The review follows strong interest and a financial proposal for the land, together with adjoining land in third party ownership, from Barratt Homes, which is detailed further within this report.
- 1.4 This report will set out the current position with the land, identify issues and opportunities, outline potential options for NTC with recommendations provided in the summary to move the site forward.

## 2. Current Position

- 2.1 We set out below a review of the current position with a summary of the land market, the context of the position of the land, brief planning position and details of Barratt's offer.

### **Land Market Summary**

- 2.2 The residential land market remains good for development sites in locations that are within commuting range of key economic centres. Nailsea benefits from close proximity to Bristol by both rail and road, and with good community facilities. There are limited developments either underway or with planning permission in the area and demand from house builders in such locations is strong.
- 2.3 Whilst the demand is good for residential development sites, there has been a cooling in the land market with national house builders in last 12 months, which has impacted on land values. There are two reasons for this, firstly most national house builders have strong land banks and have been more selective with the terms of acquisition. Secondly, the lack of skilled labour and consequently high build cost inflation which has outstripped house price inflation.
- 2.4 There are other potential housing sites around the edge of Nailsea, some of which are being promoted, although no planning applications appear imminent.
- 2.5 The scale of land off Engine Lane is such that it is a development opportunity that would really only be suited to national house builders and regional house builders.

### **Land Context**

- 2.6 NTC Land is situated adjoining Engine Lane with housing on the east side of Engine Lane, Nailsea & Backwell Rugby Club to the north and agricultural land to the south and west of the land. A public footpath runs along the southern boundary.
- 2.7 The land owned by NTC is irregular in shape and there a number of third party ownerships, which fill in the space to regularise a potential development block. Details of the ownerships are identified on the plan below.
- 2.8 There are high voltage power lines located on land to the west, which are potentially the subject of works associated with improvements to the grid, which may require the grounding of the cables.

- 2.9 Nailsea & Backwell Rugby Club currently lease part of NTC's land to the north, which provides for additional mini's and juniors pitches for the club. We have not seen the tenancy agreement, but are informed that there is no security of tenure for the rugby club and vacant possession of the land can be achieved without significant notice. The area of land in question measures approximately 4.1 acres and is hatched blue on the plan above.

### **Planning**

- 2.10 BGVA have recently provided a separate report in relation to planning context of this site and other potential development sites in the town. We have therefore not commented upon this in any detail.

2.11 The site is not currently allocated and there have been limited representations previously. It is also currently outside the settlement but located in a former coalfield area. The land is identified as a bat habitat and as the Forest of Avon within North Somerset's proposals map.

**Barratt Offer**

2.12 Barratt have made an unsolicited offer for NTC land, which also incorporates land in third party ownerships [REDACTED]. Barratt have also consulted with Nailsea & Backwell Rugby Club regarding the re-provision of pitches and car parking. The breakdown of land ownerships are as follows;

<b>NTC</b>	<b>13.9</b>	<b>71%</b>
<b>Total</b>	<b>19.7</b>	<b>100%</b>

2.13 Barratt have offered [REDACTED] for the combined site incorporating the above ownerships, with the proposal to equalise the land value according to the gross area of each parties land. This identified as [REDACTED] for NTC's interest in Barratt's offer.

2.14 We are informed that Barratt have lock-out agreements with two of the third party landowners, [REDACTED] although they have not agreed terms of a deal.

2.15 The offer is conditional on planning permission for 186 dwellings and a net developable area of approximately 11.75 acres, which equates to [REDACTED] per net developable acre. The offer also allows for a number of S106 contributions and provisions, including 30% affordable housing, new public open space, relocation of sports pitches and a new 3G all-weather sports pitch [NTC: THIS PROPOSAL HAS BEEN REVISED FOLLOWING DISCUSSIONS WITH THE RUGBY FOOTBALL UNION AND SPORT ENGLAND]. The breakdown of the costs allowed are identified in the table below;

<b>Cost Item</b>	<b>Cost (£)</b>
S106 contributions	[REDACTED]
3G pitch	[REDACTED]
Grass pitches	[REDACTED]
LAP, LEAP, NEAP	[REDACTED]
Stone walls	[REDACTED]
Design enhancements	[REDACTED]
Attenuation	[REDACTED]

Cable diversions	
Foul pumping station	
<b>Total</b>	

- 2.16 Taking account of the above planning gain costs and abnormal costs, (highlighted green and blue respectively), the gross offer for the proposed development is in the order of [REDACTED]
- 2.17 There are however areas of potential cost reduction that could reduce the offer, most of which would be assessed during the due diligence stage, the main items include the following;
- a. Increased section 106 contributions and requirements – we are of the view that the allowance of just [REDACTED] per unit is low, however we acknowledge that the offer does allow for additional costs associated with sports pitches. Section 106 contributions differ from site to site and will be a matter of negotiation with the local planning authority alongside an assessment of need. These contributions could be as high as [REDACTED] per unit.
  - b. Additional abnormal costs – the offer is conditional on further investigations associated with ground conditions and the diversion of a high pressure water main. Additional costs would be deductible from their offer and there is a realistic risk of additional costs here.
  - c. Insufficient service capacity – there is no allowance for costs associated with increasing service capacity for the various services required for the development.
  - d. Higher standards associated with design, sustainability and unit mix – if additional requirements or changes required, there would be an impact upon the offer.
  - e. Reduction in number of units and net developable area – either due to local planning authority requirements, NTC requirements or allowance for grounding high voltage cables, etc.
- 2.18 The offer also assumes phased land payment, with 50% deferred 18 months post completion, which is standard practice in today's market in order to improve the return on capital for the developer. There is also no provision for a deposit, we would normally expect a refundable deposit of 5-10% of the purchase price.
- 2.19 We are of the view that the approach taken by Barratt is comprehensive and appropriate for land in this location without an allocation. There are a number of questions regarding the benefits packaged by Barratt and whether these meet the objectives of NTC, but this can be reviewed and adjusted accordingly.

2.20 The offer by Barratt is at a level equating to a gross land value of approximately [REDACTED] per net developable acre. We feel this to be closer to [REDACTED] per net developable acre and think there is a bit of room for an uplift based upon their current proposal that could be secured from negotiations. There is some potential to improve the offer by reducing the informal open space, which has been over provided by Barratt, but this is relatively small in the overall scheme. The current open space provided in their proposal is summarised below;

- Formal Playing Space: 1.65 to 1.85 acres.
- Equipped Children's Play Space: 0.22 to 0.32 acre.
- Casual or Informal Play Space + Informal Open Space: Up to 1.24 acres.



### 3. Issues & Opportunities

3.1 There are always constraints that limit or restrict a development, which will differ from site to site. We are aware of a number of issues and constraints that will have an impact on both value and delivery, which are outlined in further detail below;

- Potential value reductions associated with unknown technical details concerning the site, as identified in 2.17 above.
- Loss of sports pitches – Sport England are likely to be an objector to the loss of sports pitches if all of NTC land put forward for development, which would be a material consideration for the local planning authority in determining the planning application. This can be mitigated through the provision of new pitches and improved facilities. Nailsea & Backwell Rugby Club will therefore potentially have a key role in the development, however they are not necessarily in an exclusive position on this as the sports provision could be used for other sports and clubs.
- Drainage strategy – we are informed by Barratt, that the [REDACTED] land is required for drainage of the proposed development. Whilst we cannot verify if this is the case based upon the information available and without appropriately qualified advice, it appears to be important for this land to be in available to join with NTC land.
- Equalisation with adjoining landowners – this has been questioned on the basis that NTC are the key party in enabling any development in this location. We consider that it is unlikely that NTC hold a ransom with adjoining landowners on the basis of the potential drainage strategy requiring [REDACTED] land and the fact that both [REDACTED] and [REDACTED] land has direct access to Engine Lane. The addition of third party land ensures a comprehensive and appropriately masterplanned scheme is put forward to the planners. In addition it also enables NTC to share the burden of re-providing the sports pitches.
- Planning remains fluid and uncertain in the absence of an allocation in North Somerset's development plan. Further dialogue would need to be undertaken with the local planning authority and any planning application would need to show a well designed, sustainable and cohesive scheme.
- NTC requirements – these need to be clarified and prioritised in order to ensure they are incorporated in any proposal from a house builder and their impact upon the scheme in terms of value and deliverability are understood.

- Overage – NTC are liable to pay overage in relation to the southern land parcel (approximately 9.8 acres). This would be triggered by the implementation of planning permission for alternative use. 50% of the uplift in the market value will be payable to the former owner of the site, which is not necessarily the value paid by the purchaser. This is a significant sum and would represent in the order of [REDACTED] if we adopted Barratt's figures as market value and apportioned against the gross areas. We understand there is a family link with this overage provision and the landowner [REDACTED]
- There is currently no allowance in Barratt's offer for CIL (Community Infrastructure Levy), which is a payment to North Somerset Council and is non-negotiable, whereas section contributions are negotiable. CIL is currently not in place at North Somerset Council due to a legal challenge, however it could be implemented prior to consent at Engine Lane and therefore add a significant cost that would reduce the land value. It could be as much as £1m across a scheme of the scale proposed by Barratt.

3.2 There are a number of opportunities associated with development here and NTC is in the strong position of being able to lead and influence the development. The opportunities are as follows;

- Design – NTC have the ability to secure improvements to the design and layout of a scheme. This could include better materials, higher quality open space, etc. It should be noted that some of these will have an impact upon value due to the higher costs, although some could be partly off-set by higher values due to improvements in the quality of the scheme.
- Improved sports pitches – improvements to the pitch provision, including a 3G all-weather pitch [NTC: THIS PROPOSAL HAS BEEN REVISED FOLLOWING DISCUSSIONS WITH THE RUGBY FOOTBALL UNION AND SPORT ENGLAND], offers the opportunity for wider community use and not just associated with the rugby club. NTC need to decide whether the Barratt approach of improving facilities for the Nailsea & Backwell Rugby Club as part of the development should be supported, however it should be noted that an alternative approach to pitch re-provision is likely to be required to satisfy Sport England.
- Section 106 contributions/works – there is scope for NTC to direct contributions or works resulting from the development. These would however need to be agreed with North Somerset Council.
- Overage – there is an ability to include overage provisions which will help protect NTC against future uplift in value during the build period and also the possibility of sharing some value resulting from any further development accessed through NTC land,

although this may be difficult to achieve if there is a deal completed incorporating the [REDACTED] land as per Barratt's proposal, as we understand the land the west is also owned by [REDACTED]

- Adjoining land owners – NTC are in a good position to be able to lead and influence the overall deal with adjoining land owners due to NTC position and scale of interest.

## 4. Options

- 4.1 NTC's land can be progressed through a number of disposal routes, a summary of the options are as follows;
1. Direct deal with Barratt – this could be either with the other landowners or in isolation.
  2. Market testing with a select list of other suitable house builders and agree a subject to planning deal – without the other landowners.
  3. Option agreement with a house builder normally based upon a 5 year period with the ability to extend a further 5 years (which would usually be based upon the market value of the scheme that receives planning permission, discounted typically between 85-90%)
  4. Promotion agreement with a land trader normally based upon a 5 year period with the ability to extend a further 5 years (which would usually be based upon the sale value of the scheme once planning permission received, with a percentage of the sales receipts going to the promoter, typically between 20-25%)
  5. Joint venture with a house builder whereby there is a share of revenue or profits as the scheme is built.
  6. NTC to pursue planning permission and then sell unconditionally to a house builder.
- 4.2 There are pro's and con's with each of the options and the best route will be determined by the market conditions and NTC's requirements. We would at this stage discount options 3 and 4, as there is currently the ability to deal on a conditional contract basis, which provides greater certainty over the scheme, timing and price.
- 4.3 We have also discounted options 5 and 6 at this stage, the former provides a greater risk to NTC and the later will require significant capital and resource to pursue and may place NTC in a difficult position with the local community if fronting a planning application.
- 4.4 The two clear options for NTC to consider are options 1 and 2. Option 1 does not provide NTC with any form of market testing to rely upon in ensuring best value, however there is an element of sensitivity here and Barratt have also tied up a position with the adjoining landowners through a lockout agreement that puts them in a special purchaser position potentially. Option 2 would allow the market to be tested in relation to NTC land and will allow market value to be established, however it may not be possible to market the adjoining third party land.

4.5 Barratt's approach of a conditional contract, albeit with a 3 year longstop date, is one in which is reasonably aggressive in the absence of an allocation for development. Whilst we think this could be achievable, given North Somerset Council's inadequate housing land supply, we believe some developers would seek a longer term option to purchase agreement.

## 5. Summary & Recommendations

- 5.1 NTC's land, approximately 13.9 acres, is an attractive and viable housing development opportunity, which would be of interest to national and regional house builders. The development opportunity is complicated by third party ownerships and technical constraints.
- 5.2 We are of the view that NTC's land could be developed in isolation, however it does not present the joined up approach to this area adjoining the development boundary. In addition we believe there are positive benefits to a joined approach, with a couple of the adjoining landowners, including a more efficient development area and a sharing of development cost and open space across all land ownerships. There is the complication that Barratt have secured a lockout agreement with two of the adjoining landowners, which probably prevents them from talking to other parties while that legal document is in place.
- 5.3 The key constraints to development include;
- No planning allocation in the development plan
  - Potential requirement for the re-provision of sports pitches to mitigate a Sport England objection
  - Development of drainage solution to suit topography
  - Overage provision with former owner on part of NTC land
- 5.4 Barratt Homes have made an offer based around a proposal that incorporates NTC land, three adjoining landowners (amounting to approx. 29% of the total) in collaboration with Nailsea & Backwell Rugby Club for re-provision of playing pitches. The offer assumes equalisation across the various land owners based upon the gross area of each party.
- 5.5 Barratt have provided for higher quality open space provision and some higher build costs for higher design standards. The offer for NTC land currently stands at [REDACTED] but there is potential for some additional costs that would reduce this offer.
- 5.6 There are a number of options for NTC to move their land forward for development, but the two most appropriate options include either a direct negotiated deal with Barratt or market testing with other house builders on NTC land and agreeing a deal with the best party thereafter.

## Recommendations

- 5.7 We recommend the best approach is for a comprehensive scheme, including Baker and Grey land, as per Barratt's initial proposal. This would probably require a landowners agreement at the point of an agreement entered with a developer.
- 5.8 Dialogue and engagement with the adjoining land owners and their respective agents will need to be taken forward once NTC preferred strategy is agreed.
- 5.9 We recommend [REDACTED]  
[REDACTED] This needs to be carefully considered in light of the third party land owners and their restrictions associated with the lock-out agreements with Barratt.
- 5.10 Dialogue should continue with Barratt, who should also be invited to offer on NTC land.
- 5.11 Prior to agreeing a deal, dialogue should be established with the beneficiaries of the overage on the southern area of NTC's land, rather than wait until overage becomes payable. This would help reduce the risk of potential disagreement on the overage provision.
- 5.12 BTC need to agree their objectives and priorities for the site, which can be incorporated in any marketing and subsequent deal with a developer. Consideration needs to be given to the impact of any requirements both in terms of deliverability and value. The points raised a recent committee meeting included;
- Design requirements and standards
  - Affordable housing and private unit sizes
  - Community facilities
  - Open space

